Delaware Valley Community Health, Inc.

Financial Statements, Schedule of Expenditures of Federal Awards, Internal Control and Compliance (With Supplementary Information) and Independent Auditor's Reports

December 31, 2013 and 2012

Delaware Valley Community Health, Inc.

Index

Independent Auditor's Report

To the Board of Directors
Delaware Valley Community Health, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Delaware Valley Community Health, Inc. (the "Center", a nonprofit organization) which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 Center'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 Center's 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 Center as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of Federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the 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 May 12, 2014, on our consideration of the Center'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 the Center's internal control over financial reporting and compliance.

CohnReznick LLP

New York, New York
May 12, 2014

Delaware Valley Community Health, Inc.

Statements of Financial Position
December 31, 2013 and 2012

	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	$ 1,270,942	$ 331,592
Investments (Note 2)	1,352,358	1,357,407
Patient services receivable, net (Note 3)	2,283,732	2,823,283
Contract services and other grants receivable (Note 4)	170,867	412,768
Other receivable, current portion (Note 5)	45,142	43,584
Inventory	48,844	77,170
Prepaid expenses and other	503,052	477,110
Total current assets	5,674,937	5,522,914
Property and equipment, net (Note 6)	14,799,481	14,101,752
Other receivable - noncurrent portion (Note 5)	88,832	133,974
Total assets	$ 20,563,250	$ 19,758,640
Liabilities and Unrestricted Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	$ 598,231	$ 621,708
Accrued compensation	1,151,409	903,763
Current maturities of long-term debt (Note 8)	86,629	277,765
Refundable advances	34,949	280,000
Total current liabilities	1,871,218	2,083,236
Long-term debt, less current maturities (Note 8)	3,497,371	3,512,865
Interest rate swap (Notes 2 and 8)	30,726	847,623
Total liabilities	5,399,315	6,443,724
Commitments and contingencies (Note 13)		
Unrestricted net assets	15,163,935	13,314,916
Total liabilities and unrestricted net assets	$ 20,563,250	$ 19,758,640

See Notes to Financial Statements.

Delaware Valley Community Health, Inc.

Statements of Activities and Changes in Net Assets
Years Ended December 31, 2013 and 2012

	2013	2012
Unrestricted revenue:		
Patient services revenue (net of contractual allowances and discounts) (Note 9)	$ 15,221,297	$ 15,342,337
Provision for bad debts	516,077	261,969
Net patient service revenue less provision for bad debts	14,705,220	15,080,368
DHHS grant revenue (Note 10)	4,572,203	4,458,203
Contract services and other grants (Note 11)	819,789	929,843
In-kind contributions - vaccines	1,344,439	1,314,254
Pharmacy income	922,582	772,735
Donations and donated services	53,132	88,747
Investment income	5,313	25,917
Other revenue	246,805	296,228
Total unrestricted revenue	22,669,483	22,966,295
Operating expenses:		
Salaries and related benefits	15,915,151	16,599,502
Other than personnel services	4,095,834	4,128,721
In-kind contributions - vaccines	1,344,439	1,314,254
Interest	186,631	212,965
Total operating expenses	21,542,055	22,255,442
Operating income prior to depreciation and amortization	1,127,428	710,853
Depreciation and amortization	1,048,132	1,074,662
Operating income (loss)	79,296	(363,809)
Nonoperating activities:		
DHHS capital improvements grants (Note 10)	1,510,826	-
Unrealized gains on interest rate swap	258,897	35,167
Total nonoperating activities	1,769,723	35,167
Change in unrestricted net assets	1,849,019	(328,642)
Unrestricted net assets, beginning of year	13,314,916	13,643,558
Unrestricted net assets, end of year	$ 15,163,935	$ 13,314,916

See Notes to Financial Statements.

Delaware Valley Community Health, Inc.

