

**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, 2017 and 2016**

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**Delaware Valley Community Health, Inc.**

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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"), which comprise the statements of financial position as of December 31, 2017 and 2016, 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, 2017 and 2016, 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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 April 30, 2018, 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 solely 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 the effectiveness of the Center's 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.

A handwritten signature in cursive script that reads "CohnReznick LLP".

New York, New York  
April 30, 2018

**Delaware Valley Community Health, Inc.**

**Statements of Financial Position  
December 31, 2017 and 2016**

	<u>Assets</u>	
	<u>2017</u>	<u>2016</u>
Current assets		
Cash and cash equivalents	\$ 5,926,222	\$ 1,953,802
Investments	7,984,020	3,959,965
Patient services receivable, net	924,655	4,580,484
Contract services and other grants receivable	114,677	43,229
Inventory	44,604	59,549
Prepaid expenses and other receivable	375,919	321,555
	<hr/>	<hr/>
Total current assets	15,370,097	10,918,584
Property and equipment, net	12,315,604	12,835,299
Investment in a limited liability corporation	5,999	5,999
	<hr/>	<hr/>
Total assets	<u>\$ 27,691,700</u>	<u>\$ 23,759,882</u>
 <u>Liabilities and Unrestricted Net Assets</u>		
Current liabilities		
Accounts payable and accrued expenses	\$ 811,283	\$ 872,314
Accrued compensation	2,038,434	1,345,673
Current maturities of long-term debt	107,319	103,892
Medicaid advance	1,671,467	742,699
	<hr/>	<hr/>
Total current liabilities	4,628,503	3,064,578
Long-term debt, less current maturities	2,979,082	3,063,219
Interest rate swap	3,222	29,177
	<hr/>	<hr/>
Total liabilities	7,610,807	6,156,974
Commitments and contingencies		
Unrestricted net assets	<u>20,080,893</u>	<u>17,602,908</u>
	<hr/>	<hr/>
Total liabilities and unrestricted net assets	<u>\$ 27,691,700</u>	<u>\$ 23,759,882</u>

See Notes to Financial Statements.

**Delaware Valley Community Health, Inc.**

**Statements of Activities and Changes in Net Assets  
Years Ended December 31, 2017 and 2016**

	2017	2016
Unrestricted revenue		
Patient services revenue (net of contractual allowances and discounts)	\$ 23,912,363	\$ 19,747,199
Provision for bad debts	606,817	457,387
Net patient service revenue less provision for bad debts	23,305,546	19,289,812
DHHS grant revenue	6,122,420	5,895,644
Contract services and other grants	730,159	542,517
In-kind contributions - vaccines	1,527,488	1,507,636
340B Pharmacy	1,978,841	1,616,064
Investment income	54,665	12,239
Other revenue	160,773	68,422
Total unrestricted revenue	33,879,892	28,932,334
Operating expenses		
Salaries and related benefits	22,764,269	17,887,616
Other than personnel services	7,526,374	6,851,220
Interest	117,008	123,344
Total operating expenses	30,407,651	24,862,180
Operating income prior to depreciation and amortization	3,472,241	4,070,154
Depreciation and amortization	1,020,211	987,002
Operating income before nonoperating activity	2,452,030	3,083,152
Nonoperating activity		
Unrealized gain on interest rate swap	25,955	17,445
Total nonoperating activity	25,955	17,445
Changes in unrestricted net assets	2,477,985	3,100,597
Unrestricted net assets, beginning of year	17,602,908	14,502,311
Unrestricted net assets, end of year	\$ 20,080,893	\$ 17,602,908

See Notes to Financial Statements.

**Delaware Valley Community Health, Inc.**

**Statement of Functional Expenses  
Year Ended December 31, 2017**

	Program services	General and administrative	Fundraising	Total
Salaries and wages	\$ 14,928,281	\$ 3,224,384	\$ -	\$ 18,152,665
Fringe benefits	3,661,679	949,925	-	4,611,604
Consultant and contractual services	878,669	537,236	-	1,415,905
Pharmaceuticals	1,341,481	-	-	1,341,481
In-kind contributions	1,527,488	-	-	1,527,488
Consumable supplies	1,400,691	41,265	-	1,441,956
Laboratory and radiology fees	413,292	-	-	413,292
Occupancy	331,791	32,479	-	364,270
Professional fees	-	97,034	-	97,034
Insurance	12,668	70,708	-	83,376
Equipment rental and maintenance	187,848	36,837	-	224,685
Telephone	55,703	17,453	-	73,156
Travel, conferences and meetings	31,634	75,316	-	106,950
Dues and subscriptions	10,415	37,790	415	48,620
Printing, publications and postage	38,343	11,024	2,299	51,666
Training and seminars	100,366	100,147	-	200,513
Interest expense	83,326	33,682	-	117,008
Other	32,372	103,610	-	135,982
Subtotal	25,036,047	5,368,890	2,714	30,407,651
Depreciation and amortization	865,600	154,611	-	1,020,211
Total functional expenses	<u>\$ 25,901,647</u>	<u>\$ 5,523,501</u>	<u>\$ 2,714</u>	<u>\$ 31,427,862</u>

