

Delaware Health Information Network

**Financial Statements and
Independent Auditors' Report,
and Single Audit**

June 30, 2017

Delaware Health Information Network
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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 year ended June 30, 2017, 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 audit. We conducted our audit 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
Delaware Health Information Network

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 audit opinion.

Opinion

In our opinion, 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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year 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 11 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 consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise DHIN's basic financial statements. The schedule of expenditures of federal awards is presented for purpose of additional analysis as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

To the Board of Directors
Delaware Health Information Network

The schedule of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, or other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2017 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 1, 2017
Wilmington, Delaware

Management's Discussion and Analysis

Delaware Health Information Network
Management's Discussion and Analysis
June 30, 2017

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, 2017 (FY 2017). Please read it in conjunction with DHIN's audited financial statements, which begin on page 13.

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 the sole corporate member of the Delaware Center for Health Innovation, Inc. (DCHI), a charitable non-stock corporation. DCHI's financial statements, as of and for the years ended December 31, 2016 and 2015, have been blended with those of DHIN as of and for the years ended June 30, 2017 and 2016, respectively (collectively referred to as the Organization).

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

- The Organization's total net position increased approximately 21 percent as a result of FY 2017 operations.
- During FY 2017, the Organization had revenues that were \$1,499,293 more than expenses.
- The Organization's operating revenues increased by \$203,890 (or approximately 3 percent) during FY 2017 as a result of increased activity from DHIN's existing data senders.
- DHIN has a reimbursable grant for the purpose of promoting HIT Adoption and Health Information Exchange Across the Continuum of Care. The grant period is from July 27, 2015 through July 26, 2017 and made available to DHIN a total of \$3,377,758. Revenue is recognized as costs are incurred. At June 30, 2017, DHIN had recognized \$2,928,466, leaving \$449,292 available.
- DHIN received a \$1,000,000 contribution from Highmark Blue Cross Blue Shield of Delaware during FY 2017.
- Contractual (Non-Technical) costs increased \$143,168 (or approximately 11 percent) during FY 2017 as a result of project and analytics contractors hired in support of grant activities.

Delaware Health Information Network
Management's Discussion and Analysis
June 30, 2017

Financial Highlights - Continued

- License and software maintenance costs increased \$328,840 (or approximately 22 percent) during FY 2017 as a result of implementing a Personal Health Record portal where patients can access their DHIN clinical data.

Delaware Health Information Network
Management's Discussion and Analysis—Continued
June 30, 2017

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, 2017

Financial Analysis

	2017	2016
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 7,763,955	\$ 6,642,471
Receivables—Net		
Trade	736,457	844,511
Federal	299,748	-
Prepaid Expenses	498,823	397,676
Total Current Assets	9,298,983	7,884,658
Capital Assets		
Property and Equipment—Net	255,360	253,685
Other Assets		
Lease Deposit	6,979	6,979
Total Assets	\$ 9,561,322	\$ 8,145,322
Liabilities and Net Position		
Current Liabilities		
Accounts Payable	\$ 551,966	\$ 578,490
Accrued Expenses	196,667	176,414
Deferred Revenue	1,988	79,010
Total Current Liabilities	750,621	833,914
Total Liabilities	750,621	833,914
Net Position		
Invested in Capital Assets, Net of Related Debt	255,360	253,685
Unrestricted	8,555,341	7,057,723
Total Net Position	8,810,701	7,311,408
Total Liabilities and Net Position	\$ 9,561,322	\$ 8,145,322

Delaware Health Information Network
Management's Discussion and Analysis—Continued
June 30, 2017

Financial Analysis—Continued

Total assets exceeded total liabilities by \$8,810,701 at the close of FY 2017.

At June 30, 2017 and 2016, net position was not subject to external or internal restrictions.

Total unrestricted net position increased \$1,497,618 (or approximately 21 percent) during FY 2017.

During FY 2017 and 2016, DHIN purchased \$66,488 and \$73,950 of capital assets, respectively. Total depreciation and amortization expense during FY 2017 and 2016 was \$64,183 and \$65,098, respectively.