Statement of Functional Expenses
Year Ended December 31, 2013

	Program Services	General and Administrative	Fundraising	Total
Salaries and wages	$ 9,815,067	$ 2,426,840	$ 29,823	$ 12,271,730
Fringe benefits	2,876,994	751,786	14,641	3,643,421
Consultant and contractual services	490,646	336,535	104	827,285
Professional fees		61,894		61,894
Laboratory and radiology fees	420,441			420,441
Consumable supplies	419,020	29,726		448,746
Occupancy	335,265	24,300	306	359,871
Insurance	13,435	69,122		82,557
Equipment rental and maintenance	124,081	30,030		154,111
Pharmaceuticals	1,260,326			1,260,326
Telephone	106,715	31,187	549	138,451
Travel, conferences and meetings	12,206	45,186	25	57,417
Dues and subscriptions	8,480	36,727	375	45,582
Printing, publications and postage	27,933	4,824	680	33,437
Training and seminars	95,283	54,190	4,073	153,546
Interest expense	148,691	37,940		186,631
Other	39,399	12,771		52,170
In-kind contributions - vaccines	1,344,439			1,344,439
	17,538,421	3,953,058	50,576	21,542,055
Depreciation and amortization	890,912	157,220		1,048,132
Total functional expenses	$ 18,429,333	$ 4,110,278	$ 50,576	$ 22,590,187

See Notes to Financial Statements.

Delaware Valley Community Health, Inc.

Statement of Functional Expenses
Year Ended December 31, 2012

	Program Services	General and Administrative	Fundraising	Total
Salaries and wages	$ 10,471,448	$ 2,353,823	$ 73,995	$ 12,899,266
Fringe benefits	2,937,401	745,157	17,678	3,700,236
Consultant and contractual services	463,445	310,881	5,348	779,674
Professional fees	11,931	108,500		120,431
Laboratory and radiology fees	488,182			488,182
Consumable supplies	474,380	17,546	1,002	492,928
Occupancy	352,137	28,513	370	381,020
Insurance	12,260	74,239		86,499
Equipment rental and maintenance	105,734	29,379	350	135,463
Pharmaceuticals	1,105,228			1,105,228
Telephone	103,972	26,840	522	131,334
Travel, conferences and meetings	12,763	40,624	2,365	55,752
Dues and subscriptions	8,350	36,332	3,442	48,124
Printing, publications and postage	51,854	2,139	2,708	56,701
Training and seminars	111,226	39,716	20,456	171,398
Interest expense	172,453	40,512		212,965
Other	65,079	9,550	1,358	75,987
In-kind contributions - vaccines	1,314,254			1,314,254
	18,262,097	3,863,751	129,594	22,255,442
Depreciation and amortization	913,463	161,199		1,074,662
Total functional expenses	$ 19,175,560	$ 4,024,950	$ 129,594	$ 23,330,104

See Notes to Financial Statements.

Delaware Valley Community Health, Inc.

Statements of Cash Flows
Years Ended December 31, 2013 and 2012

	2013	2012
Operating activities:		
Cash received from patient services	$ 16,167,353	$ 15,142,843
Cash received from grants	4,327,152	4,738,203
Cash received from contracted services	1,061,690	756,365
Other receipts from operations	359,503	648,983
Cash paid for operations	(4,116,927)	(4,303,887)
Cash paid to employees	(15,667,505)	(16,559,625)
Interest paid	(186,631)	(212,965)
Net cash provided by operating activities	1,944,635	209,917
Investing activities:		
Purchase of property and equipment	(1,745,861)	(288,717)
Purchase of investments	(711,533)	(2,150,294)
Proceeds from sale of investments	705,913	2,140,787
Net cash used in investing activities	(1,751,481)	(298,224)
Financing activities:		
Payment of long-term debt	(206,630)	(277,765)
Cash paid on interest rate swap	(558,000)	-
Payment of non-revolving credit facility	-	(609,300)
Cash received for DHHS capital improvements grants	1,510,826	-
Net cash provided by (used in) financing activities	746,196	(887,065)
Net increase (decrease) in cash and cash equivalents	939,350	(975,372)
Cash and cash equivalents, beginning of year	331,592	1,306,964
Cash and cash equivalents, end of year	$ 1,270,942	$ 331,592
Reconciliation of change in operating activities:		
Change in unrestricted net assets	$ 1,849,019	$ (328,642)
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Bad debt expense	516,077	261,969
Unrealized gains on interest rate swap	(258,897)	(35,167)
Depreciation and amortization	1,048,132	1,074,662
DHHS capital improvement grants	(1,510,826)	
Forgiveness of other receivable	43,584	39,113
Net realized and unrealized loss (gain) on investments	10,669	(1,022)
Changes in operating assets and liabilities:		
Patient services receivable	23,474	(972,229)
Contract services, other grants and contributions receivable	241,901	26,522
Prepaid expenses and other	(25,942)	(169,289)
Inventory	28,326	(6,867)
Refundable advances	(245,051)	280,000
Accounts payable and accrued expenses	(23,477)	990
Accrued compensation	247,646	39,877
Net cash provided by operating activities	$ 1,944,635	$ 209,917

See Notes to Financial Statements.

