

Delaware Health Information Network

**Financial Statements and
Independent Auditors' Report**

June 30, 2016 and 2015

Report Issued: November 15, 2016

Delaware Health Information Network
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June 30, 2016 and 2015

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Independent Auditors' Report

To the Board of Directors
Delaware Health Information Network

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Delaware Health Information Network (DHIN) as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise DHIN's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's

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internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion on the financial statements.

Basis for Qualified Opinion

As more fully discussed in Note 1 to the financial statements, the financial statements referred to above do not include the financial data for DHIN's legally separate component unit. Accounting principles generally accepted in the United States of America require financial data for the component unit to be reported with the financial data of DHIN, the primary government. The effects of this departure of not presenting the blended component unit on the accompanying financial statements have not been determined.

Qualified Opinion

In our opinion, except for the effects on the financial statements of the matter described in the *Basis for Qualified Opinion* paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of DHIN as of June 30, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for

To the Board of Directors
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consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2016 on our consideration of DHIN's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering DHIN's internal control over financial reporting and compliance.

Belfint, Lyons & Shuman, P.A.

November 2, 2016
Wilmington, Delaware

Management's Discussion and Analysis

Delaware Health Information Network
Management's Discussion and Analysis
June 30, 2016

As management of the Delaware Health Information Network (DHIN), we offer readers of DHIN's financial statements this narrative overview and analysis of the financial activities of DHIN for the fiscal year ended June 30, 2016 (FY 2016). Please read it in conjunction with DHIN's audited financial statements, which begin on page 12.

DHIN was enacted by the Delaware General Assembly in 1997 as a public-private partnership for the benefit of all citizens of Delaware to advance the creation of a statewide health information network and to address Delaware's needs for timely, reliable, and relevant health care information. Effective January 1, 2011, DHIN became its own self-governing entity as a public instrumentality of the State of Delaware (State).

DHIN is not required to have a legally adopted budget. As such, presentation of budgetary comparison information is not required and is not included within management's discussion and analysis.

Financial Highlights

- DHIN's total net position increased approximately 25 percent as a result of FY 2016 operations.
- During FY 2016, DHIN had revenues that were \$1,456,019 more than expenses.
- Operating revenues increased by \$732,653 (or approximately 10 percent) during FY 2016 as a result of a federal grant awarded during FY 2016. The grant period is from July 27, 2015 through July 26, 2017. The grant is a reimbursable grant for the purpose of promoting HIT Adoption and Health Information Exchange Across the Continuum of Care. The grant made available to DHIN totaled \$2,752,758. Revenue is recognized as costs are incurred. At June 30, 2016, DHIN recognized \$727,929, leaving \$2,024,829 available. No federal funds were received during FY 2015.
- DHIN received a \$1,000,000 contribution from Highmark Blue Cross Blue Shield of Delaware during FY 2016.
- Contractual (Non-Technical) costs increased \$790,000 (or approximately 139 percent) during FY 2016 as a result of strategic planning and architecture infrastructure assessment costs.
- License and software maintenance costs increased \$374,297 (or approximately 34 percent) during FY 2016 as a result of implementing analytic capabilities tied to the State of Delaware's Innovation Model Initiative.

Delaware Health Information Network
Management's Discussion and Analysis—Continued
June 30, 2016

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to DHIN's basic financial statements. DHIN's basic financial statements are comprised of four components: statements of net position; statements of revenues, expenses, and changes in net position; statements of cash flows; and notes to financial statements.

The Statements of Net Position presents information on all of DHIN's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position, when read in conjunction with other data, may serve as a useful indicator of whether the financial position of the organization is improving or deteriorating.

The Statements of Revenues, Expenses, and Changes in Net Position presents information detailing how DHIN's operations generated revenues and expenses, regardless of the timing of cash flows.

The Statements of Cash Flows presents information detailing DHIN's cash receipts and payments during the fiscal year classified by principal sources and uses and segregated into key elements.

The Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

The financial statements of DHIN have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under this method, fees, charges, and other exchange revenues are recognized when earned and expenses are recognized when incurred. Nonexchange revenues, including intergovernmental revenues and grants, are reported when all eligibility requirements have been met. DHIN's activities are financed and operated as an enterprise fund such that costs and expenses of providing services are recovered primarily through user charges.

Delaware Health Information Network
Management's Discussion and Analysis—Continued
June 30, 2016

Financial Analysis

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Assets			
Current Assets			
Cash and Cash Equivalents	\$ 6,581,543	\$ 4,984,491	\$ 3,424,437
Receivables—Net			
Trade	544,763	768,280	475,772
Federal	299,748	-	-
Prepaid Expenses	397,676	117,473	-
Total Current Assets	<u>7,823,730</u>	<u>5,870,244</u>	<u>3,900,209</u>
Capital Assets			
Property and Equipment—Net	253,685	244,833	6,482
Other Assets			
Lease Deposit	6,979	6,979	6,979
Total Assets	<u><u>\$ 8,084,394</u></u>	<u><u>\$ 6,122,056</u></u>	<u><u>\$ 3,913,670</u></u>
Liabilities and Net Position			
Current Liabilities			
Accounts Payable	\$ 572,317	\$ 164,822	\$ 114,433
Accrued Expenses	176,414	153,000	127,752
Deferred Revenue	79,010	3,600	64,250
Total Current Liabilities	<u>827,741</u>	<u>321,422</u>	<u>306,435</u>
Total Liabilities	<u>827,741</u>	<u>321,422</u>	<u>306,435</u>
Net Position			
Invested in Capital Assets, Net of Related Debt	253,685	244,833	6,482
Unrestricted	7,002,968	5,555,801	3,600,753
Total Net Position	<u>7,256,653</u>	<u>5,800,634</u>	<u>3,607,235</u>
Total Liabilities and Net Position	<u><u>\$ 8,084,394</u></u>	<u><u>\$ 6,122,056</u></u>	<u><u>\$ 3,913,670</u></u>

DHIN's total assets exceeded total liabilities by \$7,256,653, \$5,800,634, and \$3,607,235 at the close of FY 2016, FY 2015, and FY 2014, respectively.

At June 30, 2015 and 2016, DHIN's net position was not subject to external or internal restrictions. At the close of FY 2014, \$23,500 of DHIN's net position represented resources that were subject to internal restrictions.

Delaware Health Information Network
Management's Discussion and Analysis—Continued
June 30, 2016

Financial Analysis—Continued

Total unrestricted net position increased \$1,447,167 (or approximately 26 percent), \$1,955,048 (or approximately 54 percent), and \$1,214,974 (or approximately 51 percent) during FY 2016, FY 2015, and FY 2014, respectively.

During FY 2016 and 2015, DHIN purchased \$73,950 and \$255,550 of capital assets, respectively. Total depreciation and amortization expense during FY 2016 and 2015 was \$65,098 and \$17,199, respectively. As a result, net assets invested in capital assets, net of related debt increased \$8,852 and \$238,351 at June 30, 2016 and 2015, respectively.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating Revenue			
Data Sender Fees	\$ 3,637,313	\$ 3,812,335	\$ 2,994,344
Payer Fees	3,255,898	3,035,771	2,840,485
Professional Service Income	401,933	442,314	170,151
Federal Grant—Implementation	727,929	-	1,797,167
Total Operating Revenue	<u>8,023,073</u>	<u>7,290,420</u>	<u>7,802,147</u>
Expenses			
Administration	398,414	355,541	282,157
Contractual (Non-Technical)	1,359,375	569,381	1,402,249
Depreciation and Amortization	65,098	17,199	4,819
Implementation Costs	476,689	455,832	1,601,562
Licenses and Software Maintenance	1,467,777	1,093,480	1,081,827
Marketing	148,424	127,521	90,542
Operations	1,037,189	1,187,923	1,089,318
Personnel	2,642,099	2,296,718	2,043,040
Total Expenses	<u>7,595,065</u>	<u>6,103,595</u>	<u>7,595,514</u>
Operating Gain	<u>428,008</u>	<u>1,186,825</u>	<u>206,633</u>
Nonoperating Revenue			
Contributions	1,000,000	1,000,000	1,000,000
Interest Income	28,011	6,574	3,521
Total Nonoperating Revenue	<u>1,028,011</u>	<u>1,006,574</u>	<u>1,003,521</u>
Change in Net Position	1,456,019	2,193,399	1,210,154
Net Position—Beginning of Year	<u>5,800,634</u>	<u>3,607,235</u>	<u>2,397,081</u>
Net Position—End of Year	<u>\$ 7,256,653</u>	<u>\$ 5,800,634</u>	<u>\$ 3,607,235</u>

