

**Delaware Health Information Network**

**Financial Statements and  
Independent Auditors' Report**

**June 30, 2018**

**Delaware Health Information Network**  
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**June 30, 2018**

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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, 2018, 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 financial position of the business-type activities of DHIN as of June 30, 2018, and the changes in financial position and 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 Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2018 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.

To the Board of Directors  
Delaware Health Information Network

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.*

September 27, 2018  
Wilmington, Delaware

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

**Delaware Health Information Network**  
**Management's Discussion and Analysis**  
**June 30, 2018**

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, 2018 (FY 2018). 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, 2017 and 2016, have been blended with those of DHIN as of and for the years ended June 30, 2018 and 2017, respectively (collectively referred to as the Organization).

DHIN is not required to have a legally adopted budget. Thus, 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 decreased approximately 43 percent as a result of FY 2018 operations.
- During FY 2018, the Organization's expenses exceeded revenues by \$3,754,571 due to a significant decrease in nonoperating revenue and significant conversion expenses related to its technology platform.
- Nonoperating revenue decreased \$3,724,290 (or approximately 83 percent) during FY 2018 as a result of federal grants and contribution commitments expiring prior to or during FY 2018.
- The Organization's operating revenues increased by \$313,825 (or approximately 4 percent) during FY 2018 as a result of increased revenue from DHIN's core services.
- Technology refresh costs increased \$2,051,211 (or approximately 1291%) during FY 2018 as a result of DHIN's efforts to upgrade its technology platform.
- Implementation costs decreased \$1,176,635 (or approximately 89%) during FY 2018 as a result of DHIN's strategic initiative to upgrade its technology platform.

**Delaware Health Information Network**  
**Management's Discussion and Analysis—Continued**  
**June 30, 2018**

**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.

*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, 2018**

**Financial Analysis**

|   | <b>2018</b>         | <b>2017</b>         |
|---|---------------------|---------------------|
| <b>Assets</b>                                   |                     |                     |
| <b>Current Assets</b>                           |                     |                     |
| Cash and Cash Equivalents                       | \$ 5,156,044        | \$ 7,763,955        |
| Receivables—Net                                 |                     |                     |
| Trade   | 803,822             | 736,457             |
| Federal   | -                   | 299,748             |
| Prepaid Expenses                                | 170,229             | 498,823             |
| <b>Total Current Assets</b>                     | 6,130,095           | 9,298,983           |
| <b>Capital Assets</b>                           |                     |                     |
| Property and Equipment—Net                      | 180,162             | 255,360             |
| <b>Other Assets</b>                             |                     |                     |
| Lease Deposit                                   | 6,979               | 6,979               |
| <b>Total Assets</b>                             | <b>\$ 6,317,236</b> | <b>\$ 9,561,322</b> |
| <b>Liabilities and Net Position</b>             |                     |                     |
| <b>Current Liabilities</b>                      |                     |                     |
| Accounts Payable                                | \$ 1,028,541        | \$ 551,966          |
| Accrued Expenses                                | 226,533             | 196,667             |
| Deferred Revenue                                | 6,032               | 1,988               |
| <b>Total Current Liabilities</b>                | 1,261,106           | 750,621             |
| <b>Total Liabilities</b>                        | 1,261,106           | 750,621             |
| <b>Net Position</b>                             |                     |                     |
| Invested in Capital Assets, Net of Related Debt | 180,162             | 255,360             |
| Unrestricted                                    | 4,875,968           | 8,555,341           |
| <b>Total Net Position</b>                       | 5,056,130           | 8,810,701           |
| <b>Total Liabilities and Net Position</b>       | <b>\$ 6,317,236</b> | <b>\$ 9,561,322</b> |

**Delaware Health Information Network**  
**Management's Discussion and Analysis—Continued**  
**June 30, 2018**

**Financial Analysis—Continued**

Total assets exceeded total liabilities by \$5,056,130 at the close of FY 2018.

At June 30, 2018 and 2017, net position was not subject to external or internal restrictions.

Total unrestricted net position decreased \$3,679,373 (or approximately 43 percent) during FY 2018.