Note 1 - Organization and summary of significant accounting policies

Organization

Delaware Valley Community Health, Inc. (the "Center") operates healthcare centers located in Philadelphia and Norristown, Pennsylvania. The Center provides a broad range of health services to a largely medically underserved population. The Center is incorporated as a not-for-profit corporation under the laws of the Commonwealth of Pennsylvania and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code").

The U.S. Department of Health and Human Services (the "DHHS") provides substantial support to the Center. The Center is obligated under the terms of the DHHS grants to comply with specified conditions and program requirements set forth by the grantor.

Basis of presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents

The Center maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed Federally-insured limits. The Center has not experienced any losses in such accounts. At December 31, 2013, the Center’s cash balance exceeds Federally-insured limits by approximately $1,060,000. All highly liquid investments with maturities of three months or less when purchased are considered to be cash equivalents.

Investments

Investments consist of money market accounts and bonds.

Fair value of financial instruments

The Center's material financial instruments at December 31, 2013 and 2012 for which disclosure of estimated fair value is required by certain accounting standards consisted of cash and cash equivalents, investments, patient services receivable, accounts payable, interest rate swap and obligations to unrelated parties. The fair values of cash and cash equivalents, patient services receivable and accounts payable are equal to their carrying value because of their liquidity and short-term maturity. Investments are stated at fair value as described in Note 2. Management believes that the fair values of obligations to unrelated parties do not differ materially from their aggregate carrying values in that substantially all the obligations bear variable interest rates that are based on market rates or interest rates that are periodically adjusted to rates that are based on market rates. The fair value of the obligation related to the interest rate swap is described in Note 2.

Patient services receivable and concentration of credit risk

The collection of receivables from third-party payors and patients is the Center's primary source of cash for operations and is critical to its operating performance. The primary collection risks relate to uninsured patient accounts and patient accounts for which the primary insurance payor has paid, but patient responsibility amounts (deductibles and copayments) remain outstanding. Patient receivables from third-party payors are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments or discounts provided to third-party payors.

Receivables due directly from patients are carried at the original charge for the service provided less discounts provided under the Center's charity care policy, less amounts covered by third-party payors and less an estimated allowance for doubtful receivables. Management determines the allowance for doubtful accounts by identifying troubled accounts and by historical experience applied to an aging of accounts. The Center considers accounts past due when they are outstanding beyond 60 days with no payment. The Center generally does not charge interest on past due accounts. Patient receivables are written off to the allowance for doubtful accounts when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of bad debt expense when received.

Interest rate swap

The Center utilizes a derivative financial instrument to reduce interest rate risk. The Center does not hold or issue derivative financial instruments for trading purposes. Accounting and reporting standards for derivative instruments and hedging activities require the Center to recognize all derivatives as either assets or liabilities in the statements of financial position and measure those instruments at fair value. Changes in the fair value of those instruments are reported in changes in net assets. The accounting for gains and losses associated with changes in the fair value of the derivative and the effect on the financial statements will depend on its hedge designation and whether the hedge is highly effective in achieving offsetting changes in the fair value of cash flows of the asset or liability hedged.

Inventory

Inventory, consisting of pharmaceuticals, is stated at the lower of cost (determined using the first-in, first-out method) or market.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets ranging from 5-20 years for equipment and vehicles and 25 or 39 years for building and improvements. Leasehold improvements are amortized over the shorter of the useful life of the asset or the lease term. Expenditures over $5,000 are capitalized. Maintenance, repairs and minor renewals are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation and amortization are removed from the accounts and any resulting gains or losses are included in change in net assets.

According to Federal regulations, any property and equipment items obtained through Federal funds are subject to a lien by the Federal government. Provided that the Center maintains its tax-exempt status and the property and equipment are used for their intended purpose, the Center is not required to reimburse the Federal government. If the stated requirements are not met, the Center would be obligated to the Federal government in an amount equal to the fair value of the property and equipment.

Impairment of long-lived assets
The Center reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing a review for impairment, the Center compares the carrying value of the assets with their estimated future undiscounted cash flows. If it is determined that impairment has occurred, the loss would be recognized during that period. The impairment loss is calculated as the difference between the asset carrying values and the present value of estimated net cash flows or comparable market values, giving consideration to recent operating performance and pricing trends. The Center does not believe that any material impairment currently exists related to its long-lived assets.