Delaware Health Information Network
Management's Discussion and Analysis—Continued
June 30, 2017

Financial Analysis—Continued

	<u>2017</u>	<u>2016</u>
Operating Revenue		
Core Services		
Results Delivery	\$ 3,787,146	\$ 3,525,040
Community Health Record (CHR)	3,096,332	3,257,011
Total Core Services	<u>6,883,478</u>	<u>6,782,051</u>
Value Added Services		
CHR- Viewing by Providers	2,000	2,700
Medication History Access	26,690	27,350
Encounter Notification Services	28,599	43,053
Image Viewing	38,056	38,056
Professional Services	520,210	401,933
Total Value Added Services	<u>615,555</u>	<u>513,092</u>
Total Operating Revenue	<u>7,499,033</u>	<u>7,295,143</u>
Operating Expenses		
Administration	739,435	398,414
Contractual (Non-Technical)	1,502,543	1,359,375
Depreciation and Amortization	64,814	65,098
Implementation Costs	1,315,599	476,689
Licenses and Software Maintenance	1,796,617	1,467,777
Marketing	527,061	148,424
Operations	1,211,382	1,037,189
Personnel	3,312,271	2,642,099
Total Operating Expenses	<u>10,469,722</u>	<u>7,595,065</u>
Operating Loss	<u>(2,970,689)</u>	<u>(299,922)</u>
Nonoperating Revenue		
Grant Revenue	2,200,537	727,929
Contributions	2,209,200	1,000,000
Interest Income	60,245	28,011
Total Nonoperating Revenue	<u>4,469,982</u>	<u>1,755,940</u>
Change in Net Position	1,499,293	1,456,018
Net Position—Beginning of Year	7,311,408	5,855,390
Net Position—End of Year	<u>\$ 8,810,701</u>	<u>\$ 7,311,408</u>

Delaware Health Information Network
Management's Discussion and Analysis—Continued
June 30, 2017

Financial Analysis—Continued

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. During FY 2017, DHIN was awarded a post-award amendment in the amount of \$625,000. Revenue is recognized as costs are incurred. During the years ended June 30, 2017 and 2016, DHIN recognized \$2,200,537 and \$727,929, respectively, leaving \$449,292 available at June 30, 2017. The grant expired on July 26, 2017.

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 employees.

Implementation costs increased \$838,910 (or approximately 176 percent) during FY 2017 as a result of the reimbursable federal grant.

Contributions increased \$1,209,200 during FY 2017 as a result of contributions received by DCHI to support health care transformation.

Financial Statements

Delaware Health Information Network
Statement of Net Position
June 30, 2017

Assets

Current Assets

Cash and Cash Equivalents	\$ 7,763,955
Accounts Receivable–Net	1,036,205
Prepaid Expenses	<u>498,823</u>

Total Current Assets 9,298,983

Capital Assets

Property, Equipment, and Software–Net	255,360
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Other Assets

Lease Deposit	<u>6,979</u>
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Total Assets \$ 9,561,322

Liabilities and Net Position

Current Liabilities

Accounts Payable	\$ 551,966
Accrued Expenses	196,667
Deferred Revenue	<u>1,988</u>

Total Current Liabilities 750,621

Total Liabilities 750,621

Net Position

Invested in Capital Assets, Net of Related Debt	255,360
Unrestricted	<u>8,555,341</u>

Total Net Position 8,810,701

Total Liabilities and Net Position \$ 9,561,322

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

Delaware Health Information Network
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2017

Operating Revenue	
Core Services	
Results Delivery	\$ 3,787,146
Community Health Record (CHR)	3,096,332
	<hr/>
Total Core Services	6,883,478
	<hr/>
Value Added Services	
CHR- Viewing by Providers	2,000
Medication History Access	26,690
Encounter Notification Services	28,599
Image Viewing	38,056
Professional Services	520,210
	<hr/>
Total Value Added Services	615,555
	<hr/>
Total Operating Revenue	7,499,033
	<hr/>
Operating Expenses	
Administration	739,435
Contractual (Non-Technical)	1,502,543
Depreciation and Amortization	64,814
Implementation Costs	1,315,599
Licenses and Software Maintenance	1,796,617
Marketing	527,061
Operations	1,211,382
Personnel	3,312,271
	<hr/>
Total Operating Expenses	10,469,722
	<hr/>
Operating Loss	(2,970,689)
	<hr/>
Nonoperating Revenue	
Grant Revenue	2,200,537
Contributions	2,209,200
Interest Income	60,245
	<hr/>
Total Nonoperating Revenue	4,469,982
	<hr/>
Change in Net Position	1,499,293
Net Position —Beginning of Year	7,311,408
	<hr/>
Net Position —End of Year	\$ 8,810,701
	<hr/> <hr/>

