

**Delaware Health Information Network**

**Financial Statements and  
Independent Auditors' Report**

**June 30, 2015 and 2014**

**Issue Date: November 4, 2015**

**Delaware Health Information Network**  
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**June 30, 2015 and 2014**

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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, 2015 and 2014, 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

To the Board of Directors  
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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 for the fiscal year ended June 30, 2015 and our unmodified opinion on the financial statements for the fiscal year ended June 30, 2014.

***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 on the Financial Statements for the Fiscal Year Ended June 30, 2015 and Unmodified Opinion on the Financial Statements for the Fiscal Year Ended June 30, 2014***

In our opinion, except for the effects on the 2015 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, 2015 and 2014, 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, 2015 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, 2015  
Wilmington, Delaware

## **Management's Discussion and Analysis**

**Delaware Health Information Network**  
**Management's Discussion and Analysis**  
**June 30, 2015**

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, 2015 (FY 2015). 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).

**Financial Highlights**

- DHIN's total net position increased approximately 61 percent as a result of FY 2015 operations.
- During FY 2015, DHIN had revenues that were \$2,193,399 more than expenses.
- Operating revenues decreased by \$511,727 (or approximately 6.5 percent) during FY 2015 as a result of the expiration of the federal grant during FY 2014. 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 2015.
- 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.
- Contractual (Non-Technical) costs decreased \$832,868 (or approximately 59 percent) during FY 2015 as a result of decreased implementation costs.

**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: statement of net position; statement of revenues, expenses, and changes in net position; statement of cash flows; and notes to financial statements.

**Delaware Health Information Network**  
**Management's Discussion and Analysis—Continued**  
**June 30, 2015**

**Overview of the Financial Statements—Continued**

*The Statement 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 Statement 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 Statement 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, 2015**

**Financial Analysis**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Assets</b>			
Cash and Cash Equivalents	\$ 4,984,491	\$ 3,424,437	\$ 2,263,130
Receivables–Net			
Trade	768,280	475,772	327,600
Federal	-	-	82,814
Prepaid Expenses	117,473	-	-
Lease Deposit	6,979	6,979	6,979
Property and Equipment–Net	244,833	6,482	11,302
<b>Total Assets</b>	<u>\$ 6,122,056</u>	<u>\$ 3,913,670</u>	<u>\$ 2,691,825</u>
<b>Liabilities</b>			
Accounts Payable	\$ 164,822	\$ 114,433	\$ 149,270
Accrued Expenses	153,000	127,752	108,724
Deferred Revenue	3,600	64,250	36,750
<b>Total Liabilities</b>	<u>321,422</u>	<u>306,435</u>	<u>294,744</u>
<b>Net Position</b>			
Invested in Capital Assets, Net of Related Debt	244,833	6,482	11,302
Unrestricted	5,555,801	3,600,753	2,385,779
<b>Total Net Position</b>	<u>5,800,634</u>	<u>3,607,235</u>	<u>2,397,081</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 6,122,056</u>	<u>\$ 3,913,670</u>	<u>\$ 2,691,825</u>

DHIN’s total assets exceeded total liabilities by \$5,800,634, \$3,607,235, and \$2,397,081 at the close of FY 2015, FY 2014, and FY 2013, respectively.

At June 30, 2013, 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. At June 30, 2015, DHIN’s net position was not subject to external or internal restrictions.

Total unrestricted net position increased \$1,955,048 (or approximately 54 percent), \$1,214,974 (or approximately 51 percent), and \$404,644 (or approximately 20 percent) during FY 2015, FY 2014, and FY 2013, respectively.

Total restricted net position decreased \$228,228 (or 100 percent) during FY 2013.

**Delaware Health Information Network**  
**Management's Discussion and Analysis—Continued**  
**June 30, 2015**

**Financial Analysis—Continued**

During FY 2015, DHIN purchased \$255,550 of capital assets. Total depreciation and amortization expense during FY 2015 was \$17,199. As a result, net assets invested in capital assets, net of related debt increased \$238,351 (or 3,677 percent).