Grants and contracts
Revenue from government grants and contracts designated for use in specific activities is recognized in the period when the expenditures have been incurred in compliance with the grantor's restrictions. Grants and contract awards for the acquisition of long-lived assets are reported as unrestricted nonoperating revenue, in the absence of donor stipulations to the contrary, during the fiscal year in which the assets are acquired. Cash received in excess of revenue recognized is recorded as refundable advances on the statements of financial position.

At December 31, 2013 and 2012, the Center has received conditional grants and contracts from governmental entities in the aggregate amount of $2,147,454 and $2,961,084, respectively, that have not been recorded in the accompanying financial statements. These grants and contracts require the Center to provide certain services and capital expenditures during specified periods. If such services are not provided during the periods, the governmental entities are not obligated to expend the funds allotted under the contracts.

Patient services revenue
The Center has agreements with third-party payors that provide for payments to the Center at amounts different from its established rates. Payment arrangements include predetermined fee schedules and discounted charges. Service fees are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payors, which are subject to audit by administrating agencies. These adjustments are accrued on an estimated basis and are adjusted in future periods as final settlements are determined.

The Center provides care to certain patients under Medicaid and Medicare payment arrangements. Laws and regulations governing the Medicaid and Medicare programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action. Self-pay revenue is recorded at published charges with charity care deducted to arrive at gross self-pay revenue. Contractual allowances are then deducted to arrive at net self-pay patient revenue.

Charity care and community benefits

The Center is open to all patients, regardless of their ability to pay. In the ordinary course of business, the Center renders services to patients who are financially unable to pay for healthcare. The Center provides care to these patients who meet certain criteria under its sliding fee discount policy without charge or at amounts less than the established rates. Charity care services are computed using a sliding fee scale based on patient income and family size. The Center maintains records to identify and monitor the level of sliding fee discount it provides. For uninsured self-pay patients that do not qualify for charity care, the Center recognizes revenue on the basis of its standard rates for services provided or on the basis of discounted rates, if negotiated or provided by policy.

Community benefit represents the cost of services for Medicaid, Medicare, and other public patients that the Center is not reimbursed for.

Based on the cost of patient services, charity care amounted to approximately $3,800,000 and $4,400,000, respectively, and community benefit amounted to approximately $3,100,000 and $2,100,000, respectively, for the years ended December 31, 2013 and 2012.

Contributions

Contributions are recorded at fair value when received or pledged. Amounts are recorded as temporarily or permanently restricted revenue if they have donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions expire during the same fiscal year are recognized as unrestricted revenue. Conditional contributions are recognized in the period when expenditures have been incurred in compliance with the grantor's restrictions.

In-kind contributions

The Center records donated items at fair value. For the years ended December 31, 2013 and 2012, the Center received $1,344,439 and $1,314,254, respectively, of vaccines, which are recorded in the statements of activities and changes in net assets as both revenue and expense.

Interest income

Interest earned on nonfederal funds is recorded as income on an accrual basis. Interest earned on Federal funds is recorded as a payable to the United States Public Health Service (the "PHS") in compliance with Office of Management and Budget ("OMB") Circular A-110.

Performance indicator

The statements of activities and changes in net assets include operating income (loss) as the performance indicator. Changes in unrestricted net assets which are excluded from the performance indicator include DHHS capital improvement grants and unrealized gains on interest rate swap.

Meaningful use incentive

The American Recovery and Reinvestment Act of 2009 ("ARRA") amended the Social Security Act to establish one-time incentive payments under the Medicare and Medicaid programs for certain professionals that: (1) meaningfully use certified EHR technology, (2) use the certified Electronic Health Record ("EHR") technology for electronic exchange of health information to improve quality of healthcare, and (3) use the certified EHR technology to submit clinical and quality measures. These provisions of ARRA, together with certain of its other provisions, are referred to as the Health Information Technology for Clinical and Economic Health ("HITECH") Act. The criteria for meaningful use incentives will be staged in three steps over the course of the next five years and be paid out based on a transitional schedule. The Center's providers have met the criteria for Stage 1 and have earned $212,500 and $204,000 from the Medicaid and Medicare incentive program as of December 31, 2013 and 2012, respectively, which is included in other revenue.

Functional expenses

Expenses are charged to program services or general and administrative based on a combination of specific identification and allocation by management.

Tax status

The Center has no unrecognized tax benefits at December 31, 2013 and 2012. The Center's Federal, state and city income tax returns prior to 2010 are closed. The Board of Directors continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

If applicable, the Center would recognize interest and penalties associated with tax matters as part of other than personnel services in the statements of activities and changes in net assets and include accrued interest and penalties in accrued expenses in the statements of financial position. The Center did not recognize any interest or penalties associated with tax matters for the years ended December 31, 2013 and 2012.