See Notes to Financial Statements.

**Delaware Valley Community Health, Inc.**

**Statement of Functional Expenses  
Year Ended December 31, 2016**

	Program services	General and administrative	Fundraising	Total
Salaries and wages	\$ 11,322,936	\$ 2,707,648	\$ -	\$ 14,030,584
Fringe benefits	3,019,932	837,100	-	3,857,032
Consultant and contractual services	694,287	490,155	1,020	1,185,462
Pharmaceuticals	1,108,334	-	-	1,108,334
In-kind contributions	1,507,636	-	-	1,507,636
Consumable supplies	1,195,499	33,870	-	1,229,369
Laboratory and radiology fees	384,036	-	-	384,036
Occupancy	339,875	31,185	-	371,060
Professional fees	-	87,458	-	87,458
Insurance	15,099	81,776	-	96,875
Equipment rental and maintenance	170,623	29,534	-	200,157
Telephone	53,691	17,082	-	70,773
Travel, conferences and meetings	30,730	68,073	-	98,803
Dues and subscriptions	12,970	38,520	-	51,490
Printing, publications and postage	30,600	3,564	-	34,164
Training and seminars	110,377	101,684	-	212,061
Interest expense	87,235	36,109	-	123,344
Other	23,549	188,812	1,181	213,542
	<u>20,107,409</u>	<u>4,752,570</u>	<u>2,201</u>	<u>24,862,180</u>
Subtotal				
Depreciation and amortization	848,821	138,181	-	987,002
	<u>848,821</u>	<u>138,181</u>	<u>-</u>	<u>987,002</u>
Total functional expenses	<u>\$ 20,956,230</u>	<u>\$ 4,890,751</u>	<u>\$ 2,201</u>	<u>\$ 25,849,182</u>

See Notes to Financial Statements.



**Delaware Valley Community Health, Inc.**

**Statements of Cash Flows  
Years Ended December 31, 2017 and 2016**

	2017	2016
Cash flows from operating activities		
Cash received from patient services	\$ 28,940,216	\$ 18,244,419
Cash received from grants	7,051,188	6,638,343
Cash received from contracted services	658,711	579,682
Other receipts from operations	230,339	103,286
Cash paid for operations	(6,099,336)	(5,184,737)
Cash paid to employees	(22,071,508)	(17,679,215)
Interest paid	(117,008)	(123,344)
	<u>8,592,602</u>	<u>2,578,434</u>
Net cash provided by operating activities		
Cash flows from investing activities		
Purchase of property and equipment	(500,516)	(717,709)
Decrease in investment in a limited liability corporation	-	177,336
Purchase of investments	(7,586,212)	(3,435,052)
Proceeds from sale of investments	3,547,256	829,727
	<u>(4,539,472)</u>	<u>(3,145,698)</u>
Net cash used in investing activities		
Cash flows from financing activities		
Payment of long-term debt	(80,710)	(100,487)
	<u>(80,710)</u>	<u>(100,487)</u>
Net cash used in financing activities		
Net increase (decrease) in cash and cash equivalents	3,972,420	(667,751)
Cash and cash equivalents, beginning of year	<u>1,953,802</u>	<u>2,621,553</u>
Cash and cash equivalents, end of year	<u>\$ 5,926,222</u>	<u>\$ 1,953,802</u>
Reconciliation of change in operating activities		
Changes in unrestricted net assets	\$ 2,477,985	\$ 3,100,597
Adjustments to reconcile changes in unrestricted net assets to net cash provided by operating activities		
Provision for bad debts	606,817	457,387
Unrealized gain on interest rate swap	(25,955)	(17,445)
Depreciation and amortization	1,020,211	987,002
Forgiveness of other receivable	-	22,625
Net realized and unrealized loss on investments	14,901	6,519
Changes in operating assets and liabilities		
Patient services receivable	3,049,012	(3,118,844)
Contract services and other grants receivable	(71,448)	37,165
Prepaid expenses and other receivable	(54,364)	13,549
Inventory	14,945	2,862
Medicaid advance	928,768	742,699
Accounts payable and accrued expenses	(61,031)	135,917
Accrued compensation	692,761	208,401
	<u>\$ 8,592,602</u>	<u>\$ 2,578,434</u>

See Notes to Financial Statements.