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Operating Revenue</b>			
Data Sender Fees	\$ 3,812,335	\$ 2,994,344	\$ 2,658,612
Payer Fees	3,035,771	2,840,485	1,048,939
Professional Service Income	442,314	170,151	9,612
Federal Grant—Implementation	-	1,797,167	1,630,537
<b>Total Operating Revenue</b>	<u>7,290,420</u>	<u>7,802,147</u>	<u>5,347,700</u>
<b>Expenses</b>			
Administration	355,541	282,157	292,993
Contractual (Non-Technical)	569,381	1,402,249	887,577
Depreciation and Amortization	17,199	4,819	3,156
Implementation Costs	455,832	1,601,562	1,120,017
Licenses and Software Maintenance	1,093,480	1,081,827	1,049,748
Marketing	127,521	90,542	107,930
Operations	1,187,923	1,089,318	1,050,662
Personnel	2,296,718	2,043,040	1,651,812
<b>Total Expenses</b>	<u>6,103,595</u>	<u>7,595,514</u>	<u>6,163,895</u>
<b>Operating Gain (Loss)</b>	<u>1,186,825</u>	<u>206,633</u>	<u>(816,195)</u>
<b>Nonoperating Revenue</b>			
Contributions	1,000,000	1,000,000	1,000,000
Interest Income	6,574	3,521	3,913
<b>Total Nonoperating Revenue</b>	<u>1,006,574</u>	<u>1,003,521</u>	<u>1,003,913</u>
<b>Change in Net Position</b>	2,193,399	1,210,154	187,718
<b>Net Position—Beginning of Year</b>	<u>3,607,235</u>	<u>2,397,081</u>	<u>2,209,363</u>
<b>Net Position—End of Year</b>	<u>\$ 5,800,634</u>	<u>\$ 3,607,235</u>	<u>\$ 2,397,081</u>

**Delaware Health Information Network**  
**Management's Discussion and Analysis—Continued**  
**June 30, 2015**

**Financial Analysis—Continued**

DHIN activities increased DHIN's total net position by \$2,193,399, \$1,210,154, and \$187,718 during FY 2015, FY 2014, and FY 2013, respectively.

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.

Operating revenues decreased by \$332,473 (or approximately 6 percent) during FY 2013 as a result of the State eliminating their operating assistance to DHIN. During FY 2013 DHIN signed new contracts with Medicaid, insurance carriers of the State's Benefit Office, and eight new data senders, which increased data sender fees by \$873,653 during FY 2013.

As of June 30, 2014, DHIN has utilized their entire \$4,680,284 million federal grant award, which expired on February 7, 2014.

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.

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

**Delaware Health Information Network**  
**Management's Discussion and Analysis—Continued**  
**June 30, 2015**

**Financial Analysis—Continued**

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) and \$1,064,423 (or approximately 21 percent) during FY 2014 and FY 2013, respectively, as a result of implementing new projects.

## **Financial Statements**

**Delaware Health Information Network**  
**Statements of Net Position**  
**June 30, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
<b>Assets</b>		
Cash and Cash Equivalents	\$ 4,984,491	\$ 3,424,437
Accounts Receivable–Net	768,280	475,772
Prepaid Expenses	117,473	-
Lease Deposit	6,979	6,979
Property, Equipment, and Software–Net	244,833	6,482
<b>Total Assets</b>	<b>\$ 6,122,056</b>	<b>\$ 3,913,670</b>
<b>Liabilities</b>		
Accounts Payable	\$ 164,822	\$ 114,433
Accrued Expenses	153,000	127,752
Deferred Revenue	3,600	64,250
<b>Total Liabilities</b>	<b>321,422</b>	<b>306,435</b>
<b>Net Position</b>		
Invested in Capital Assets, Net of Related Debt	244,833	6,482
Unrestricted	5,555,801	3,600,753
<b>Total Net Position</b>	<b>5,800,634</b>	<b>3,607,235</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 6,122,056</b>	<b>\$ 3,913,670</b>