Reclassification

Certain reclassifications have been made to the 2012 balances to conform to the 2013 presentation.

Subsequent events

The Center has evaluated subsequent events through May 12, 2014, which is the date the financial statements were available to be issued.

Note 2 - Fair value measurements

The Center values its financial assets and liabilities based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Center utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value. Financial assets and liabilities carried at fair value at December 31, 2013 and 2012 are classified in the tables below in one of the three categories described above:

December 31, 2013	Level 1	Level 2	Level 3	Total
Investments:				
Money market accounts	$39,014			$ 39,014
U.S. Government bonds:				
Mortgage bonds		$1,238,238		1,238,238
Corporate bonds:				
Housing urban development		75,106		75,106
Totals	$39,014	$1,313,344	$ -	$1,352,358
Interest rate swap liability	$ -	$ -	$ (30,726)	$ (30,726)

December 31, 2012	Level 1	Level 2	Level 3	Total
Investments:				
Money market accounts	$ 34,136			$ 34,136
U.S. Government bonds:				
Mortgage bonds		$1,223,126		1,223,126
Corporate bonds:				
Housing urban development		100,145		100,145
Totals	$ 34,136	$1,323,271	$ -	$1,357,407
Interest rate swap liability	$ -	$ -	$(847,623)	$ (847,623)

The following table sets forth a summary of the Center's level 3 liabilities:

Balance, January 1, 2012	$(882,790)
Unrealized gain	35,167
Balance, December 31, 2012	(847,623)
Payment made	558,000
Unrealized gain	258,897
Balance, December 31, 2013	$ (30,726)

Investments in money market accounts are cash equivalent sweep accounts and the fair value as of December 31, 2013 and 2012 are equal to their cost.

U.S. Government and corporate bonds are valued using their estimated bid price which is derived from comparable securities' market prices on active markets obtained from real-time quotes for transactions in an active exchange.

The fair value of the interest rate swap represents an estimate of the net present value of the expected cash flows using relevant mid-market data inputs.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Center believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 3 - Patient services receivable, net

Patient services receivable consist of the following at December 31:

	2013	2012
Medicaid	$ 57,937	$ 133,166
Medicare	34,125	100,974
Private insurance and commercial managed care plans	191,774	166,911
Self-pay	600,685	1,119,863
Medicare managed care plans and wraparound	253,522	194,516
Medicaid managed care plans and wraparound	1,695,389	2,149,094
Totals	2,833,432	3,864,524
Less allowance for doubtful accounts	549,700	1,041,241
Totals	$ 2,283,732	$2,823,283

Patient services receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of patient services receivable, the Center analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Center analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, the Center records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates or the discounted rates provided by the Center's policy and the amounts actually collected after all reasonable collection efforts have been exhausted is charged against the allowance for doubtful accounts.

The Center's allowance for doubtful accounts for self-pay patients was 92 percent and 93 percent of self-pay accounts receivable at December 31, 2013 and 2012, respectively. The Center’s self-pay write-offs were $1,021,618 and $122,983 for the years ended December 31, 2013 and 2012, respectively. The Center does not maintain a material allowance for doubtful accounts for third parties, nor did it have significant write-offs for these payors.

Note 4 - Contract services and other grants receivable

Contract services and other grants receivable consist of the following at December 31:

	2013	2012
The City of Philadelphia:		
HIV Emergency Relief Project Grant	$ 27,962	$ 93,309
Independence Blue Cross Foundation		225,000
Horizon House	43,742	26,422
Institute for Safe Families	23,985	12,439
Other	75,178	55,598
Totals	$ 170,867	$412,768

Note 5 - Other receivable

In September 2007, the Center took over an obstetrics/gynecology practice. As part of the agreement, the Center paid the malpractice tail insurance on the obstetrics/gynecology practice. The receivable is to be forgiven over a period of nine years if the physicians continue their employment, is recorded as a taxable employee benefit starting August 2008 and is included in the physicians' compensation for tax purposes. Any physician leaving prior to the end of the nine-year period must pay the unamortized portion.

