Delaware Valley Community Health, Inc.

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

December 31, 2018 and 2017

COHN REZNICK

ACCOUNTING • TAX • ADVISORY

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"), which comprise the statements of financial position as of December 31, 2018 and 2017, 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, 2018 and 2017, 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 May 29, 2019, 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.

CohnReznick LLP

New York, New York
May 29, 2019

Delaware Valley Community Health, Inc.

Statements of Financial Position
December 31, 2018 and 2017

Assets

	2018	2017
Current assets		
Cash and cash equivalents	$ 1,977,507	$ 5,926,222
Investments	9,266,618	7,984,020
Patient services receivable, net	965,337	924,655
Contract services and other grants receivable	382,911	114,677
Inventory	51,411	44,604
Prepaid expenses and other receivable	366,729	375,919
Total current assets	13,010,513	15,370,097
Property and equipment, net	12,642,576	12,315,604
Investment in a limited liability corporation	5,999	5,999
Total	$ 25,659,088	$ 27,691,700

Liabilities and Net Assets

Current liabilities		
Accounts payable and accrued expenses	$ 1,384,392	$ 811,283
Accrued compensation	2,373,744	2,038,434
Current maturities of long-term debt	-	107,319
Medicaid advance	742,699	1,671,467
Total current liabilities	4,500,835	4,628,503
Long-term debt, less current maturities	-	2,979,082
Interest rate swap	-	3,222
Total liabilities	4,500,835	7,610,807
Commitments and contingencies		
Net assets		
Without donor restrictions	21,158,253	20,080,893
Total	$ 25,659,088	$ 27,691,700

See Notes to Financial Statements.

Delaware Valley Community Health, Inc.

Statements of Activities and Changes in Net Assets
Years Ended December 31, 2018 and 2017

	2018	2017
Revenue without donor restrictions		
Patient services revenue (net of contractual allowances and discounts)	$ 24,928,763	$ 23,912,363
Provision for bad debts	599,240	606,817
Net patient service revenue less provision for bad debts	24,329,523	23,305,546
DHHS grant revenue	6,114,361	6,122,420
Contract services and other grants	785,034	730,159
In-kind contributions - vaccines	1,605,862	1,511,904
340B Pharmacy	2,067,748	1,978,841
Investment income	114,662	24,113
Other revenue	259,449	176,357
Total revenue without donor restrictions	35,276,639	33,849,340
Operating expenses		
Salaries and related benefits	24,727,370	22,764,269
Other than personnel services	8,300,611	7,495,822
Interest	179,400	117,008
Total operating expenses	33,207,381	30,377,099
Operating income prior to depreciation and amortization	2,069,258	3,472,241
Depreciation and amortization	991,898	1,020,211
Operating income before nonoperating activity	1,077,360	2,452,030
Nonoperating activity		
Unrealized gain on interest rate swap	-	25,955
Changes in net assets	1,077,360	2,477,985
Net assets, beginning	20,080,893	17,602,908
Net assets, end	$ 21,158,253	$ 20,080,893

See Notes to Financial Statements.

Delaware Valley Community Health, Inc.

Statement of Functional Expenses
Year Ended December 31, 2018

	Program services	General and administrative	Fundraising	Total
Salaries and wages	$ 15,702,117	$ 3,443,871	$ -	$ 19,145,988
Fringe benefits	4,593,677	987,705	-	5,581,382
Consultant and contractual services	961,723	624,831	-	1,586,554
Pharmaceuticals	1,353,152	-	-	1,353,152
In-kind contributions - vaccines	1,605,862	-	-	1,605,862
Consumable supplies	1,452,456	43,236	29	1,495,721
Laboratory and radiology fees	414,981	-	-	414,981
Occupancy	470,802	39,276	-	510,078
Professional fees	-	100,083	-	100,083
Insurance	14,277	93,840	-	108,117
Equipment rental and maintenance	204,716	26,603	158	231,477
Telephone	55,347	25,335	-	80,682
Travel, conferences and meetings	49,229	106,585	-	155,814
Dues and subscriptions	20,595	45,558	460	66,613
Printing, publications and postage	34,623	16,249	200	51,072
Training and seminars	104,268	250,521	-	354,789
Interest expense	111,023	68,377	-	179,400
Other	101,077	84,235	304	185,616
Subtotal	27,249,925	5,956,305	1,151	33,207,381
Depreciation and amortization	822,878	169,020	-	991,898
Total functional expenses	$ 28,072,803	$ 6,125,325	$ 1,151	$ 34,199,279