Delaware Health Information Network
Management's Discussion and Analysis--Continued
June 30, 2016

Financial Analysis--Continued

DHIN activities increased DHIN's total net position by \$1,456,019, \$2,193,399, and \$1,210,154, and during FY 2016, FY 2015, and FY 2014, respectively.

Operating revenue increased by \$732,653 (or approximately 10%) during FY 2016 as a result of DHIN being awarded a federal grant in late July 2015. Data sender fees decreased slightly as DHIN consciously changed its pricing structure in order to pass along a portion of the savings negotiated by DHIN with its primary technology vendor. Payer fees increased in FY 2016 as a result of the addition of insurance marketplace payers to DHIN's customer base.

Operating revenues decreased by \$511,727 (or approximately 6.5 percent) during FY 2015 as a result of the expiration of the federal grant. This overall decrease is net with the increase in data sender fees of \$817,991 due to the addition of three data senders during FY 2015, and the increase in professional service income of \$272,163 as a result of services provided to the Delaware Health Commission and the Delaware Health and Social Services, Division of Public Health.

Operating revenues increased by \$2,454,447 (or approximately 46 percent) during FY 2014 as a result of providing services for Medicaid and insurance carriers of the State's Benefit Office for the entire fiscal year. Additionally, during FY 2014 DHIN provided consulting and other professional services to Christiana Care Health Services, the Delaware Division of Public Health, and the Hawaii Health Information Exchange.

As of June 30, 2014, DHIN had utilized in its entirety a \$4,680,284 federal grant award, which expired on February 7, 2014. During FY 2016, DHIN was awarded a reimbursable federal grant for the purpose of promoting HIT Adoption and Health Information Exchange Across the Continuum of Care. The grant made available to DHIN totaled \$2,752,758. Revenue is recognized as costs are incurred. At June 30, 2016, DHIN recognized \$727,929, leaving \$2,024,829 available.

Administration expenses represent overhead costs such as rent expense, supplies, computer support, meeting expenses, and travel. Implementation costs expenses represent costs directly related to the implementation of new functions, new data types, Electronic Medical Records (EMR) vendor interfaces, and new data senders.

Licenses and software maintenance expenses represent costs for license and maintenance costs for functions implemented and data senders joined in prior years.

Marketing expenses represent costs for outreach materials, consumer educational materials, and brand awareness.

Delaware Health Information Network
Management's Discussion and Analysis--Continued
June 30, 2016

Financial Analysis--Continued

Personnel expenses consist of costs for payroll and payroll-related expenses for DHIN employees.

Contractual (Non-Technical) costs increased \$790,000 (or approximately 139 percent) during FY 2016 as a result of strategic planning and architecture infrastructure assessment costs.

License and software maintenance costs increased \$374,297 (or approximately 34 percent) during FY 2016 as a result of implementing analytic capabilities tied to the State of Delaware's Innovation Model Initiative.

Contractual (Non-Technical) costs decreased \$832,868 (or approximately 59 percent) during FY 2015 as a result of fewer functions implemented during the year. Functions implemented during FY 2014 were largely funded by the federal grant award that expired in February 2014.

Contractual (Non-Technical) costs increased \$514,672 (or approximately 58 percent) during FY 2014 as a result of several projects:

- Implementing the service to collect newborn screening information from the birthing centers in the state and combine the two types of information (metabolic heel prick information and hearing test information).
- The hiring of a state contractor to create a Health Information Exchange (HIE) plan to connect the DHIN with the State's various departments and divisions.
- Implementing the service to collect CCD (Continuity of Care Documents) from doctors' offices' EMR software and hold them in a central repository.