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

Delaware Health Information Network
Statement of Cash Flows
Year Ended June 30, 2017

Cash Flows from Operating Activities	
Cash Received from Customers	\$ 5,114,204
Cash Received from Grantors for Operating Purposes	2,114,150
Cash Payments to Suppliers	(7,210,518)
Cash Payments to Employees	<u>(3,299,846)</u>
Net Cash from Operating Activities	<u>(3,282,010)</u>
Cash Flows from Investing Activities	
Interest Income	<u>60,245</u>
Cash Flows from Capital Financing Activities	
Purchase of Capital Assets	<u>(66,488)</u>
Cash Flows from Noncapital Financing Activities	
Grant Revenue	2,200,537
Contributions	<u>2,209,200</u>
Net Cash from Noncapital Financing Activities	<u>4,409,737</u>
Change in Cash and Cash Equivalents	1,121,484
Cash and Cash Equivalents—Beginning of Year	<u>6,642,471</u>
Cash and Cash Equivalents—End of Year	<u><u>\$ 7,763,955</u></u>

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

Delaware Health Information Network
Statement of Cash Flows—Continued
Year Ended June 30, 2017

Reconciliation of Operating Loss to	
Net Cash from Operating Activities	
Operating Loss	\$ (2,970,689)
Adjustments to Reconcile Operating Loss	
to Net Cash from Operating Activities	
Depreciation and Amortization	64,813
Bad Debt	1,963
Change in Assets	
Accounts Receivable	(193,657)
Prepaid Expenses	(101,147)
Change in Liabilities	
Accounts Payable	(26,524)
Accrued Expenses	20,253
Deferred Revenue	(77,022)
	<hr/>
Net Cash from Operating Activities	<u><u>\$ (3,282,010)</u></u>

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

Delaware Health Information Network
Notes to Financial Statements
June 30, 2017

Note 1: Nature of Activities

Reporting Entity—Delaware Code, Title 16, Chapter 103, effective January 1, 2011, created a public instrumentality of the State of Delaware known as The Delaware Health Information Network (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 corporate 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. DCHI’s bylaws provide DHIN with the ability to both appoint the voting majority of the board and impose its will.

In accordance with GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statement No. 14 and No. 34*, prior to June 30, 2017 DCHI’s financial statements were required to be blended with those of DHIN due to DHIN having both the ability to appoint the voting majority of the board and impose its will.

During the year ended June 30, 2017, DHIN adopted GASB Statement No. 80, *Blending Requirements for Certain Component Units*, which requires blending of a component unit if the component unit is organized as a not-for-profit corporation in which the primary government is the sole corporate member. As such, DCHI’s financial statements, as of and for the year ended December 31, 2016, have been blended with those of DHIN, as of and for the year ended June 30, 2017 (collectively referred to as the Organization).

Organization and Operations—DHIN was created 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’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

Delaware Health Information Network
Notes to Financial Statements—Continued
June 30, 2017

Note 1: Nature of Activities—Continued

Organization and Operations—Continued—patient-provider relationships, while reducing service duplication and the rate of increase in health care spending.

DCHI is a privately funded nonprofit collaboration between public and private organizations, designed to move the state towards a system of care that is driven by quality, value-based payment, and better population health outcomes.

DHIN and DCHI are not health care providers and are not subject to claims under Delaware Code Title 18 Chapter 68. In addition, DHIN and DCHI have no power, unless expressly granted, to pledge the credit or create any debt or liability of the State or any agency thereof.