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	$ 3,224,446	$ -	$ 18,152,727
Fringe benefits	3,661,679	949,863	-	4,611,542
Consultant and contractual services	878,669	537,236	-	1,415,905
Pharmaceuticals	1,341,481	-	-	1,341,481
In-kind contributions	1,511,904	-	-	1,511,904
Consumable supplies	1,356,144	41,265	-	1,397,409
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	92,503	73,058	-	165,561
Subtotal	25,036,047	5,338,338	2,714	30,377,099
Depreciation and amortization	865,600	154,611	-	1,020,211
Total functional expenses	$ 25,901,647	$ 5,492,949	$ 2,714	$ 31,397,310

See Notes to Financial Statements.

Delaware Valley Community Health, Inc.

Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Cash received from patient services	$ 25,427,821	$ 28,940,216
Cash received from grants	6,114,361	7,051,188
Cash received from contracted services	516,800	658,711
Other receipts from operations	394,615	230,339
Cash paid for operations	(6,119,257)	(6,099,336)
Cash paid to employees	(24,392,060)	(22,071,508)
Interest paid	(179,400)	(117,008)
Net cash provided by operating activities	1,762,880	8,592,602
Cash flows from investing activities		
Purchase of property and equipment	(1,318,870)	(500,516)
Purchase of investments	(7,917,572)	(7,586,212)
Proceeds from sale of investments	6,614,470	3,547,256
Net cash used in investing activities	(2,621,972)	(4,539,472)
Cash flows from financing activities		
Payment of long-term debt	(3,089,623)	(80,710)
Net cash used in financing activities	(3,089,623)	(80,710)
Net increase (decrease) in cash and cash equivalents	(3,948,715)	3,972,420
Cash and cash equivalents, beginning of year	5,926,222	1,953,802
Cash and cash equivalents, end of year	$ 1,977,507	$ 5,926,222

Delaware Valley Community Health, Inc.

Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Reconciliation of change in operating activities		
Changes in net assets	$ 1,077,360	$ 2,477,985
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Provision for bad debts	599,240	606,817
Unrealized gain on interest rate swap	-	(25,955)
Depreciation and amortization	991,898	1,020,211
Net unrealized loss on investments	20,504	14,901
Changes in operating assets and liabilities		
Patient services receivable	(639,922)	3,049,012
Contract services and other grants receivable	(268,234)	(71,448)
Prepaid expenses and other receivable	9,190	(54,364)
Inventory	(6,807)	14,945
Medicaid advance	(928,768)	928,768
Accounts payable and accrued expenses	573,109	(61,031)
Accrued compensation	335,310	692,761
Net cash provided by operating activities	$ 1,762,880	$ 8,592,602

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, Norristown and Sharon Hill, 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 ("GAAP").

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Classification of net assets

The Center classifies its net assets into two categories, which are described as follows:

Net assets without donor restrictions are net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Center. Net assets without donor restrictions include resources that the governing board may use for any designated purpose and resources whose use is limited by agreement between the Center and an outside party other than a donor or grantor.

Net assets with donor restrictions are net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Center or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities and changes in net assets.

Cash and cash equivalents

The Center maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed the limits of Federal Deposit Insurance Corporation ("FDIC") insurance coverage. The Center's bank deposits exceeded FDIC limits at various times during the year ended December 31, 2018. However, the Center has not experienced any losses in such accounts. The Center monitors its financial institutions and the concentration of credit risk on a regular basis and does not anticipate nonperformance by the financial institutions. 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. Investment income is shown net of investment losses and related expenses, and is presented as part of other revenue in the statements of activities and changes in net assets.

Fair value of financial instruments
The Center's material financial instruments at December 31, 2018 and 2017 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 3. 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 3.

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 to 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 changes 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.

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 assets' 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, 2018 and 2017, 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 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 $4.8 million and $4.4 million, respectively, for the years ended December 31, 2018 and 2017.

Contributions
Contributions are recorded as revenue with donor restrictions if they are received with donor stipulations that limit the use of the donated asset. Contributions received with no donor stipulations are recorded as revenue without donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and are reported in the statement of activities and change in net assets as net assets released from restriction. Donor-restricted contributions whose restrictions expire during the same fiscal year are recognized as revenue without donor 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, 2018 and 2017, the Center received $1,605,862 and $1,511,904, 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 the Office of Management and Budget.