	2013	2012
Other receivable	$ 133,974	$ 177,558
Less current portion	45,142	43,584
Other receivable - noncurrent portion	$ 88,832	$ 133,974

Note 6 - Property and equipment, net

Property and equipment, net, consists of the following at December 31:

	2013	2012
Land	$ 68,018	$ 68,018
Building and leasehold improvements	18,514,720	16,987,786
Office equipment	3,432,882	3,295,464
Medical and dental equipment	2,564,645	2,483,236
Vehicles	71,361	71,361
	24,651,626	22,905,865
Less accumulated depreciation and amortization	9,852,145	8,804,113
Totals	$ 14,799,481	$ 14,101,752

Depreciation and amortization expense was $1,048,132 and $1,074,662 for the years ended December 31, 2013 and 2012, respectively.

In the event the DHHS grants are terminated, the DHHS reserves the right to transfer all property and equipment purchased with grant funds to the PHS or third parties.

Note 7 - Line of credit

The Center has a $1,000,000 revolving line of credit with a bank maturing on July 31, 2014. As of December 31, 2013 and 2012, the Center has not drawn on this line. This line is secured by the Center's investments.

Note 8 - Long-term debt

On December 18, 2013, the Upper Gwynedd Township Industrial Development Authority (UGTIDA) issued a $3,584,000 bond. The proceeds from the sale of the bond were used to finance a portion of the refunding of the West Norriton Township Industrial Development Authority bond issued in 2006 and the payment of costs of issuance of the bond. Monthly amortization of the outstanding principal will commence on February 3, 2014, with a final maturity of December 18, 2038. The bond incurs interest at a variable rate of LIBOR plus 2.35 times 68% (1.725% at December 31, 2013). This bond is secured by a first priority on certain real properties of the Center. The bond has a balance of $3,584,000 at December 31, 2013.

On May 19, 2006, West Norriton Township Industrial Development Authority issued a $7,000,000 bond. The proceeds from the sale of the bond were used to finance the construction of the Maria de los Santos site in Philadelphia, Pennsylvania. Monthly amortization of the outstanding principal commenced on February 1, 2008, with a final maturity of January 11, 2033. The bond incurs interest at a variable rate of LIBOR plus 1.4% times 68% (1.136% at December 31, 2012). This bond is secured by a first priority mortgage on real property. The bond has a balance of $3,790,630 at December 31, 2012.

On December 18, 2013, the Center entered into an agreement with Citizens Bank to cancel its existing interest rate swap that was entered into on December 1, 2006. As part of the cancellation agreement, the Center paid $558,000 as a termination amount to Citizens Bank. At the same time, the Center entered into a new interest rate swap agreement with Citizens Bank for the same notional principal amount of $4,000,000 with a maturity date of December 18, 2018. Under the new swap agreement, the Center pays interest on a monthly basis at a fixed rate of 1.27% and the bank pays the Center a floating rate of 68% times USD-LIBOR-BBA.

On December 1, 2006, the Center entered into an interest rate swap agreement with Citizens Bank with a notional principal amount of $4,000,000 with a maturity date of July 2027. Under the swap agreement, the Center paid interest on a monthly basis at a fixed rate of 3.83% and the bank paid the Center a floating rate of 68% of one-month LIBOR. This swap agreement was terminated on December 18, 2013, as discussed above.

The Center entered into the agreement to manage their interest rate risks. The agreement is designated as a freestanding instrument. The interest rate swap is not designated as a hedging instrument.

The cumulative market-to-market gain or loss on the swap agreement's fair value is a liability of $30,726 and $847,623 at December 31, 2013 and 2012, respectively, (included in the statements of financial position as a payable) and the change is shown on the statements of activities and changes in net assets in nonoperating activities.

Future principal payments on long-term debt for the five years subsequent to December 31, 2013 and thereafter are as follows:

Year Ending December 31,	Amount
2014	$ 86,629
2015	97,362
2016	100,574
2017	103,892
2018	107,319
Thereafter	3,088,224
Total	3,584,000
Less current maturities	86,629
Total	$ 3,497,371

The Center is required to comply with certain covenants.

Note 9 - Patient services revenue, net

The Center recognizes patient services revenue associated with services provided to patients who have Medicaid, Medicare, third party payor and managed care plans coverage on the basis of contractual rates for services rendered. For uninsured patients that do not qualify for charity care, the Center recognizes revenue on the basis of its standard rates for services provided or on the basis of discounted rates, if negotiated or provided by policy. On the basis of historical experience, a significant portion of the Center's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Center records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient services revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, are as follows at December 31:

	2013	2012
Medicaid	$ 821,897	$ 820,304
Medicare	555,593	521,565
Private insurance	1,131,385	1,151,734
Self-pay	1,598,344	1,001,795
Medicare managed care and wraparound	1,642,816	1,169,822
Medicaid managed care and wraparound	9,471,262	10,677,117
Totals	$ 15,221,297	$ 15,342,337

Medicaid and Medicare revenue is reimbursed to the Center at the net reimbursement rates determined by each program. Reimbursement rates are subject to revisions under the provision of reimbursement regulations. Adjustments for such revisions are recognized in the fiscal year incurred.