Implementation costs decreased \$1,145,730 (or approximately 72 percent) during FY 2015 as a result of implementing fewer functions. Functions implemented during FY 2014 were largely funded by the federal grant award that expired in February 2014.

Total expenses decreased \$1,491,919 (or approximately 20 percent) during FY 2015 as a result of implementing fewer projects. Total expenses increased \$1,431,619 (or approximately 23 percent) during FY 2014 as a result of implementing new projects.

Financial Statements

Delaware Health Information Network
Statements of Net Position
June 30, 2016 and 2015

	2016	2015
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 6,581,543	\$ 4,984,491
Accounts Receivable–Net	844,511	768,280
Prepaid Expenses	397,676	117,473
Total Current Assets	7,823,730	5,870,244
Capital Assets		
Property, Equipment, and Software–Net	253,685	244,833
Other Assets		
Lease Deposit	6,979	6,979
Total Assets	\$ 8,084,394	\$ 6,122,056
Liabilities and Net Position		
Current Liabilities		
Accounts Payable	\$ 572,317	\$ 164,822
Accrued Expenses	176,414	153,000
Deferred Revenue	79,010	3,600
Total Current Liabilities	827,741	321,422
Total Liabilities	827,741	321,422
Net Position		
Invested in Capital Assets, Net of Related Debt	253,685	244,833
Unrestricted	7,002,968	5,555,801
Total Net Position	7,256,653	5,800,634
Total Liabilities and Net Position	\$ 8,084,394	\$ 6,122,056

The accompanying notes are an integral part of these financial statements.

Delaware Health Information Network
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Revenue		
Data Sender Fees–Net	\$ 3,637,313	\$ 3,812,335
Payer Fees	3,255,898	3,035,771
Professional Service Income	401,933	442,314
Federal Grant–Implementation	<u>727,929</u>	<u>-</u>
Total Operating Revenue	<u>8,023,073</u>	<u>7,290,420</u>
Operating Expenses		
Administration	398,414	355,541
Contractual (Non-Technical)	1,359,375	569,381
Depreciation and Amortization	65,098	17,199
Implementation Costs	476,689	455,832
Licenses and Software Maintenance	1,467,777	1,093,480
Marketing	148,424	127,521
Operations	1,037,189	1,187,923
Personnel	<u>2,642,099</u>	<u>2,296,718</u>
Total Operating Expenses	<u>7,595,065</u>	<u>6,103,595</u>
Operating Gain	<u>428,008</u>	<u>1,186,825</u>
Nonoperating Revenue		
Contributions	1,000,000	1,000,000
Interest Income	<u>28,011</u>	<u>6,574</u>
Total Nonoperating Revenue	<u>1,028,011</u>	<u>1,006,574</u>
Change in Net Position	1,456,019	2,193,399
Net Position–Beginning of Year	<u>5,800,634</u>	<u>3,607,235</u>
Net Position–End of Year	<u><u>\$ 7,256,653</u></u>	<u><u>\$ 5,800,634</u></u>

The accompanying notes are an integral part of these financial statements.

Delaware Health Information Network
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities		
Cash Received from Customers	\$ 7,594,071	\$ 6,937,262
Cash Received from Grantors for Operating Purposes	428,181	-
Cash Payments to Suppliers	(4,731,089)	(3,973,641)
Cash Payments to Employees	<u>(2,648,172)</u>	<u>(2,154,591)</u>
Net Cash from Operating Activities	642,991	809,030
Cash Flows from Investing Activities		
Interest Income	28,011	6,574
Cash Flows from Capital Financing Activities		
Purchase of Capital Assets	(73,950)	(255,550)
Cash Flows from Noncapital Financing Activities		
Contributions	<u>1,000,000</u>	<u>1,000,000</u>
Change in Cash and Cash Equivalents	1,597,052	1,560,054
Cash and Cash Equivalents—Beginning of Year	<u>4,984,491</u>	<u>3,424,437</u>
Cash and Cash Equivalents—End of Year	<u><u>\$ 6,581,543</u></u>	<u><u>\$ 4,984,491</u></u>

The accompanying notes are an integral part of these financial statements.