Performance indicator
The statements of activities and changes in net assets include operating income before nonoperating activity as the performance indicator. Changes in net assets which are excluded from the performance indicator includes unrealized gain 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 $195,500 and $127,500 from the Medicaid and Medicare incentive program for the years ended December 31, 2018 and 2017, 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 determined by management on an equitable basis. Natural expenses attributable to more than one functional expense category are allocated using a variety of cost allocation basis such as time and effort and square footage.

Tax status
The Center has no unrecognized tax benefits at December 31, 2018 and 2017. The Center's federal, state and city information tax returns prior to 2015 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, 2018 and 2017.

Adoption of new accounting pronouncement
For the year ended December 31, 2018, the Center adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities* (Topic 958), *Presentation of Financial Statements for Not-for-Profit Entities.* This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. The changes required by the update have been applied retrospectively to all periods presented. A key change required by ASU 2016-14 is the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets, are now reported as net assets with donor restrictions.

Reclassification
Certain reclassifications have been made to the 2017 balances to conform to the 2018 presentation.

Subsequent events
The Center has evaluated subsequent events through May 29, 2019, which is the date the financial statements were available to be issued.

Note 2 - Availability and liquidity

The following represents the Center's financial assets at December 31, 2018:

Financial assets at year end	
Cash and cash equivalents	$ 1,977,507
Investments	9,266,618
Patient services receivable, net	965,337
Contract services and other grants receivable	382,911
Total financial assets available to meet general expenditures over the next 12 months	$ 12,592,373

The Center's goal is generally to maintain financial assets to meet 180 days of operating expenses. As part of its liquidity plan, excess cash is invested in short-term investments including money market accounts, U.S. Treasury bills and mutual funds. The Center has a $1,000,000 line of credit available to meet cash flow needs.

Note 3 - 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, 2018 and 2017 are classified in the tables below in one of the three categories described above:

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Investments				
Money market accounts	$ 8,604,880	$ -	$ -	$ 8,604,880
U.S. Treasury bills	300,531	-	-	300,531
U.S. Government bonds				
Mortgage bonds	-	361,207	-	361,207
Total	$ 8,905,411	$ 361,207	$ -	$ 9,266,618

	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	$ 3,925,542	$ 4,058,478	$ -	$ 7,984,020
Interest rate swap liability	$ -	$ -	$ (3,222)	$ (3,222)

Investments in money market accounts are cash equivalent sweep accounts and the fair values as of December 31, 2018 and 2017 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 2018 and 2017.

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 4 - Patient services receivable, net

Patient services receivable consist of the following at December 31:

	2018	2017
Medicaid	$ 88,914	$ 114,028
Medicare	50,373	24,873
Private insurance and commercial managed care plans	105,261	85,880
Self-pay	802,157	900,475
Medicaid managed care plans and wraparound	470,927	378,693
Medicare managed care plans and wraparound	249,862	284,449
Subtotal	1,767,494	1,788,398
Less allowance for doubtful accounts	802,157	863,743
Total	$ 965,337	$ 924,655

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 100% and 96% of self-pay accounts receivable at December 31, 2018 and 2017, respectively. The Center's self-pay write-offs were $653,446 and $963,946 for the years ended December 31, 2018 and 2017, 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 5 - Contract services and other grants receivable

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

	2018	2017
Independent Blue Cross Foundation	$ 200,000	$ -
The City of Philadelphia		
HIV Emergency Relief Project Grant	49,495	27,249
Health Partners Plan	71,873	64,215
NHS Delaware County	31,250	18,750
Others	30,293	4,463
Total	$ 382,911	$ 114,677

Note 6 - Property and equipment, net

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

	2018	2017
Land	$ 68,018	$ 68,018
Building and leasehold improvements	18,969,171	18,337,961
Office equipment	3,066,589	2,698,349
Medical and dental equipment	3,198,895	2,844,063
Vehicles	50,501	50,501
	25,353,174	23,998,892
Less accumulated depreciation and amortization	12,710,598	11,718,887
	12,642,576	12,280,005
Construction in progress	-	35,599
Total	$ 12,642,576	$ 12,315,604

Depreciation and amortization expense was $991,898 and $1,020,211 for the years ended December 31, 2018 and 2017, 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 - Investment in a limited liability corporation

In 2014, the Center invested in Broad Spectrum Independent Physician Association, LLC ("BSIL") where the Center acquired a 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 2018 and 2017.