## Delaware Valley Community Health, Inc.

### Notes to Financial Statements December 31, 2017 and 2016

#### 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.

##### Change in accounting principle

For the year ended December 31, 2016, the Center adopted the provisions of Accounting Standards Update 2015-03, *Simplifying the Presentation of Debt Issuance Costs* ("ASU 2015-03"), which modifies the presentation of debt issuance costs and the related amortization. The change in accounting under ASU 2015-03 improves the reporting of debt issuance costs by no longer reporting them as assets. It also improves the reporting of the related amortization by including it as a component of interest expense.

##### 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, 2017, the Center's cash balance exceeds federally insured limits by approximately \$5,730,000. All highly liquid investments with maturities of three months or less when purchased are considered to be cash equivalents.

##### Investments

Investments consist of U.S. Treasury bills, money market accounts and bonds. Investments are recorded in the accompanying financial statements at fair value, which have been determined using quoted market prices. Realized and unrealized gains are reflected as other revenue and realized and unrealized losses are reflected in as other expenses the statement of activities and changes in net assets.

##### Fair value of financial instruments

The Center's material financial instruments at December 31, 2017 and 2016 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

## Delaware Valley Community Health, Inc.

### Notes to Financial Statements December 31, 2017 and 2016

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.

## **Delaware Valley Community Health, Inc.**

### **Notes to Financial Statements December 31, 2017 and 2016**

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.

#### **Investment accounted for using the cost method**

The Center has a non-controlling interest that constitutes more than a minor interest in a limited liability corporation. The Center accounts for its investment in the said entity using the cost method of accounting.

#### **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.

#### **Debt issuance costs**

Debt issuance costs, net of accumulated amortization, are reported as a direct deduction from the face amount of the long-term debt to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense and is computed on the straight-line method over the term of the related debt.

#### **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, 2017 and 2016, the Center has received conditional grants and contracts from governmental entities in the aggregate amount of approximately \$2,800,000 and \$2,700,000, 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 administering agencies. These adjustments are accrued on an estimated basis and are adjusted in future periods as final settlements are determined.

## Delaware Valley Community Health, Inc.

### Notes to Financial Statements December 31, 2017 and 2016

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 \$4,400,000 and \$3,100,000, respectively, for the years ended December 31, 2017 and 2016. Community benefit amounted to approximately \$0 and \$3,600,000 for the years ended December 31, 2017 and 2016, respectively.

#### **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.

#### **340B Pharmacy revenue**

The Center participates in Section 340B of the Public Health Service Act ("PHS Act"), *Limitation on Prices of Drugs Purchased by Covered Entities*, through its agreement with a third-party administrative agent and certain unaffiliated local pharmacies. Participation in this program allows the Center to purchase pharmaceuticals at discounted rates for prescriptions to eligible patients. The Center records revenue based on the price of the pharmaceuticals dispensed.

#### **In-kind contributions**

The Center records donated items at fair value. For the years ended December 31, 2017 and 2016, the Center received \$1,527,488 and \$1,507,636, respectively, of vaccines, which are recorded in the statements of activities and changes in net assets as both revenue and expense.

## **Delaware Valley Community Health, Inc.**

### **Notes to Financial Statements December 31, 2017 and 2016**

#### **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.

#### **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 includes unrealized gains (loss) on the 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 Electronic Health Record ("EHR") technology, (2) use the certified 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 six years and be paid out based on a transitional schedule. The Center's providers have met the criteria and have earned \$127,500 and \$17,000 from the Medicaid and Medicare incentive program for the years ended December 31, 2017 and 2016, 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, 2017 and 2016. The Center's federal, state and city information tax returns prior to 2014 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, 2017 and 2016.

#### **Subsequent events**

The Center has evaluated subsequent events through April 30, 2018, which is the date the financial statements were available to be issued.