Note 10 - DHHS grants

For the year ended December 31, 2013, the Center received the following DHHS grants:

Grant Number	Grant Period	Total Grant	Unrestricted Revenue Recognized
5H80CS00833-11-02	June 1, 2012-May 31, 2013	$ 4,478,203	$ 1,898,000
6H80CS00833-12-04	June 1, 2013-May 31, 2014	4,802,784	2,674,203
DHHS grants - total			$ 4,572,203
6C8BCS23884-01-00	May 1, 2012-April 30, 2014	$ 499,500	$ 499,500
6C8ACS23683-01-00	May 1, 2012-April 30, 2014	1,019,723	1,011,326
DHHS capital improvements grants - total			$ 1,510,826

For the year ended December 31, 2012, the Center received the following DHHS grants:

Grant Number	Grant Period	Total Grant	Unrestricted Revenue Recognized
6H80CS00833-10-01	June 1, 2011-May 31, 2012	$ 4,458,203	$ 1,878,000
5H80CS00833-11-02	June 1, 2012-May 31, 2013	4,478,203	2,580,203
DHHS grants - total			$ 4,458,203

Note 11 - Contract services and other grants

Contract services and other grants revenue consists of the following at December 31:

	2013	2012
The Health Federation of Philadelphia:		
HIV Emergency Relief Project Grant	$ 62,118	$ 208,801
The City of Philadelphia		
HIV Emergency Relief Project Grant	85,085	-
Independence Blue Cross Foundation	250,000	225,000
Institute for Safe Families	172,057	171,364
Horizon House	102,184	112,421
Other	148,345	212,257
Totals	$ 819,789	$ 929,843

Note 12 - Pension plan

The Center maintains a 401(k) match savings plan covering substantially all employees who, have completed the minimum of a one-year waiting period, are at least age 21 and have a minimum of 1,000 hours within a plan year. Full vesting occurs after three years of service. The amount contributed to the plan is a fixed percentage of the participant's compensation combined with a dollar-for-dollar match of any voluntary employee deferral up to 2.5% of salary. Pension expense amounted to $704,739 and $720,514 for the years ended December 31, 2013 and 2012.

Note 13 - Commitments and contingencies

The Center has contracted with various funding agencies to perform certain healthcare services, and receives Medicaid and Medicare revenue from state and Federal governments. Reimbursements received under these contracts and payments under Medicaid and Medicare are subject to audit by Federal and state governments and other agencies. Upon audit, if discrepancies are discovered, the Center could be held responsible for reimbursing the agencies for the amounts in question.

The Center maintains its medical malpractice coverage under the Federal Tort Claims Act ("FTCA"). FTCA provides malpractice coverage to eligible PHS-Supported programs and applies to the Center and its employees while providing services within the scope of employment included under grant-related activities. The Attorney General, through the U.S. Department of Justice, has the responsibility for the defense of the individual and/or grantee for malpractice cases approved for FTCA coverage.

The healthcare industry is subject to voluminous and complex laws and regulations of Federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement laws and regulations, anti-kickback and anti-referral laws, and false claims prohibitions. In recent years, government activity has increased with respect to investigations and allegations concerning possible violations of reimbursement, false claims, anti-kickback and anti-referral statutes and regulation by healthcare providers. The Center believes that it is in material compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Upon audit, if discrepancies are discovered, the Center could be held responsible for refunding the amount in question.

The Center currently rents property under a lease expiring in June 2015 from TFC HPA, LP. Rent expense for the years ended December 31, 2013 and 2012 amounted to $190,560 and $181,797, respectively. In August 2010, the Center entered into a lease agreement with Parkside Recovery, Inc. to rent space and common areas for $1,450 per month for a two-year period. Rent expense for the year ended December 31, 2012 amounted to $7,751.

Minimum payments in each of the two years subsequent to December 31, 2013 are as follows:

Year Ending December 31,	Amount
2014	$187,200
2015	93,600
Total	$280,800

Delaware Valley Community Health, Inc.