The Organization'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 the Organization are discussed in Note 2 of the financial statements.

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 the Organization 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—The Organization's operating revenues and expenses consist of charges for services and cash receipts from grants for specific services considered to be operating activities. The Organization's operating expenses consist of the cost of providing those services. Core revenue is shown net of discounts and allowances of \$0 for the year ended June 30, 2017.

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, 2017, cash and cash equivalents consisted only of demand deposits held by financial institutions.

Delaware Health Information Network
Notes to Financial Statements—Continued
June 30, 2017

Note 2: Summary of Significant Accounting Policies—Continued

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.

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, 2017. Bad debt expense for the fiscal year ended June 30, 2017 totaled \$1,963.

Prepaid Expenses—Prepaid expenses represent payments for expenses that have not been incurred as of year-end. Prepaid expenses as of June 30, 2017 consist of software support expenses.

Capital Assets—The Organization 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—The Organization's deferred revenue consists of cash received for which the services have not yet been provided. The Organization 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, 2017

Note 2: Summary of Significant Accounting Policies—Continued

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

Contractual (Non-Technical) Expense—The Organization 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—The Organization 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, The Organization 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—The Organization'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 year ended June 30, 2017 is as follows:

- DHIN recorded a total of \$2,723,876 in results delivery revenue from related parties during the fiscal year ended June 30, 2017. As of June 30, 2017, \$248,237 was due from related data senders.
- DHIN recorded a total of \$1,115,643 in community health record fees from the State Employee Health Fund during the fiscal year ended June 30, 2017. As of June 30, 2017, \$87,386 was due from the State Employee Health Fund.

Delaware Health Information Network
Notes to Financial Statements—Continued
June 30, 2017

Note 3: Related-Party Transactions—Continued

- DHIN provides services to 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. DHIN recorded \$1,812,892 in payer fees from these MCOs during the year ended June 30, 2017. \$68,405 was due from these MCOs as of June 30, 2017.
- During FY 2017, DHIN recorded \$327,229 and \$43,825 in professional service income from the Delaware Healthcare Commission and the Division of Public Health. As of June 30, 2017, \$41,885 and \$7,304 was due from the Delaware Healthcare Commission and the Division of Public Health.
- DCHI receives non operating revenue in the form of contributions and grants from organizations who have employees on DHIN's board of directors.

Note 4: Lease Agreements

DHIN leases office space and equipment under operating lease arrangements expiring through fiscal year June 30, 2019. The office space lease agreement, effective through June 30, 2018, 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. Rental expense for the year ended June 30, 2017 totaled \$104,681.

DCHI leases office space under a lease agreement which expired June 30, 2017. The lease is automatically extended on a monthly basis, unless the agreement is terminated by either party by giving 60 days advance written notice of cancellation. Rental expense for the year ended December 31, 2016 totaled \$7,472.

As of June 30, 2017, future minimum lease payments under noncancelable operating leases are approximately:

	<u>Office Space</u>	<u>Equipment</u>
2018	\$ 97,503	\$ 3,483
2019	-	1,451
	<u>\$ 97,503</u>	<u>\$ 4,934</u>

Delaware Health Information Network
Notes to Financial Statements—Continued
June 30, 2017

Note 5: Property, Equipment, and Software

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

	2017
Furniture and Equipment	\$ 14,458
Software	395,988
	410,446
Accumulated Depreciation and Amortization	(155,086)
Property, Equipment, and Software—Net	\$ 255,360

Note 6: Retirement Benefits

DHIN sponsors a defined contribution plan covering all full time employees. At June 30, 2017, there were 24 plan members. Employees may contribute to the plan immediately upon employment and contributions are matched 3%. Defined contribution expense for DHIN was \$62,683 and \$55,559 for the years ended June 30, 2017 and 2016, respectively. Plan provisions and contribution requirements are established and may be amended by DHIN’s board of directors.

Note 7: 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. The Organization experienced the following concentrations during the year ended June 30, 2017:

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, 2017 totaled \$6,767,800.

DCHI 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 December 31, 2016 totaled \$667,711.