During FY 2018 and 2017, DHIN purchased \$0 and \$66,488 of capital assets, respectively. Total depreciation and amortization expense during FY 2018 and 2017 was \$75,198 and \$64,184, respectively.

Accounts payable increased by \$476,575, an 86 percent increase, as of June 30, 2018 when compared to June 30, 2017. The increase was a result of services performed for the technology refresh project prior to June 30, 2018.

**Delaware Health Information Network**  
**Management's Discussion and Analysis—Continued**  
**June 30, 2018**

**Financial Analysis—Continued**

|                                       | <u>2018</u>         | <u>2017</u>         |
|---------------------------------------|---------------------|---------------------|
| <b>Operating Revenue</b>              |                     |                     |
| <b>Core Services</b>                  |                     |                     |
| Results Delivery                      | \$ 4,082,271        | \$ 3,787,146        |
| Community Health Record (CHR)         | <u>3,000,164</u>    | <u>3,096,332</u>    |
| <b>Total Core Services</b>            | <u>7,082,435</u>    | <u>6,883,478</u>    |
| <b>Value Added Services</b>           |                     |                     |
| CHR—Viewing by Providers              | 3,050               | 2,000               |
| Medication History Access             | 35,050              | 26,690              |
| Encounter Notification Services       | 25,990              | 28,599              |
| Image Viewing                         | 38,056              | 38,056              |
| Professional Services                 | <u>628,277</u>      | <u>520,210</u>      |
| <b>Total Value Added Services</b>     | <u>730,423</u>      | <u>615,555</u>      |
| <b>Total Operating Revenue</b>        | <u>7,812,858</u>    | <u>7,499,033</u>    |
| <b>Operating Expenses</b>             |                     |                     |
| Administration                        | 633,962             | 573,990             |
| Contractual (Non-Technical)           | 1,658,353           | 1,509,042           |
| Depreciation and Amortization         | 75,198              | 64,814              |
| Implementation Costs                  | 138,964             | 1,315,599           |
| Licenses and Software Maintenance     | 2,074,475           | 1,796,617           |
| Marketing                             | 276,605             | 527,061             |
| Operations                            | 1,168,201           | 1,211,382           |
| Personnel                             | 4,077,206           | 3,312,271           |
| Technology Refresh                    | <u>2,210,157</u>    | <u>158,946</u>      |
| <b>Total Operating Expenses</b>       | <u>12,313,121</u>   | <u>10,469,722</u>   |
| <b>Operating Loss</b>                 | <u>(4,500,263)</u>  | <u>(2,970,689)</u>  |
| <b>Nonoperating Revenue</b>           |                     |                     |
| Grant Revenue                         | 449,263             | 2,200,537           |
| Contributions                         | 242,800             | 2,209,200           |
| Interest Income                       | <u>53,629</u>       | <u>60,245</u>       |
| <b>Total Nonoperating Revenue</b>     | <u>745,692</u>      | <u>4,469,982</u>    |
| <b>Change in Net Position</b>         | (3,754,571)         | 1,499,293           |
| <b>Net Position—Beginning of Year</b> | <u>8,810,701</u>    | <u>7,311,408</u>    |
| <b>Net Position—End of Year</b>       | <u>\$ 5,056,130</u> | <u>\$ 8,810,701</u> |

**Delaware Health Information Network**  
**Management's Discussion and Analysis—Continued**  
**June 30, 2018**

**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, 2018 and 2017, DHIN recognized \$449,263 and \$2,200,537, respectively. The grant expired on July 26, 2017. This combined with the expiration of a \$1M contribution commitment during FY 2018 resulted in a \$3,724,290 decrease in nonoperating revenue.

The Organization's operating revenues increased by \$313,825 (or approximately 4 percent) during FY 2018 as a result of increased revenue from DHIN's core services.

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.

Contractual (Non-Technical) costs increased \$149,311 during FY 2018 as a result of contract and project management including ongoing HITRUST certification.

Implementation costs decreased \$1,176,635 (or approximately 89%) during FY 2018 as a result of DHIN's strategic initiative to upgrade its technology platform.

Licenses and software maintenance expenses represent costs for license and maintenance costs for functions implemented and data senders joined in prior years. License and software maintenance costs increased \$277,858 during FY 2018 as a result of functions implemented in prior years, including DHIN's results delivery system, Community Health Record, Master Patient Index, Encounter Notification System, and various analytics tools.