Delaware Health Information Network
Statements of Cash Flows—Continued
Years Ended June 30, 2016 and 2015

	2016	2015
Reconciliation of Operating Gain to Net Cash from Operating Activities		
Operating Gain	\$ 428,008	\$ 1,186,825
Adjustments to Reconcile Operating Gain to Net Cash from Operating Activities		
Depreciation and Amortization	65,098	17,199
Change in Assets		
Accounts Receivable—Trade	(76,231)	(292,508)
Prepaid Expenses	(280,203)	(117,473)
Change in Liabilities		
Accounts Payable	407,495	50,389
Accrued Expenses	23,414	25,248
Deferred Revenue	75,410	(60,650)
Net Cash from Operating Activities	\$ 642,991	\$ 809,030

The accompanying notes are an integral part of these financial statements.

Delaware Health Information Network
Notes to Financial Statements
June 30, 2016

Note 1: Nature of Activities

Organization and Operations—The Delaware Health Information Network (DHIN) was enacted by the Delaware General Assembly in 1997 as a public-private partnership for the benefit of all citizens of Delaware to advance the creation of a statewide health information network and to address Delaware's needs for timely, reliable, and relevant health care information.

DHIN is not a health care provider and is not subject to claims under Delaware Code Title 18 Chapter 68. In addition, DHIN has no power, unless expressly granted, to pledge the credit or create any debt or liability of the State or any agency thereof. DHIN's major operation is the design and implementation of an integrated, statewide health data system. This health care system shares real-time clinical information among all health care providers (office practices, hospitals, labs, diagnostic facilities, etc.) across the state to improve patient outcomes and patient-provider relationships, while reducing service duplication and the rate of increase in health care spending.

DHIN's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing U.S. GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established and used by DHIN are discussed in Note 2 of the financial statements.

Reporting Entity—Delaware Code, Title 16, Chapter 103, effective January 1, 2011, created a public instrumentality of the State of Delaware known as DHIN. DHIN is governed by 19 voting directors. Of these 19 directors, 15 are appointed by the State's Governor. The Director of the Office of Management and Budget, the Chief Information Officer of the Department of Technology and Information, the Secretary of the Department of Health and Social Services, and the Comptroller General, or their designees, serve as the remaining 4 directors.

DHIN is a related organization of the State and has not met the criteria to be included in the State's Comprehensive Annual Financial Report. DHIN's activities are financed and operated as an enterprise fund such that costs and expenses of providing services are recovered primarily through user charges.

DHIN is the sole member of the Delaware Center for Health Innovation, Inc. (DCHI), a charitable non-stock corporation, incorporated in the State of Delaware during April 2014. DCHI was created specifically to support and benefit the State of Delaware and the citizens thereof by furthering the efforts of the Delaware Health Care Commission (Commission), an independent public instrumentality established pursuant to *16 Del. C. §§ 9902*, and DHIN. Prior to fiscal year ended June 30, 2015, DHIN's authority to act as sole corporate member of DCHI was subject to the written approval of the

Delaware Health Information Network
Notes to Financial Statements–Continued
June 30, 2016

Note 1: Nature of Activities–Continued

Reporting Entity–Continued–Commission. During the year ended June 30, 2015, the bylaws of DCHI were revised to remove this requirement. DCHI’s bylaws now provide DHIN with the ability to both appoint the voting majority of the board and impose its will. In accordance with GASB 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statement No. 14 and No. 34*, DCHI’s financial statements meet the blending criteria and should be blended with those of DHIN. The accompanying financial statements do not include the financial data for DCHI. The effects of this departure of not presenting the blended component unit on the accompanying financial statements have not been determined.