Major Customers—Four major customers accounted for approximately 72 percent of DHIN’s results delivery revenue for the year ended 2017. Each of the four major customers were related parties during FY 2017 (Note 3).

Delaware Health Information Network
Notes to Financial Statements—Continued
June 30, 2017

Note 7: Concentrations—Continued

Major Source of Revenue—DHIN received \$1,812,892, or 15 percent of total revenue, from MCOs during FY 2017.

Note 8: Net Position

As of June 30, 2017, the Organization had no restricted components of net position.

Note 9: 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 2017 totaled approximately \$2.9 million.

During FY 2017, DHIN entered a contract with a vendor to support the implementation of a database and provide technical expertise on data processing and validation. At June 30, 2017, future expected costs under this contract totaled \$171,242 all of which is expected to be disbursed during the year ended June 30, 2018.

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 the Organization’s financial statements.

Note 10: Restatement of Beginning Net Assets

For fiscal years prior to June 30, 2017, DHIN did not blend the accounts of its component unit (DCHI) into the financial statements. As described in Note 1, DHIN adopted GASB Statement No. 80 during the year ended June 30, 2017, and has blended the financial statements of DCHI with DHIN. As a result, DHIN has restated its net position as previously reported as of June 30, 2016, as follows:

	<u>As Previously Reported</u>	<u>As Restated</u>	<u>Adjustment</u>
<u>As of June 30, 2016</u>			
Net Position—Beginning of Year	\$ 7,256,653	\$ 7,311,408	\$ 54,755

Delaware Health Information Network
Notes to Financial Statements—Continued
June 30, 2017

Note 11: Condensed Combining Information

In accordance with GASB 61, which allows governments engaged only in business-type activities that use a single column for financial statement presentation to blend a component unit by consolidating its financial statement data within the single column of the primary government's presentation, DCHI's financial statements for the year ended December 31, 2016 have been consolidated with those of DHIN's for the year ended June 30, 2017 within a single column on DHIN's statement of net position, statement of revenues, expenses, and changes in net position, and statement of cash flows. The following is condensed combining information as of and for the year ended June 30, 2017:

Condensed Combining Statement of Net Position

	Assets		
	DHIN	DCHI	Total
	<u> </u>	<u> </u>	<u> </u>
Current Assets			
Cash and Cash Equivalents	\$ 6,846,243	\$ 917,712	\$ 7,763,955
Accounts Receivable—Net	1,036,205	-	1,036,205
Prepaid Expenses	498,823	-	498,823
Total Current Assets	<u>8,381,271</u>	<u>917,712</u>	<u>9,298,983</u>
Capital Assets			
Property, Equipment, and Software—Net	255,360	-	255,360
Other Assets			
Lease Deposit	6,979	-	6,979
Total Assets	<u>\$ 8,643,610</u>	<u>\$ 917,712</u>	<u>\$ 9,561,322</u>
	Liabilities and Net Position		
Current Liabilities			
Accounts Payable	\$ 535,555	\$ 16,411	\$ 551,966
Accrued Expenses	196,667	-	196,667
Deferred Revenue	1,988	-	1,988
Total Current Liabilities	<u>734,210</u>	<u>16,411</u>	<u>750,621</u>
Total Liabilities	<u>734,210</u>	<u>16,411</u>	<u>750,621</u>
Net Position			
Invested in Capital Assets, Net of Related Debt	255,360	-	255,360
Unrestricted	7,654,040	901,301	8,555,341
Total Net Position	<u>7,909,400</u>	<u>901,301</u>	<u>8,810,701</u>
Total Liabilities and Net Position	<u>\$ 8,643,610</u>	<u>\$ 917,712</u>	<u>\$ 9,561,322</u>

Delaware Health Information Network
Notes to Financial Statements—Continued
June 30, 2017