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2013

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Grantor's Number	Federal Expenditures
U.S. Department of Health and Human Services:			
Direct programs:			
Health Centers Cluster:			
Consolidated Health Centers	93.224	N/A	$ 1,724,698
Affordable Care Act Grants for New and Expanded Services under the Health Center Program	93.527	N/A	2,847,505
Subtotal - Health Centers Cluster			4,572,203
Affordable Care Act Grants for Capital Development in Health Centers	93.526	N/A	1,510,826
Passed through Horizon House, Inc.:			
Substance Abuse and Mental Health Services Administration	93.243	N/A	102,184
Passed through Health Federation of Philadelphia:			
HIV Emergency Relief Project Grants	93.914	05-21037	62,118
Passed through the City of Philadelphia:			
HIV Emergency Relief Project Grants	93.914	1320730	85,085
Subtotal - HIV Emergency Relief Project Grants			147,203
Total Federal awards			$ 6,332,416

See Notes to Schedule of Expenditures of Federal Awards.

Notes to Schedule of Expenditures of Federal Awards
December 31, 2013

Note 1 - General information

The accompanying schedule of expenditures of Federal awards (the "Schedule") presents the activities of all Federal awards of Delaware Valley Community Health, Inc. (the "Center"). All financial assistance received directly from Federal agencies as well as financial assistance passed through other governmental agencies or nonprofit organizations is included on the Schedule.

Note 2 - Basis of accounting

The accompanying Schedule is presented using the accrual basis of accounting. The amounts reported in the Schedule as expenditures may differ from certain financial reports submitted to Federal funding agencies due to those reports being submitted on either a cash or a modified accrual basis of accounting.

Note 3 - Relationship to basic financial statements

Federal expenditures are reported on the statement of functional expenses as program services. In certain programs, the expenditures reported in the basic financial statements may differ from the expenditures reported in the Schedule due to program expenditures exceeding grant or contract budget limitations or agency matching, or in-kind contributions which are not included in the statement of activities and changes in net assets.

Note 4 - Subrecipients

There were no Federal awards provided to subrecipients for the year ended December 31, 2013.

Independent Auditor's 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
Delaware Valley Community Health, Inc.

We have audited, in accordance with the 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 Delaware Valley Community Health, Inc. (the "Center"), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 12, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Center's internal control over financial reporting 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 the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any 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 the Center's financial statements are free of 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 Center'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 Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CohnReznick LLP

New York, New York
May 12, 2014

Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance Required by OMB Circular A-133

To the Board of Directors
Delaware Valley Community Health, Inc.

Report on Compliance for Each Major Federal Program

We have audited Delaware Valley Community Health, Inc.'s ("the Center") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major Federal programs for the year ended December 31, 2013. The Center's major Federal programs are identified in the summary of auditor's 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 the Center'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, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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 the Center's compliance.

Opinion on Each Major Federal Program

In our opinion, the Center 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 December 31, 2013.

Report on Internal Control Over Compliance

Management of the Center 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 the Center'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 OMB Circular A-133, 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 the Center'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.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

CohnReznick LLP

New York, New York
May 12, 2014

Delaware Valley Community Health, Inc.

Schedule of Findings and Questioned Costs
Year Ended December 31, 2013

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Unmodified
• Material weakness(es) identified?	___ yes ✓ no
• Significant deficiency(ies) identified?	___ yes ✓ none reported
Noncompliance material to financial statements noted?	___ yes ✓ no

Federal Awards:

Internal control over major programs:

• Material weakness(es) identified?	___ yes ✓ no
• Significant deficiency(ies) identified?	___ yes ✓ none reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	___ yes ✓ no

Identification of major programs:

CFDA Number(s)	Name of Federal Program
	U.S. Department of Health and Human Services:
	Health Centers Cluster:
93.224	Consolidated Health Centers
93.527	Affordable Care Act Grants for New and Expanded Services under the Health Center Program
93.526	Affordable Care Act: Grants for Capital Development in Health Centers

Dollar threshold used to distinguish between type A and B programs:	$300,000
Auditee qualified as low-risk auditee?	✓ yes ___ no

Delaware Valley Community Health, Inc.

Schedule of Findings and Questioned Costs
Year Ended December 31, 2013

Section II - Financial Statement Findings

None.

Section III - Federal Award Findings and Questioned Costs

None.

Delaware Valley Community Health, Inc.

Schedule of Prior Year's Findings
Year Ended December 31, 2013

There were no findings reported in the 2012 OMB A-133 audit.