Technology refresh costs represent costs related to development, hardware, or software service contracts in support of DHIN's updated technology platform. Technology refresh costs increased \$2,051,211 during FY 2018 as a result of DHIN's efforts to upgrade its technology platform.

Marketing expenses represent costs for outreach materials, consumer educational materials, and brand awareness. Marketing expenses decreased \$250,456 due to the expiration of the federal grant which provided funding for consumer branding and promotion.

**Delaware Health Information Network**  
**Management's Discussion and Analysis—Continued**  
**June 30, 2018**

**Financial Analysis—Continued**

Personnel expenses consist of costs for payroll and payroll-related expenses for employees. Personnel expenses increased \$764,935 due to new employees, annualization of salary expense for employees hired during the prior year, and increase in employee benefit costs.

## **Financial Statements**

**Delaware Health Information Network**  
**Statement of Net Position**  
**June 30, 2018**

**Assets**

**Current Assets**

|                           |                |
|---------------------------|----------------|
| Cash and Cash Equivalents | \$ 5,156,044   |
| Accounts Receivable–Net   | 803,822        |
| Prepaid Expenses          | <u>170,229</u> |

**Total Current Assets** 6,130,095

**Capital Assets**

|                                       |         |
|---------------------------------------|---------|
| Property, Equipment, and Software–Net | 180,162 |
|---------------------------------------|---------|

**Other Assets**

|               |              |
|---------------|--------------|
| Lease Deposit | <u>6,979</u> |
|---------------|--------------|

**Total Assets** \$ 6,317,236

**Liabilities and Net Position**

**Current Liabilities**

|                  |              |
|------------------|--------------|
| Accounts Payable | \$ 1,028,541 |
| Accrued Expenses | 226,533      |
| Deferred Revenue | <u>6,032</u> |

**Total Current Liabilities** 1,261,106

**Total Liabilities** 1,261,106

**Net Position**

|   |                  |
|---|------------------|
| Invested in Capital Assets, Net of Related Debt | 180,162          |
| Unrestricted                                    | <u>4,875,968</u> |

**Total Net Position** 5,056,130

**Total Liabilities and Net Position** \$ 6,317,236

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, 2018**

|  |                     |
|--|---------------------|
| <b>Operating Revenue</b>               |                     |
| <b>Core Services</b>                   |                     |
| Results Delivery                       | \$ 4,082,271        |
| Community Health Record (CHR)          | 3,000,164           |
|  | <hr/>               |
| <b>Total Core Services</b>             | <b>7,082,435</b>    |
|  | <hr/>               |
| <b>Value Added Services</b>            |                     |
| CHR-Viewing by Providers               | 3,050               |
| Medication History Access              | 35,050              |
| Encounter Notification Services        | 25,990              |
| Image Viewing                          | 38,056              |
| Professional Services                  | 628,277             |
|  | <hr/>               |
| <b>Total Value Added Services</b>      | <b>730,423</b>      |
|  | <hr/>               |
| <b>Total Operating Revenue</b>         | <b>7,812,858</b>    |
|  | <hr/>               |
| <b>Operating Expenses</b>              |                     |
| Administration                         | 633,962             |
| Contractual (Non-Technical)            | 1,658,353           |
| Depreciation and Amortization          | 75,198              |
| Implementation Costs                   | 138,964             |
| Licenses and Software Maintenance      | 2,074,475           |
| Marketing                              | 276,605             |
| Operations                             | 1,168,201           |
| Personnel                              | 4,077,206           |
| Technology Refresh                     | 2,210,157           |
|  | <hr/>               |
| <b>Total Operating Expenses</b>        | <b>12,313,121</b>   |
|  | <hr/>               |
| <b>Operating Loss</b>                  | <b>(4,500,263)</b>  |
|  | <hr/>               |
| <b>Nonoperating Revenue</b>            |                     |
| Grant Revenue                          | 449,263             |
| Contributions                          | 242,800             |
| Interest Income                        | 53,629              |
|  | <hr/>               |
| <b>Total Nonoperating Revenue</b>      | <b>745,692</b>      |
|  | <hr/>               |
| <b>Change in Net Position</b>          | <b>(3,754,571)</b>  |
|  | <hr/>               |
| <b>Net Position</b> —Beginning of Year | <b>8,810,701</b>    |
|  | <hr/>               |
| <b>Net Position</b> —End of Year       | <b>\$ 5,056,130</b> |
|  | <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, 2018**