Note 2: Summary of Significant Accounting Policies

Basis of Accounting–Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied. The financial statements of DHIN have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under this method, fees, charges, and other exchange revenues are recognized when earned and expenses are recognized when incurred. Nonexchange revenues, including intergovernmental revenues and grants, are reported when all eligibility requirements have been met.

Operating Revenues and Expenses–DHIN’s operating revenues and expenses consist of charges for services and cash receipts from grants for specific services considered to be operating activities. DHIN’s operating expenses consist of the cost of providing those services. Data sender fees consist of revenue earned by DHIN for providing electronic patient health information exchange services to hospitals, laboratories, and radiology facilities. Data sender fees are shown net of \$0 discounts for years ended June 30, 2016 and 2015. Payer fees consist of revenue earned by DHIN for providing electronic patient health information services to healthcare insurance providers. All other revenues and expenses are reported as nonoperating. All revenues are shown net of discounts and allowances.

Use of Estimates–The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Delaware Health Information Network
Notes to Financial Statements–Continued
June 30, 2016

Note 2: Summary of Significant Accounting Policies–Continued

Cash and Cash Equivalents—Cash and cash equivalents are considered to be demand deposits, short-term investments, and other deposits held by financial institutions with original maturities of three months or less. At June 30, 2016 and 2015, cash and cash equivalents consisted only of demand deposits held by financial institutions.

Receivables—All receivables are reported net of estimated uncollectible amounts. Accounts are written off when management deems they are uncollectible. The allowance for doubtful accounts was \$0 as of June 30, 2016 and 2015. Bad debt expense for the fiscal years ended June 30, 2016 and 2015 totaled \$0.

Prepaid Expenses—Prepaid expenses represent payments for expenses that have not been incurred as of year-end. Prepaid expenses as of June 30, 2016 consist of software support expenses.

Capital Assets—DHIN capitalizes all software and equipment with costs of \$5,000 or greater per unit. Buildings with a cost of \$100,000 and greater are capitalized. Capital assets are depreciated and amortized using the straight-line method over the estimated useful life of the related asset.

Deferred Revenue—DHIN’s deferred revenue consists of cash received for which the services have not yet been provided. DHIN will recognize the revenue once they have performed these services.

Net Position—GASB defines net position into three categories:

Invested in Capital Assets, Net of Related Debt—Consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.

Restricted Net Position—Components of net position that are externally restricted by creditors (such as through debt covenants), grantors (both federal and state), contributors, or laws or regulations of other governments. Restrictions may also be imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position—Components of net position whose use is not externally restricted, although their use may be limited by other factors such as board designation.

Delaware Health Information Network
Notes to Financial Statements–Continued
June 30, 2016

Note 2: Summary of Significant Accounting Policies–Continued

Net Position–Continued

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), DHIN’s policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

Contractual (Non-Technical) Expense–DHIN expenses costs as incurred for project development and management. Costs relating to project development and management include expenses for travel, equipment, and consulting.

Operations Expense–DHIN expenses costs as incurred for data center support and help desk functions involved with maintaining the DHIN system.

Income Taxes–DHIN meets the definition of an affiliate of a government unit as defined by the Internal Revenue Service and is exempt from federal income tax under section 501(a). In addition, DHIN is exempt from filing Form 990, Return of Organization Exempt from Income Tax under section 1.6033-2(g)(6) of the Income Tax Regulations.

Subsequent Events–DHIN’s policy is to evaluate events and transactions subsequent to its year end for potential recognition in the financial statements or disclosure in the notes to the financial statements. Management has evaluated all events and transactions through the date of the independent auditors' report, which is the date the financial statements were available to be issued.

Note 3: Related-Party Transactions

Certain members of DHIN’s Board of Directors hold key positions in organizations that utilize DHIN. Activity with these organizations as of and during the years ended June 30, 2016 and 2015 is as follows:

- DHIN recorded a total of \$2,590,019 and \$2,793,709 in data sender revenue from related parties during the fiscal years ended June 30, 2016 and 2015, respectively. As of June 30, 2016 and 2015, \$21,660 and \$283,728, respectively, was due from related data senders.
- DHIN recorded a total of \$1,148,981 and \$1,060,293 in payer fees from the State Employee Health Fund during the fiscal years ended June 30, 2016 and 2015, respectively. As of June 30, 2016 and 2015, \$89,872 and \$178,072, respectively, was due from the State Employee Health Fund.