**Delaware Valley Community Health, Inc.**

**Notes to Financial Statements  
December 31, 2017 and 2016**

**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, 2017 and 2016 are classified in the tables below in one of the three categories described above:

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Investments				
Money market accounts	\$ 3,326,637	\$ -	\$ -	\$ 3,326,637
U.S. Treasury bills	598,905	-	-	598,905
U.S. Government bonds				
Mortgage bonds	-	4,058,478	-	4,058,478
Total	<u>\$ 3,925,542</u>	<u>\$ 4,058,478</u>	<u>\$ -</u>	<u>\$ 7,984,020</u>
Interest rate swap liability	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,222)</u>	<u>\$ (3,222)</u>
	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Investments				
Money market accounts	\$ 544,514	\$ -	\$ -	\$ 544,514
U.S. Treasury bills	699,580	-	-	699,580
U.S. Government bonds				
Mortgage bonds	-	2,715,871	-	2,715,871
Total	<u>\$ 1,244,094</u>	<u>\$ 2,715,871</u>	<u>\$ -</u>	<u>\$ 3,959,965</u>
Interest rate swap liability	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (29,177)</u>	<u>\$ (29,177)</u>

**Delaware Valley Community Health, Inc.**

**Notes to Financial Statements  
December 31, 2017 and 2016**

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

Balance, January 1, 2016	\$ (46,622)
Unrealized gain	<u>17,445</u>
Balance, December 31, 2016	(29,177)
Unrealized gain	<u>25,955</u>
Balance, December 31, 2017	<u><u>\$ (3,222)</u></u>

Investments in money market accounts are cash equivalent sweep accounts and the fair values as of December 31, 2017 and 2016 are equal to their cost.

Investments in U.S. Treasury bills are valued using market prices on active markets and valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets.

U.S. Government 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 Center's policy is to recognize transfers into and transfers out of a level as of the actual date of the event or change in circumstance that caused the transfer. There were no transfers among the three levels in 2017 and 2016.

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.



**Delaware Valley Community Health, Inc.**

**Notes to Financial Statements  
December 31, 2017 and 2016**

**Note 3 - Patient services receivable, net**

Patient services receivable consist of the following at December 31:

	2017	2016
Medicaid	\$ 114,028	\$ 88,861
Medicare	24,873	46,835
Private insurance and commercial managed care plans	85,880	66,063
Self-pay	900,475	1,290,639
Medicare managed care plans and wraparound	378,693	309,354
Medicaid managed care plans and wraparound	284,449	406,465
Medicaid rate adjustment	-	3,593,139
	1,788,398	5,801,356
Subtotal		
Less allowance for doubtful accounts	863,743	1,220,872
	\$ 924,655	\$ 4,580,484
Total	\$ 924,655	\$ 4,580,484

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 96% and 95% of self-pay accounts receivable at December 31, 2017 and 2016, respectively. The Center's self-pay write-offs were \$963,946 and \$392,485 for the years ended December 31, 2017 and 2016, 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.

In December 2016, the Center received notification from the Pennsylvania Department of Human Services ("DHS") that DHS has completed its reconciliation of payments made to the Center with the interim prospective payment system for the period July 1, 2008 to September 30, 2017. Based on the reconciliation made, DHS has determined that an underpayment in the amount of \$3,593,139 was due to the Center. The amount was recorded as part of patient services receivable

**Delaware Valley Community Health, Inc.**

**Notes to Financial Statements  
December 31, 2017 and 2016**

and patient service revenue accounts in the statement of financial position and statement of activities and changes in net assets, respectively, as of and for the year ended December 31, 2016. The amount was subsequently collected in January 2017.

**Note 4 - Contract services and other grants receivable**

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

	2017	2016
The City of Philadelphia		
HIV Emergency Relief Project Grant	\$ 27,249	\$ 26,738
Health Partners Plan	64,215	15,297
NHS Delaware County	18,750	-
U.S. Department of Health and Human Services	4,463	1,194
Total	\$ 114,677	\$ 43,229

**Note 5 - Property and equipment, net**

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

	2017	2016
Land	\$ 68,018	\$ 68,018
Building and leasehold improvements	18,337,962	18,303,181
Office equipment	2,698,349	2,418,522
Medical and dental equipment	2,844,063	2,720,192
Vehicles	50,501	64,470
	23,998,893	23,574,383
Less accumulated depreciation and amortization	11,718,888	10,739,084
	12,280,005	12,835,299
Construction in progress	35,599	-
Total	\$ 12,315,604	\$ 12,835,299

Depreciation and amortization expense was \$1,020,211 and \$987,002 for the years ended December 31, 2017 and 2016, 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 6 - Investment in a limited liability corporation**

In 2014, the Center invested in Broad Spectrum Independent Physician Association, LLC ("BSIL") where the Center acquired 12% interest. BSIL is a limited liability company organized and directed by physicians or health centers to negotiate contracts with insurance companies on their behalf. No investment income was recognized in 2017 and 2016.