|  |                            |
|--|----------------------------|
| <b>Cash Flows from Operating Activities</b>            |                            |
| Cash Received from Customers                           | \$ 7,661,650               |
| Cash Received from Grantors for Operating Purposes     | 836,898                    |
| Cash Payments to Suppliers                             | (7,355,548)                |
| Cash Payments to Employees                             | <u>(4,047,340)</u>         |
| <b>Net Cash from Operating Activities</b>              | <u>(2,904,340)</u>         |
| <b>Cash Flows from Investing Activities</b>            |                            |
| Interest Income  | <u>53,629</u>              |
| <b>Cash Flows from Capital Financing Activities</b>    | <u>-</u>                   |
| <b>Cash Flows from Noncapital Financing Activities</b> |                            |
| Contributions  | <u>242,800</u>             |
| <b>Change in Cash and Cash Equivalents</b>             | (2,607,911)                |
| <b>Cash and Cash Equivalents—Beginning of Year</b>     | <u>7,763,955</u>           |
| <b>Cash and Cash Equivalents—End of Year</b>           | <u><u>\$ 5,156,044</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, 2018**

|  |                                     |
|--|-------------------------------------|
| <b>Reconciliation of Operating Loss to</b> |                                     |
| <b>Net Cash from Operating Activities</b>  |                                     |
| Operating Loss                             | \$ (4,500,263)                      |
| Adjustments to Reconcile Operating Loss    |                                     |
| to Net Cash from Operating Activities      |                                     |
| Depreciation and Amortization              | 75,198                              |
| Grant Revenue for Operating Purposes       | 449,263                             |
| Change in Assets                           |                                     |
| Accounts Receivable                        | 232,383                             |
| Prepaid Expenses                           | 328,594                             |
| Change in Liabilities                      |                                     |
| Accounts Payable                           | 476,575                             |
| Accrued Expenses                           | 29,866                              |
| Deferred Revenue                           | 4,044                               |
|  | <hr/>                               |
| <b>Net Cash from Operating Activities</b>  | <b><u><u>\$ (2,904,340)</u></u></b> |

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

**Delaware Health Information Network**  
**Notes to Financial Statements**  
**June 30, 2018**

**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.

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, 2017, have been blended with those of DHIN, as of and for the year ended June 30, 2018 (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 patient-provider relationships, while reducing service duplication and the rate of increase in health care spending.

**Delaware Health Information Network**  
**Notes to Financial Statements—Continued**  
**June 30, 2018**

**Note 1: Nature of Activities—Continued**

**Organization and Operations—Continued**—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, 2018.

**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, 2018, cash and cash equivalents consisted only of demand deposits held by financial institutions.

**Delaware Health Information Network**  
**Notes to Financial Statements—Continued**  
**June 30, 2018**

**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, 2018. Bad debt expense for the fiscal year ended June 30, 2018 totaled \$0.

***Prepaid Expenses***—Prepaid expenses represent payments for expenses that have not been incurred as of year end. Prepaid expenses as of June 30, 2018 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, 2018**

**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, 2018 is as follows:

- DHIN recorded a total of \$2,891,306 in results delivery revenue from related parties during the fiscal year ended June 30, 2018. As of June 30, 2018, \$248,237 was due from related data senders.
- DHIN recorded a total of \$1,121,236 in community health record fees from the State Employee Health Fund during the fiscal year ended June 30, 2018. As of June 30, 2018, \$69,313 was due from the State Employee Health Fund.