Note 11: Condensed Combining Information - Continued

Condensed Combining Statement of Revenues, Expenses, and Changes in Net Position

	<u>DHIN</u>	<u>DCHI</u>	<u>Total</u>
Operating Revenue			
Core Services			
Results Delivery	\$ 3,787,146	\$ -	\$ 3,787,146
Community Health Record (CHR)	3,096,332	-	3,096,332
Total Core Services	<u>6,883,478</u>	<u>-</u>	<u>6,883,478</u>
Value Added Services			
CHR- Viewing by Providers	2,000	-	2,000
Medication History Access	26,690	-	26,690
Encounter Notification Services	28,599	-	28,599
Image Viewing	38,056	-	38,056
Professional Services	520,210	-	520,210
Total Value Added Services	<u>615,555</u>	<u>-</u>	<u>615,555</u>
Total Operating Revenue	<u>7,499,033</u>	<u>-</u>	<u>7,499,033</u>
Operating Expenses			
Administration	695,863	37,074	732,937
Contractual (Non-Technical)	1,406,012	103,029	1,509,041
Depreciation and Amortization	64,814	-	64,814
Implementation Costs	1,315,599	-	1,315,599
Licenses and Software Maintenance	1,796,617	-	1,796,617
Marketing	527,061	-	527,061
Operations	1,211,382	-	1,211,382
Personnel	3,089,720	222,551	3,312,271
Total Operating Expenses	<u>10,107,068</u>	<u>362,654</u>	<u>10,469,722</u>
Operating Loss	<u>(2,608,035)</u>	<u>(362,654)</u>	<u>(2,970,689)</u>
Nonoperating Revenue			
Grant Revenue	2,200,537	-	2,200,537
Contributions	1,000,000	1,209,200	2,209,200
Interest Income	60,245	-	60,245
Total Nonoperating Revenue	<u>3,260,782</u>	<u>1,209,200</u>	<u>4,469,982</u>
Change in Net Position	652,747	846,546	1,499,293
Net Position—Beginning of Year	<u>7,256,653</u>	<u>54,755</u>	<u>7,311,408</u>
Net Position—End of Year	<u>\$ 7,909,400</u>	<u>\$ 901,301</u>	<u>\$ 8,810,701</u>

Delaware Health Information Network
Notes to Financial Statements—Continued
June 30, 2017

Note 11: Condensed Combining Information - Continued

Condensed Combining Statement of Cash Flows

	<u>DHIN</u>	<u>DCHI</u>	<u>Total</u>
Cash Flows from Operating Activities			
Cash Received from Customers	\$ 5,114,204	\$ -	\$ 5,114,204
Cash Received from Grantors for Operating Purposes	2,114,150	-	2,114,150
Cash Payments to Suppliers	(7,077,320)	(133,198)	(7,210,518)
Cash Payments to Employees	(3,080,627)	(219,219)	(3,299,846)
Net Cash from Operating Activities	<u>(2,929,593)</u>	<u>(352,417)</u>	<u>(3,282,010)</u>
Cash Flows from Investing Activities			
Interest Income	60,245	-	60,245
Cash Flows from Capital Financing Activities			
Purchase of Capital Assets	(66,488)	-	(66,488)
Cash Flows from Noncapital Financing Activities			
Grant Revenue	2,200,537	-	2,200,537
Contributions	1,000,000	1,209,200	2,209,200
Net Cash from Noncapital Financing Activities	<u>3,200,537</u>	<u>1,209,200</u>	<u>4,409,737</u>
Change in Cash and Cash Equivalents	264,701	856,783	1,121,484
Cash and Cash Equivalents—Beginning of Year	6,581,542	60,929	6,642,471
Cash and Cash Equivalents—End of Year	<u>\$ 6,846,243</u>	<u>\$ 917,712</u>	<u>\$ 7,763,955</u>
Reconciliation of Operating Loss to			
Net Cash from Operating Activities			
Operating Loss	\$ (2,608,035)	\$ (362,654)	\$ (2,970,689)
Adjustments to Reconcile Operating Loss to Net Cash from Operating Activities			
Depreciation and Amortization	64,813	-	64,813
Bad Debt	1,963	-	1,963
Change in Assets			
Accounts Receivable	(193,657)	-	(193,657)
Prepaid Expenses	(101,147)	-	(101,147)
Change in Liabilities			
Accounts Payable	(36,761)	10,237	(26,524)
Accrued Expenses	20,253	-	20,253
Deferred Revenue	(77,022)	-	(77,022)
Net Cash from Operating Activities	<u>\$ (2,929,593)</u>	<u>\$ (352,417)</u>	<u>\$ (3,282,010)</u>

Single Audit



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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, 2017, and the related notes to the financial statements, which collectively comprise DHIN's basic financial statements, and have issued our report thereon dated November 1, 2017.