Note 8 - 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, 2019. As of December 31, 2018 and 2017, the Center has no outstanding loan related to this agreement. The line of credit is secured by the Center's existing investment accounts with the same bank.

Note 9 - 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% at December 31, 2017). This bond is secured by a first priority on certain real properties of the Center. The Center is requirement to comply with certain financial and nonfinancial covenants.

At December 31, 2017, the outstanding balance of the loan amounted to $3,299,436 and the loan was paid in full by the Center on September 4, 2018. The unamortized loan cost amounting to $132,325 as of December 31, 2017 was written off in 2018 and is recorded as part of interest on the statements of activities and changes in net assets. 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 $3,222 at December 31, 2017, (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.

Note 10 - 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:

	2018	2017
Medicaid	$ 1,179,338	$ 1,010,824
Medicare	891,603	741,397
Private insurance	1,599,959	1,478,085
Self-pay	1,674,339	1,476,131
Medicaid managed care and wraparound	17,374,686	17,197,938
Medicare managed care and wraparound	2,208,838	2,007,988
Total	$ 24,928,763	$ 23,912,363

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 11 - DHHS grants

For the year ended December 31, 2018, the Center received the following DHHS grants:

Grant number	Grant period	Total grant	Revenue recognized
6H80CS00833-16-06	June 1, 2017 - May 31, 2018	$ 6,201,257	$ 2,618,704
6H80CS00833-17-05	June 1, 2018 - May 31, 2019	6,425,835	3,495,657
DHHS grants - total			$ 6,114,361

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

Grant number	Grant period	Total grant	Revenue recognized
6H80CS00833-15-12	June 1, 2016 - May 31, 2017	$ 6,114,110	$ 2,705,877
6H80CS00833-16-06	June 1, 2017 - May 31, 2018	6,201,257	3,416,543
DHHS grants - total			$ 6,122,420

Note 12 - Contract services and other grants

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

	2018	2017
Independence Blue Cross Foundation	$ 200,000	$ 275,000
The City of Philadelphia		
HIV Emergency Relief Project Grant	155,858	156,780
Connelley Foundation	96,000	-
Health Partners Plan	91,883	133,183
NHS Delaware County	75,000	68,750
Commonwealth of Pennsylvania	52,381	-
The Health Federation of Philadelphia	48,892	-
American Cancer Society	18,750	37,500
Other	46,270	58,946
Total	$ 785,034	$ 730,159

Note 13 - 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 $1,063,447 and $927,561 for the years ended December 31, 2018 and 2017, respectively.

Note 14 - 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 leases various facility spaces under noncancelable operating leases. These leases expire between 2020 to 2028. Rent expense for the years ended December 31, 2018 and 2017 amounted to $230,972 and $154,963, respectively. Future minimum lease payments under the operating leases for the five years subsequent to December 31, 2018 and thereafter are as follows:

2019	$	289,753
2020		239,102
2021		206,384
2022		216,579
2023		223,038
Thereafter		1,115,670
Total	$	2,290,526

Supplementary Information

Delaware Valley Community Health, Inc.

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2018

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	$ -	$ 2,084,758
Affordable Care Act Grants for New and Expanded Services under the Health Center Program	93.527	N/A	-	4,029,603
Subtotal - Health Center Program Cluster				6,114,361
Passed through the City of Philadelphia				
HIV Emergency Relief Project Grants	93.914	1320730	-	155,858
Passed through NHS Delaware County				
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	Not Available	-	75,000
Total expenditures of federal awards			$ -	$ 6,345,219

See Notes to Schedule of Expenditures of Federal Awards.

Delaware Valley Community Health, Inc.

Notes to Schedule of Expenditures of Federal Awards
December 31, 2018

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, 2018. 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, 2018, 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 29, 2019.

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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 29, 2019

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, 2018. 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, 2018.

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.

CohnReznick LLP

New York, New York
May 29, 2019

Delaware Valley Community Health, Inc.

Schedule of Findings and Questioned Costs
Year Ended December 31, 2018

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? _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 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
	U.S. Department of Health and Human Services
	Health Center Program Cluster
93.224	Consolidated Health Centers
93.527	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, 2018

Section II - Financial Statement Findings

None.

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

None.

COHN REZNICK

ACCOUNTING • TAX • ADVISORY

Independent Member of Nexia International

cohnreznick.com