**Delaware Health Information Network**  
**Notes to Financial Statements—Continued**  
**June 30, 2018**

**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 \$1,727,726 in community health record fees from these MCOs during the year ended June 30, 2018. \$33,400 was due from these MCOs as of June 30, 2018.
- During FY 2018, DHIN recorded \$530,644 and \$43,825 in professional service income from the Delaware Healthcare Commission and the Division of Public Health, respectively. As of June 30, 2018, \$305,588 and \$3,652 was due from the Delaware Healthcare Commission and the Division of Public Health, respectively.
- DCHI receives nonoperating 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, 2020. The office space lease agreement, effective through June 30, 2020, 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, 2018 totaled \$110,606.

DCHI leases office space under a month-to-month lease agreement. The agreement may be terminated by either party by giving 60 days advance written notice of cancellation. Rental expense for the year ended December 31, 2017 totaled \$14,956. On January 1, 2018, the lease was amended to reflect the rental of a mailbox and conference room access only. Thus, on January 1, 2018 monthly rental payments were reduced to \$100.

As of June 30, 2018, future minimum lease payments under noncancelable operating leases are approximately:

|      | <u>Office Space</u> | <u>Equipment</u> |
|------|---------------------|------------------|
| 2019 | \$ 97,995           | \$ 1,451         |
| 2020 | <u>100,367</u>      | <u>-</u>         |
|      | <u>\$ 198,362</u>   | <u>\$ 1,451</u>  |

**Delaware Health Information Network**  
**Notes to Financial Statements—Continued**  
**June 30, 2018**

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

Property, equipment, and software consisted of the following as of June 30, 2018:

|   |    |           |
|---|----|-----------|
| Furniture and Equipment                   | \$ | 14,458    |
| Software                                  |    | 395,988   |
|   |    | 410,446   |
| Accumulated Depreciation and Amortization |    | (230,284) |
| Property, Equipment, and Software—Net     | \$ | 180,162   |

**Note 6: Retirement Benefits**

DHIN sponsors a defined contribution plan covering all full-time employees. At June 30, 2018, there were 23 plan members. Employees may contribute to the plan immediately upon employment and contributions are matched 3%. Defined contribution expense for DHIN was \$73,370 for the year ended June 30, 2018. 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, 2018:

***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, 2018 totaled \$4,665,027.

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, 2017 totaled \$4,612.

***Major Customers***—Two major customers accounted for approximately 53 percent of DHIN’s results delivery revenue for the year ended 2018. Each of the two major customers were related parties during FY 2018 (Note 3).

**Delaware Health Information Network**  
**Notes to Financial Statements—Continued**  
**June 30, 2018**

**Note 8: Net Position**

As of June 30, 2018, the Organization had no restricted components of net position.

**Note 9: Commitments and Contingencies**

DHIN is contracted with certain vendors through FY 2023 to support the implementation of a database and provide technical expertise on data processing and validation. At June 30, 2018, future expected costs under these contracts totaled \$2,346,964 of which \$1,099,140 is expected to be disbursed during FY 2019 and \$311,956 disbursed annually between FY 2020 and FY 2023.

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: 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, 2017 have been consolidated with those of DHIN's for the year ended June 30, 2018 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, 2018:

**Delaware Health Information Network**  
**Notes to Financial Statements—Continued**  
**June 30, 2018**

**Note 10: Condensed Combining Information—Continued**

**Condensed Combining Statement of Net Position**

|   | <b>Assets</b>                       |                        |                          |
|---|-------------------------------------|------------------------|--------------------------|
|   | <b>DHIN</b>                         | <b>DCHI</b>            | <b>Total</b>             |
|   | <hr/>                               | <hr/>                  | <hr/>                    |
| <b>Current Assets</b>                           |                                     |                        |                          |
| Cash and Cash Equivalents                       | \$ 4,901,431                        | \$ 254,613             | \$ 5,156,044             |
| Accounts Receivable—Net                         | 803,822                             | -                      | 803,822                  |
| Prepaid Expenses                                | 170,229                             | -                      | 170,229                  |
| <b>Total Current Assets</b>                     | <hr/> 5,875,482                     | <hr/> 254,613          | <hr/> 6,130,095          |
| <b>Capital Assets</b>                           |                                     |                        |                          |
| Property, Equipment, and Software—Net           | 180,162                             | -                      | 180,162                  |
| <b>Other Assets</b>                             |                                     |                        |                          |
| Lease Deposit                                   | 6,979                               | -                      | 6,979                    |
| <b>Total Assets</b>                             | <hr/> <hr/> \$ 6,062,623            | <hr/> <hr/> \$ 254,613 | <hr/> <hr/> \$ 6,317,236 |
|   |                                     |                        |                          |
|   | <b>Liabilities and Net Position</b> |                        |                          |
| <b>Current Liabilities</b>                      |                                     |                        |                          |
| Accounts Payable                                | \$ 965,931                          | \$ 62,610              | \$ 1,028,541             |
| Accrued Expenses                                | 226,533                             | -                      | 226,533                  |
| Deferred Revenue                                | 6,032                               | -                      | 6,032                    |
| <b>Total Current Liabilities</b>                | <hr/> 1,198,496                     | <hr/> 62,610           | <hr/> 1,261,106          |
| <b>Total Liabilities</b>                        | <hr/> 1,198,496                     | <hr/> 62,610           | <hr/> 1,261,106          |
| <b>Net Position</b>                             |                                     |                        |                          |
| Invested in Capital Assets, Net of Related Debt | 180,162                             | -                      | 180,162                  |
| Unrestricted                                    | 4,683,965                           | 192,003                | 4,875,968                |
| <b>Total Net Position</b>                       | <hr/> 4,864,127                     | <hr/> 192,003          | <hr/> 5,056,130          |
| <b>Total Liabilities and Net Position</b>       | <hr/> <hr/> \$ 6,062,623            | <hr/> <hr/> \$ 254,613 | <hr/> <hr/> \$ 6,317,236 |

**Delaware Health Information Network**  
**Notes to Financial Statements—Continued**  
**June 30, 2018**

**Note 10: Condensed Combining Information—Continued**

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

|                                       | <u>DHIN</u>         | <u>DCHI</u>       | <u>Total</u>        |
|---------------------------------------|---------------------|-------------------|---------------------|
| <b>Operating Revenue</b>              |                     |                   |                     |
| <b>Core Services</b>                  |                     |                   |                     |
| Results Delivery                      | \$ 4,082,271        | \$ -              | \$ 4,082,271        |
| Community Health Record (CHR)         | 3,000,164           | -                 | 3,000,164           |
| <b>Total Core Services</b>            | <u>7,082,435</u>    | <u>-</u>          | <u>7,082,435</u>    |
| <b>Value Added Services</b>           |                     |                   |                     |
| CHR—Viewing by Providers              | 3,050               | -                 | 3,050               |
| Medication History Access             | 35,050              | -                 | 35,050              |
| Encounter Notification Services       | 25,990              | -                 | 25,990              |
| Image Viewing                         | 38,056              | -                 | 38,056              |
| Professional Services                 | 628,277             | -                 | 628,277             |
| <b>Total Value Added Services</b>     | <u>730,423</u>      | <u>-</u>          | <u>730,423</u>      |
| <b>Total Operating Revenue</b>        | <u>7,812,858</u>    | <u>-</u>          | <u>7,812,858</u>    |
| <b>Operating Expenses</b>             |                     |                   |                     |
| Administration                        | 583,529             | 50,433            | 633,962             |
| Contractual (Non-Technical)           | 1,212,712           | 445,641           | 1,658,353           |
| Depreciation and Amortization         | 75,198              | -                 | 75,198              |
| Implementation Costs                  | 138,964             | -                 | 138,964             |
| Licenses and Software Maintenance     | 2,074,475           | -                 | 2,074,475           |
| Marketing                             | 276,605             | -                 | 276,605             |
| Operations                            | 1,168,201           | -                 | 1,168,201           |
| Personnel                             | 3,621,182           | 456,024           | 4,077,206           |
| Technology Refresh                    | 2,210,157           | -                 | 2,210,157           |
| <b>Total Operating Expenses</b>       | <u>11,361,023</u>   | <u>952,098</u>    | <u>12,313,121</u>   |
| <b>Operating Loss</b>                 | <u>(3,548,165)</u>  | <u>(952,098)</u>  | <u>(4,500,263)</u>  |
| <b>Nonoperating Revenue</b>           |                     |                   |                     |
| Grant Revenue                         | 449,263             | -                 | 449,263             |
| Contributions                         | -                   | 242,800           | 242,800             |
| Interest Income                       | 53,629              | -                 | 53,629              |
| <b>Total Nonoperating Revenue</b>     | <u>502,892</u>      | <u>242,800</u>    | <u>745,692</u>      |
| <b>Change in Net Position</b>         | <u>(3,045,273)</u>  | <u>(709,298)</u>  | <u>(3,754,571)</u>  |
| <b>Net Position—Beginning of Year</b> | <u>7,909,400</u>    | <u>901,301</u>    | <u>8,810,701</u>    |
| <b>Net Position—End of Year</b>       | <u>\$ 4,864,127</u> | <u>\$ 192,003</u> | <u>\$ 5,056,130</u> |