Delaware Health Information Network
Notes to Financial Statements—Continued
June 30, 2016

Note 3: Related-Party Transactions—Continued

- During FY 2016, managed care organizations (MCOs) who are contracted with the State of Delaware to deliver Medicaid program health care services on behalf of the Division of Medicaid began disbursing payments directly to DHIN. Prior to FY 2016, the Division of Medicaid disbursed payments directly to DHIN. DHIN recorded \$1,902,381 and \$1,803,801 in payer fees from the Division of Medicaid and its MCOs during the fiscal years ended June 30, 2016 and 2015, respectively. \$210,004 and \$0 was due from the Division of Medicaid and its MCOs as of June 30, 2016 and 2015, respectively.
- During FY 2016, DHIN recorded \$201,180 and \$45,804 in professional service income from the Delaware Healthcare Commission and the Division of Public Health, respectively. As of June 30, 2016, \$73,560 and \$3,817 were due from the Delaware Healthcare Commission and the Division of Public Health, respectively. During FY 2015, DHIN recorded \$129,140 and \$127,148 in professional service income from the Delaware Healthcare Commission and the Division of Public Health, respectively. As of June 30, 2015, \$88,112 and \$40,093 were due from the Delaware Healthcare Commission and the Division of Public Health, respectively.

Note 4: Lease Agreements

DHIN leases office space and equipment under operating lease arrangements expiring through fiscal year June 30, 2019. Rental expense for the years ended June 30, 2016 and 2015 totaled \$101,997 and \$96,442, respectively.

As of June 30, 2016, future minimum lease payments under noncancelable operating leases are approximately:

	Office Space	Equipment
2017	\$ 95,195	\$ 3,483
2018	-	3,483
2019	-	1,451
	\$ 95,195	\$ 8,417

Delaware Health Information Network
Notes to Financial Statements–Continued
June 30, 2016

Note 4: Lease Agreements–Continued

The office space lease agreement, effective through June 30, 2017, gives DHIN the option to extend the lease for additional terms of not less than one-year increments. DHIN must provide the lessor with notice no less than six months prior to the exercise option.

Note 5: Property, Equipment, and Software

Property, equipment, and software consisted of the following as of June 30:

	2016	2015
Furniture and Equipment	\$ 14,458	\$ 14,458
Software	329,500	255,550
	343,958	270,008
Accumulated Depreciation and Amortization	(90,273)	(25,175)
Property, Equipment, and Software–Net	\$ 253,685	\$ 244,833

Note 6: Concentrations

Large volumes of business transacted with a particular customer, supplier, lender, grantor, or contributor may lead to an organization having a concentration in that particular area. DHIN experienced the following concentrations during the years ended June 30, 2016 and 2015.

Cash in Excess of Insured Limits–DHIN maintains cash balances at one financial institution located in Dover, Delaware. All deposit accounts were insured up to \$250,000 per institution by the Federal Deposit Insurance Corporation. Uninsured cash balances as of June 30, 2016 and 2015 totaled \$6,319,318 and \$4,775,998, respectively.

Major Customers–Four major customers accounted for approximately 73 percent and 76 percent of DHIN’s data sender revenue for the years ended 2016 and 2015, respectively. Each of the four major customers were related parties during FY 2016 and 2015 (Note 3).

Major Source of Revenue–DHIN received \$1,902,381 and \$1,803,801, or 21 percent and 22 percent of total revenue, from the Division of Medicaid and its MCOs during FY 2016 and 2015, respectively.

Delaware Health Information Network
Notes to Financial Statements–Continued
June 30, 2016

Note 7: Net Position

As of June 30, 2016 and 2015, DHIN had no restricted components of net position.