**Delaware Valley Community Health, Inc.**

**Notes to Financial Statements  
December 31, 2017 and 2016**

**Note 7 - Line of credit**

On December 1, 2017, the Center entered into a revolving loan agreement with a bank for an aggregate value of up to \$1,000,000. Any unpaid principal balance will be subject to interest per annum at a rate equal to 2.20% above the LIBOR advantage rate. The revolving loan shall expire on July 31, 2018. As of December 31, 2017, the Center has no outstanding loan related to this agreement.

**Note 8 - Long-term debt**

On December 18, 2013, the Upper Gwynedd Township Industrial Development Authority 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 commenced on February 3, 2016 with a final maturity of December 18, 2038. The bond incurs interest at a variable rate of LIBOR plus 2.35 times 68% (2.5233% and 2.0174% at December 31, 2017 and 2016, respectively). This bond is secured by a first priority on certain real properties of the Center. The outstanding balance of the bond at December 31, 2017 and 2016 amounted to \$3,195,543 and \$3,299,436, respectively.

	<u>2016</u>	<u>2015</u>
Outstanding debt	\$ 3,195,543	\$ 3,299,436
Less current portion	(107,319)	(103,892)
Less unamortized loan costs	<u>(109,142)</u>	<u>(132,325)</u>
Long-term debt	<u>\$ 2,979,082</u>	<u>\$ 3,063,219</u>

Unamortized loan costs amounted to \$109,142 and \$132,325, respectively, as of December 31, 2017 and 2016. Loan costs on the above loan are being amortized using an imputed interest rate of approximately 2.113%.

On December 18, 2013, the Center entered into a new interest rate swap agreement with Citizens Bank for a notional principal amount of \$3,584,000 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% of USD-LIBOR-BBA.

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 \$3,222 and \$29,177 at December 31, 2017 and 2016, 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 activity.

**Delaware Valley Community Health, Inc.**

**Notes to Financial Statements  
December 31, 2017 and 2016**

Future principal payments on long-term debt for the five years subsequent to December 31, 2017 and thereafter are as follows:

2018	\$	107,319
2019		110,859
2020		114,516
2021		118,294
2022		122,196
Thereafter		<u>2,622,359</u>
 Total	 \$	 <u><u>3,195,543</u></u>

The Center is required to comply with certain financial and nonfinancial covenants.

In 2016, the Center adopted new authoritative GAAP guidance for the presentation of debt issuance costs and related amortization. Debt issuance costs are now reported on the statement of financial position as a direct reduction from the face amount of the debt. Previously, such costs were shown as a deferred charge. The Center continues to reflect amortization of debt issuance costs as interest expense, in accordance with the new guidance.

**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:

	<u>2017</u>	<u>2016</u>
Medicaid	\$ 1,010,824	\$ 597,938
Medicare	741,397	733,295
Private insurance	1,478,085	1,244,957
Self-pay	1,476,131	1,456,544
Medicaid managed care and wraparound	17,197,938	10,252,254
Medicare managed care and wraparound	2,007,988	1,869,072
Medicaid rate adjustment	<u>-</u>	<u>3,593,139</u>
 Total	 <u><u>\$ 23,912,363</u></u>	 <u><u>\$ 19,747,199</u></u>

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.

**Delaware Valley Community Health, Inc.**

**Notes to Financial Statements  
December 31, 2017 and 2016**

**Note 10 - DHHS grants**

For the year ended December 31, 2017, the Center received the following DHHS grants:

<u>Grant number</u>	<u>Grant period</u>	<u>Total grant</u>	<u>Unrestricted revenue recognized</u>
6H80CS00833-15-12	June 1, 2016-May 31, 2017	\$ 6,114,110	\$ 2,705,877
6H80CS00833-16-04	June 1, 2017-May 31, 2018	6,201,257	<u>3,416,543</u>
DHHS grants - total			<u>\$ 6,122,420</u>

For the year ended December 31, 2016, the Center received the following DHHS grants:

<u>Grant number</u>	<u>Grant period</u>	<u>Total grant</u>	<u>Unrestricted revenue recognized</u>
6H80CS00833-14-03	June 1, 2015-May 31, 2016	\$ 5,564,323	\$ 2,487,411
6H80CS00833-15-12	June 1, 2016-May 31, 2017	6,114,110	<u>3,408,233</u>
DHHS grants - total			<u>\$ 5,895,644</u>