**Delaware Health Information Network**  
**Notes to Financial Statements—Continued**  
**June 30, 2018**

**Note 10: Condensed Combining Information—Continued**

**Condensed Combining Statement of Cash Flows**

|   | <u>DHIN</u>           | <u>DCHI</u>         | <u>Total</u>          |
|---|-----------------------|---------------------|-----------------------|
| <b>Cash Flows from Operating Activities</b>                                   |                       |                     |                       |
| Cash Received from Customers  | \$ 7,661,650          | \$ -                | \$ 7,661,650          |
| Cash Received from Grantors for Operating Purposes                            | 836,898               | -                   | 836,898               |
| Cash Payments to Suppliers  | (6,908,515)           | (447,033)           | (7,355,548)           |
| Cash Payments to Employees  | (3,588,474)           | (458,866)           | (4,047,340)           |
| <b>Net Cash from Operating Activities</b>                                     | <u>(1,998,441)</u>    | <u>(905,899)</u>    | <u>(2,904,340)</u>    |
| <b>Cash Flows from Investing Activities</b>                                   |                       |                     |                       |
| Interest Income   | 53,629                | -                   | 53,629                |
| <b>Cash Flows from Capital Financing Activities</b>                           | <u>-</u>              | <u>-</u>            | <u>-</u>              |
| <b>Cash Flows from Noncapital Financing Activities</b>                        |                       |                     |                       |
| Contributions   | -                     | 242,800             | 242,800               |
| <b>Change in Cash and Cash Equivalents</b>                                    | (1,944,812)           | (663,099)           | (2,607,911)           |
| <b>Cash and Cash Equivalents—Beginning of Year</b>                            | 6,846,243             | 917,712             | 7,763,955             |
| <b>Cash and Cash Equivalents—End of Year</b>                                  | <u>\$ 4,901,431</u>   | <u>\$ 254,613</u>   | <u>\$ 5,156,044</u>   |
| <b>Reconciliation of Operating Loss to</b>                                    |                       |                     |                       |
| <b>Net Cash from Operating Activities</b>                                     |                       |                     |                       |
| <b>Operating Loss</b>   | \$ (3,548,165)        | \$ (952,098)        | \$ (4,500,263)        |
| Adjustments to Reconcile Operating Loss to Net Cash from Operating Activities |                       |                     |                       |
| Depreciation and Amortization   | 75,198                | -                   | 75,198                |
| Grant Revenue for Operating Purposes  | 449,263               | -                   | 449,263               |
| Change in Assets  |                       |                     |                       |
| Accounts Receivable   | 232,383               | -                   | 232,383               |
| Prepaid Expenses  | 328,594               | -                   | 328,594               |
| Change in Liabilities   |                       |                     |                       |
| Accounts Payable  | 430,376               | 46,199              | 476,575               |
| Accrued Expenses  | 29,866                | -                   | 29,866                |
| Deferred Revenue  | 4,044                 | -                   | 4,044                 |
| <b>Net Cash from Operating Activities</b>                                     | <u>\$ (1,998,441)</u> | <u>\$ (905,899)</u> | <u>\$ (2,904,340)</u> |



***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, 2018, and the related notes to the financial statements, which collectively comprise DHIN's basic financial statements, and have issued our report thereon dated September 27, 2018.

***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 opinion 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. However, material weaknesses may exist that have not been identified.

### ***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.*

September 27, 2018  
Wilmington, Delaware