Note 8: Commitments and Contingencies

DHIN is contracted with a certain vendor through June 2018. Future minimum payments cannot be reasonably determined due to the unforeseeable nature of the services to be provided. Expenses incurred to this vendor during FY 2016 and 2015 totaled approximately \$2.5 million and \$2.8 million, respectively.

During FY 2016, DHIN entered a contract with a vendor to provide strategic planning and enterprise technology and services assessments services. At June 30, 2016, future expected costs under this contract totaled \$355,000, all of which is expected to be disbursed during FY 2017.

In the normal course of business, there are various commitments and contingences outstanding which are not reflected in these financial statements. In the opinion of management, the outcome of such events, if any, will not have a material effect on DHIN's financial statements.



Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Directors of
Delaware Health Information Network

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Delaware Health Information Network (DHIN), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise DHIN's basic financial statements, and have issued our report thereon dated November 2, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered DHIN's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of DHIN's internal control. Accordingly, we do not express an opinion on the effectiveness of DHIN's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any

To the Board of Directors of
Delaware Health Information Network

deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described below, that we consider to be significant deficiencies.

Financial Statement Close Process—During our audit of the FY 2016 financial statements, we discovered beginning FY 2016 account balances did not agree to ending FY 2015 audited balances. This discrepancy was caused by (1) management’s failure to record certain entries that were proposed by us and accepted by management during the FY 2015 financial statement audit and (2) management’s recording of transactions within FY 2015 after completion of the FY 2015 financial statement close process. As a result, during FY 2016, assets, liabilities, change in unrestricted net position and total unrestricted net position, were over/(under)stated by \$(19,398), \$(50,000), \$57,029, and \$(29,053), respectively. We recommend DHIN evaluate its financial reporting close procedures to mitigate this risk in the future. We believe DHIN can accomplish this by (1) expanding its year-end closing procedures to ensure all adjustments proposed by external auditors, and accepted by management, are recorded timely within the general ledger and (2) reconciling prior fiscal year-end audited balances to current fiscal year opening balances.

Bank Reconciliation Procedures—During much of FY 2016, cash was understated by \$33,277 as a result of outstanding checks being included on the bank reconciliation which had already cleared the bank. Bank reconciliations should be reviewed for accuracy and completeness on a timely basis to ensure cash is being accurately reported by DHIN throughout the fiscal year.

Employee Credit Card Usage—DHIN allows the use of a corporate credit card by various employees for business-related purchases. A receipt is required for all expenditures, regardless of the dollar amount. Authorized card holders provide their receipts to the Provider Relations Business Manager who reviews the statements and related receipts on a monthly basis.

FY 2015 audit procedures revealed that in a sample size of 16 monthly charges incurred at the individual employee level, 7 charges were not accompanied by a receipt evidencing the business purpose of the expense. In addition, the Provider Relations Business Manager was an authorized card holder and, under the current policy, was reviewing her own expenditures.

During our FY 2016 audit procedures, we found that in a sample size of 32 monthly charges at the individual employee level, 6 charges were not accompanied by a receipt evidencing the business purpose of the expense. All of the missing receipts were related to travel expenses associated with grantor and vendor meetings and appeared to be reasonable and valid business expenses of DHIN. Evidence of an independent review of the transactions incurred by the Provider Relations Business Manager was not complete.

To the Board of Directors of
Delaware Health Information Network

We again recommend that (1) the CFO review expenditures of the Providers Relations Business Manager on a monthly basis and evidence this review by an initial of approval on each page of the monthly statement and (2) incorporate procedures to assure that all supporting receipts are obtained.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether DHIN's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Delaware Health Information Network's Response to Finding

DHIN's responses to the findings identified in our audit are as follows:

DHIN continues to appreciate the partnership it has with its auditor throughout the entire course of the fiscal year. As an instrumentality of the State of Delaware, DHIN is pleased with the recognition that its financial statements are complete, easy to understand, and are an accurate representation of its financial position. DHIN will incorporate the suggested changes in order to improve upon its financial reporting and bring it to an even higher level.

DHIN's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Belfint, Lyons & Shuman, P.A.

November 2, 2016
Wilmington, Delaware