**Note 11 - Contract services and other grants**

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

	<u>2017</u>	<u>2016</u>
Independence Blue Cross Foundation	\$ 275,000	\$ 300,000
The City of Philadelphia		
HIV Emergency Relief Project Grant	156,780	160,424
Health Partners Plan	133,183	45,892
NHS Delaware County	68,750	-
American Cancer Society	37,500	-
Other	<u>58,946</u>	<u>36,201</u>
Total	<u>\$ 730,159</u>	<u>\$ 542,517</u>

**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 \$927,561 and \$738,082 for the years ended December 31, 2017 and 2016, respectively.

**Delaware Valley Community Health, Inc.**

**Notes to Financial Statements  
December 31, 2017 and 2016**

**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.

In July 2017, the Center entered into a lease agreement for a period of 10 years, with an option to renew for another 5 years. The annual rent for the first year is \$91,200 and is subject to agreed rate increases beginning in the second year of the lease term. The Center's current lease agreement with TFC HPA, LP expires in April 2020. Rent expense for the years ended December 31, 2017 and 2016 amounted to \$154,963 and \$160,924, respectively. Future minimum lease payments under the operating leases for the five years subsequent to December 31, 2017 and thereafter are as follows:

2018	\$	180,360
2019		219,362
2020		137,849
2021		102,600
2022		110,200
Thereafter		<u>642,200</u>
Total	\$	<u>1,392,571</u>

## **Supplementary Information**

**Delaware Valley Community Health, Inc.**

**Schedule of Expenditures of Federal Awards  
Year Ended December 31, 2017**

Federal grantor/agency/ pass-through grantor/program or cluster title	Federal CFDA number	Agency or pass-through grantor's number	Passed through to subrecipients	Federal expenditures
U.S. Department of Health and Human Services				
Direct programs				
Health Center Program Cluster				
Consolidated Health Centers	93.224	N/A	\$ -	\$ 1,881,600
Affordable Care Act Grants for New and Expanded Services under the Health Center Program	93.527	N/A	-	<u>4,240,820</u>
Subtotal - Health Center Program Cluster				6,122,420
Passed through the City of Philadelphia				
HIV Emergency Relief Project Grants	93.914	1320730	-	156,780
Passed through NHS Delaware County				
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	Not Available	<u>-</u>	<u>68,750</u>
Total expenditures of federal awards			<u>\$ -</u>	<u>\$ 6,347,950</u>

See Notes to Schedule of Expenditures of Federal Awards.



**Delaware Valley Community Health, Inc.**

**Notes to Schedule of Expenditures of Federal Awards  
December 31, 2017**

**Note 1 - General information**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Delaware Valley Community Health, Inc. (the "Center") under programs of the federal government for the year ended December 31, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Center, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Center.

**Note 2 - Summary of significant accounting policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursements. The Center did not elect to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

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, 2017, 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 April 30, 2017.

*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 (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 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  
April 30, 2017

Independent Auditor's Report on Compliance for Each Major  
Federal Program and on Internal Control over  
Compliance Required by the Uniform Guidance

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 *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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, 2017.

## *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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "CohnReznick LLP".

New York, New York  
April 30, 2017

Delaware Valley Community Health, Inc.

Schedule of Findings and Questioned Costs
Year Ended December 31, 2017

Section I - Summary of Auditor's Results

Financial Statements:

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified opinion

Internal control over financial reporting:

- Material weakness(es) identified?
Significant deficiency(ies) identified?

Noncompliance material to financial statements noted?

Federal Awards:

Internal control over major programs:

- Material weakness(es) identified?
Significant deficiency(ies) identified?

Type of auditor's report issued on compliance for major programs:

Unmodified opinion

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

yes no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

93.224
93.527

U.S. Department of Health and Human Services:
Health Center Program Cluster:
Consolidated Health Centers
Affordable Care Act Grants for New and Expanded Services under the Health Center Program

Dollar threshold used to distinguish between type A and B programs:

\$750,000

Auditee qualified as low-risk auditee?

yes no

**Delaware Valley Community Health, Inc.**  
**Schedule of Findings and Questioned Costs**  
**Year Ended December 31, 2017**

**Section II - Financial Statement Findings**

None.

**Section III - Findings and Questioned Costs - Major Federal Award Programs**

None.

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