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, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>Operating Revenue</b>		
Data Sender Fees–Net	\$ 3,812,335	\$ 2,994,344
Payer Fees	3,035,771	2,840,485
Professional Service Income	442,314	170,151
Federal Grant–Implementation	-	1,797,167
	<u>7,290,420</u>	<u>7,802,147</u>
<b>Operating Expenses</b>		
Administration	355,541	282,157
Contractual (Non-Technical)	569,381	1,402,249
Depreciation and Amortization	17,199	4,819
Implementation Costs	455,832	1,601,562
Licenses and Software Maintenance	1,093,480	1,081,827
Marketing	127,521	90,542
Operations	1,187,923	1,089,318
Personnel	2,296,718	2,043,040
	<u>6,103,595</u>	<u>7,595,514</u>
<b>Operating Gain</b>	<u>1,186,825</u>	<u>206,633</u>
<b>Nonoperating Revenue</b>		
Contributions	1,000,000	1,000,000
Interest Income	6,574	3,521
	<u>1,006,574</u>	<u>1,003,521</u>
<b>Change in Net Position</b>	2,193,399	1,210,154
<b>Net Position</b> –Beginning of Year	<u>3,607,235</u>	<u>2,397,081</u>
<b>Net Position</b> –End of Year	<u><u>\$ 5,800,634</u></u>	<u><u>\$ 3,607,235</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, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>Cash Flows from Operating Activities</b>		
Cash Received from Customers	\$ 6,937,262	\$ 5,882,558
Cash Received from Grantors for Operating Purposes	-	1,879,981
Cash Payments to Suppliers	(3,973,641)	(5,689,345)
Cash Payments to Employees	<u>(2,154,591)</u>	<u>(1,915,408)</u>
<b>Net Cash from Operating Activities</b>	<u>809,030</u>	<u>157,786</u>
<b>Cash Flows from Investing Activities</b>		
Interest Income	6,574	3,521
<b>Cash Flows from Capital Financing Activities</b>		
Purchase of Capital Assets	(255,550)	-
<b>Cash Flows from Noncapital Financing Activities</b>		
Contributions	<u>1,000,000</u>	<u>1,000,000</u>
<b>Change in Cash and Cash Equivalents</b>	1,560,054	1,161,307
<b>Cash and Cash Equivalents—Beginning of Year</b>	<u>3,424,437</u>	<u>2,263,130</u>
<b>Cash and Cash Equivalents—End of Year</b>	<u>\$ 4,984,491</u>	<u>\$ 3,424,437</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, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
<b>Reconciliation of Operating Gain to Net Cash from Operating Activities</b>		
Operating Gain	\$ 1,186,825	\$ 206,633
Adjustments to Reconcile Operating Gain to Net Cash from Operating Activities		
Bad Debt	-	1,750
Depreciation and Amortization	17,199	4,820
Change in Assets		
Accounts Receivable—Trade	(292,508)	(67,108)
Prepaid Expenses	(117,473)	-
Change in Liabilities		
Accounts Payable	50,389	(34,837)
Accrued Expenses	25,248	19,028
Deferred Revenue	(60,650)	27,500
<b>Net Cash from Operating Activities</b>	<b>\$ 809,030</b>	<b>\$ 157,786</b>

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

**Delaware Health Information Network**  
**Notes to Financial Statements**  
**June 30, 2015**

**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, 2015**

**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 discounts of \$0 and \$173,164 for years ended June 30, 2015 and 2014, respectively. 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, 2015**

**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.

**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, 2015 and 2014. Bad debt expense for the fiscal years ended June 30, 2015 and 2014 totaled \$0 and \$1,750, respectively.

**Prepaid Expenses**—Prepaid expenses represent payments for expenses which have not been incurred as of year end. Prepaid expenses at June 30, 2015 consisted of software support and marketing and public relations 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 in relation to a service contract 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, 2015**

**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 is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is exempt from filing federal informational returns with the Internal Revenue Service.

**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 which utilize DHIN. DHIN recorded a total of \$2,793,709 and \$2,407,092 in data sender revenue and \$1,153,493 and \$1,043,694 in payer revenue from these organizations during the fiscal years ended June 30, 2015 and 2014, respectively. As of June 30, 2015 and 2014, \$283,728 and \$106,374, respectively, were due from data sender organizations and \$271,693 and \$87,381, respectively, were due from payer organizations and included in accounts receivable.

During FY 2013, the State Employee Health Fund and Department of Health and Social Services, Division of Medicaid and Medical Assistance (Division of Medicaid) began utilizing DHIN. DHIN recorded \$1,803,801 and \$1,724,816 in payer fees from the Division of Medicaid during the fiscal years ended June 30, 2015 and 2014, respectively. No amount was due to DHIN from the Division of Medicaid as of June 30, 2015 and 2014.

**Delaware Health Information Network**  
**Notes to Financial Statements—Continued**  
**June 30, 2015**

**Note 3: Related-Party Transactions—Continued**

During FY 2015, the Delaware Healthcare Commission and the Delaware Health and Social Services, Division of Public Health (Division of Public Health) began utilizing DHIN. 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, and included in accounts receivable.