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

To the Board of Directors of
Delaware Health Information Network

weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2017-001 that we consider to be a significant deficiency.

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*.

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 Organization'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 1, 2017
Wilmington, Delaware



***Independent Auditors' Report on Compliance for Each Major Program and on
Internal Control over Compliance Required by the Uniform Guidance***

To the Board of Directors of
Delaware Health Information Network

Report on Compliance for Each Major Federal Program

We have audited the Delaware Health Information Network's (DHIN) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of DHIN's major federal programs for the year ended June 30, 2017. DHIN's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of DHIN's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about DHIN's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

To the Board of Directors of
Delaware Health Information Network

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of DHIN's compliance.

Opinion on Each Major Federal Program

In our opinion, DHIN complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of DHIN is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered DHIN's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program, and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of DHIN's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of Directors of
Delaware Health Information Network

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Belfint, Lyons & Shuman, P.A.

November 1, 2017
Wilmington, Delaware

Delaware Health Information Network
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Expenditures	Expenditures to Subrecipients
Direct Programs			
<u>Department of Health and Human Services</u>			
ARRA–State Grants to Promote Health Information Technology (HIT)	93.719	<u>\$ 2,200,537</u>	<u>\$ -</u>

Delaware Health Information Network
Notes to Schedule of Expenditures of Federal Awards
June 30, 2017

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of DHIN under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the activities of the operations of DHIN, it is not intended to and does not present the financial position, changes in net position, or cash flows of DHIN.

Note 2: Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement.

DHIN has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Delaware Health Information Network
Schedule of Findings and Questioned Costs
June 30, 2017

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of Auditors' Report Issued: Unmodified

Internal Control Over Financial Reporting:

- Material Weaknesses Identified? Yes No
- Significant Deficiencies Identified that are Not Considered to be Material Weaknesses? Yes None Reported
- Noncompliance Material to Financial Statements Noted? Yes No

Federal Awards

Internal Control Over Major Programs:

- Material Weaknesses Identified? Yes No
- Significant Deficiencies Identified that are Not Considered to be Material Weaknesses? Yes None Reported

Type of Auditors' Report Issued on Compliance for Major Programs: Unmodified

Any Audit Findings Disclosed that are Required to be Reported in Accordance with the Uniform Guidance? Yes No

Identification of Major Programs

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.719	ARRA–State Grants to Promote Health Information Technology

Dollar Threshold Used to Distinguish between Type A and Type B Programs: \$ 750,000

Auditee Qualified as Low-Risk Auditee? Yes No

Delaware Health Information Network
Schedule of Findings and Questioned Costs—Continued
June 30, 2017

II. Financial Statement Findings

Reference Number: 2017-001

Type of Finding: Significant Deficiency

Bank Reconciliation Process

Condition: Audit procedures determined checks issued to vendors prior to June 30, 2017 that remained outstanding and uncleared as of June 30, 2017 were presented in DHIN's accounting records as an increase in accounts payable rather than a reduction in cash. Accounting principles generally accepted in the United States requires checks issued and uncleared to be included as a reduction of the cash balance.

Cause: Accounting error.

Effect: Cash was overstated, and Accounts Payable were overstated by \$172,425. Adjustments were required to correct misstatements.

Recommendation: We recommend monthly comparison of the reconciled cash balance (including uncleared transactions) to the general ledger to verify accuracy.

Views of Responsible Officials and Planned Corrective Actions: DHIN understands the aforementioned principle and will ensure that it is adhered to in the future.

Delaware Health Information Network
Schedule of Findings and Questioned Costs—Continued
June 30, 2017

III. Federal Award Findings and Questioned Costs

No Current Year Findings

IV. Status of Prior Year Findings

Not Applicable