**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, 2015 and 2014 totaled \$96,422 and \$90,493, respectively.

As of June 30, 2015, future minimum lease payments under noncancelable operating leases are approximately:

	<u>Office Space</u>	<u>Equipment</u>
2016	\$ 92,939	\$ 3,483
2017	95,195	3,483
2018	-	3,483
2019	-	1,451
	<u>\$ 188,134</u>	<u>\$ 11,900</u>

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.

**Delaware Health Information Network**  
**Notes to Financial Statements—Continued**  
**June 30, 2015**

**Note 5: Property, Equipment, and Software**

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

	2015	2014
Furniture and Equipment	\$ 14,458	\$ 14,458
Software	255,550	-
	270,008	14,458
Accumulated Depreciation and Amortization	(25,175)	(7,976)
Property, Equipment, and Software—Net	\$ 244,833	\$ 6,482

**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, 2015 and 2014.

**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, 2015 and 2014 totaled \$4,775,998 and \$3,189,164, respectively.

**Major Customers**—Four major customers accounted for approximately 72 percent and 76 percent of DHIN’s Data Sender and Payer Fees revenue for the years ended June 30, 2015 and 2014, respectively. Each of the four major customers were related parties during FY 2015 and 2014 (Note 3).

**Major Source of Revenue**—DHIN received \$0 and \$1,797,167, or zero and 20 percent of total revenue through a grant with the Department of Health and Human Services during FY 2015 and 2014, respectively. This grant expired during February 2014. DHIN received \$1,803,801 and \$1,724,816, or 22 and 20 percent of total revenue from the Division of Medicaid during FY 2015 and 2014, respectively.

**Delaware Health Information Network**  
**Notes to Financial Statements—Continued**  
**June 30, 2015**

**Note 7: Net Position**

As of June 30, 2015 and 2014, DHIN had no restricted components of net position.

Unrestricted net position includes internally board-designated funds. As of June 30, 2014, \$23,500 had been designated by the board for future expenses associated with two EMR vendors. As of June 30, 2015, DHIN had no internally board-designated 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 2015 and 2014 totaled \$2,773,640 and \$3,730,182, respectively.

In the normal course of business, there are various commitments and contingencies 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.



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***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, 2015, 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, 2015.

***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.

**Unrecognized Prepaid Expenses** - Accounting principles generally accepted in the United States of America require that expenses reported in governmental activities, business-type activities, and proprietary funds should be recognized when the exchange takes place for exchange transactions. Audit procedures determined that DHIN expensed certain service and support costs at the time of payment and not at the time the exchange took place. As a result, as of June 30, 2015, these unrecognized prepaid expenses caused total assets to be understated by \$53,781 and total expenses to be overstated by \$53,781. We recommend that DHIN develops a process to identify the type of expenses that are paid in advance of the exchange transaction and design financial reporting procedures to assure that these expenses are recognized on an accrual basis.

**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.

Our audit test regarding credit card transactions included testing a cross section of employees and time period. For purposes of our test, we defined a unit as the monthly charges incurred at the individual employee level. Our sample size included 16 units. Our test determined that of the 16 units tested, there were 7 instances where receipts did not accompany the transaction. After discussion with DHIN management and staff, along with a review of the description on the credit card statement, we determined the expenditures where no receipt accompanied the transaction appeared to be reasonable and related to a business expense. In addition, the Provider Relations Business Manager is an authorized card holder and, under the current policy, is reviewing her own expenditures.

We recommend that the CFO review expenditures of the Providers Relations Business Manager on a monthly basis. This review should be evident by an initial of approval on the monthly statement. We also recommend that DHIN strengthen its existing policies by incorporating 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

To the Board of Directors of  
Delaware Health Information Network

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 had a number of full year expenses which spanned multiple fiscal years which were expensed over multiple fiscal years. DHIN will continue to pursue ensuring that all expenses which span over multiple fiscal years are classified correspondingly.

DHIN management has reminded its authorized credit card users to submit their supporting receipts and will ensure each month that all credit card receipts are submitted.

DHIN agrees with the auditor's recommendation to have someone review the Business Manager's credit card expenses and corresponding receipts. This process began immediately and will continue going forward.

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, 2015  
Wilmington, Delaware