

**GREATER PHILADELPHIA HEALTH ACTION, INC.**

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT**

**FOR THE YEARS ENDED  
DECEMBER 31, 2012 AND 2011**

**GREATER PHILADELPHIA HEALTH ACTION, INC.  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

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## **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS AND SCHEDULE OF EXPENDITURES OF FEDERAL AND CITY OF PHILADELPHIA AWARDS**

Board of Directors  
Greater Philadelphia Health Action, Inc.  
Philadelphia, Pennsylvania

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Greater Philadelphia Health Action, Inc. (GPHA), which comprise the statement of financial position as of December 31, 2012 and 2011, and the related statements of activities, 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 these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these 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 of 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's 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 Greater Philadelphia Health Action, Inc. as of December 31, 2012 and 2011, 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.



**GREATER PHILADELPHIA HEALTH ACTION, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
<b>ASSETS</b>		
Current assets		
Cash (Note 2)	\$ -	\$ 166,415
Grants receivable (Note 3)	216,356	215,145
Accounts receivable, net (Note 4)	10,081,916	8,337,825
Accounts receivable, capitation and referrals (Note 5)	1,935,218	1,894,892
Accounts receivable, other	755,821	853,051
Prepaid expenses	159,466	143,925
Pharmacy inventory	140,004	243,593
Total current assets	13,288,781	11,854,846
Property and equipment, net (Note 2 and Note 6)		
Land	91,891.00	91,891.00
Capital leases	342,341	65,220
Capitalized loan costs	485,831	485,831
Construction in progress	31,850	-
Purchase of practice	949,631	949,631
Building and improvements	19,579,472	19,480,140
Furniture and equipment	3,953,315	3,898,680
Less accumulated depreciation & amortization	(12,220,941)	(10,884,603)
Total property and equipment, net	13,213,390	14,086,790
Other assets		
Deposits	14,606	14,606
Total assets	\$ 26,516,777	\$ 25,956,242
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,651,555	\$ 1,175,042
Accrued payroll and related expenses	2,376,949	2,400,100
Notes payable (Note 7)	3,130,187	1,663,172
Capital lease obligations	77,182	-
Bonds payable (Note 8)	400,000	375,000
Total current liabilities	7,635,873	5,613,314
Noncurrent liabilities		
Capital lease obligations	86,712	
Notes payable (Note 7)	165,192	194,313
Bonds payable (Note 8)	7,460,000	8,260,000
Total liabilities	15,347,777	14,067,627
Net assets		
Unrestricted	11,169,000	11,888,615
Total net assets	11,169,000	11,888,615
Total liabilities and net assets	\$ 26,516,777	\$ 25,956,242

The accompanying notes are an integral part of these financial statements

**GREATER PHILADELPHIA HEALTH ACTION, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and support:			
Federal grants	\$ -	\$ 6,030,482	\$ 6,030,482
Grants and contracts	-		-
Patient services	26,021,254		26,021,254
Pharmacy income	2,670,351		2,670,351
EHR Incentive	828,750		828,750
Rental income	92,887		92,887
Other	152,681		152,681
Interest income	186		186
Daycare fees and support			
Grants and contracts	-	984,494	984,494
Fees	-	47,393	47,393
Net assets released from restrictions	<u>7,062,369</u>	<u>(7,062,369)</u>	<u>-</u>
Total revenue and support	<u>36,828,478</u>	<u>-</u>	<u>36,828,478</u>
Expenses:			
Program services	27,178,487	-	27,178,487
Management and general	9,025,768	-	9,025,768
Total expenses before other expenses	<u>36,204,255</u>	<u>-</u>	<u>36,204,255</u>
Change in net assets before other expenses	624,223	-	624,223
Depreciation	<u>1,343,838</u>		<u>1,343,838</u>
Change in net assets	(719,615)	-	(719,615)
Net Assets, December 31, 2011	11,888,615	-	11,888,615
Net Assets, December 31, 2012	<u>\$ 11,169,000</u>	<u>\$ -</u>	<u>\$ 11,169,000</u>

The accompanying notes are an integral part of these financial statements

**GREATER PHILADELPHIA HEALTH ACTION, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and support:			
Federal grants	\$ -	\$ 10,306,896	\$ 10,306,896
Grants and contracts	19,795		19,795
Patient services	22,773,486	-	22,773,486
Dental income	1,540,509		1,540,509
Pharmacy income	3,630,504	-	3,630,504
Rental income	67,840	-	67,840
Interest income	2,355	-	2,355
Other	303,881	-	303,881
Daycare fees and support			
Grants and contracts	-	666,067	666,067
Fees	-	30,167	30,167
Net assets released from restrictions	<u>11,003,130</u>	<u>(11,003,130)</u>	<u>-</u>
Total revenue and support	<u>39,341,500</u>	<u>-</u>	<u>39,341,500</u>
Expenses:			
Program services	26,357,575	-	26,357,575
Management and general	<u>7,967,849</u>	<u>-</u>	<u>7,967,849</u>
Total expenses before other expenses	<u>34,325,424</u>	<u>-</u>	<u>34,325,424</u>
Change in net assets before other expenses	5,016,076	-	5,016,076
A/P cleanup	3,750	-	3,750
Loss on disposal of assets	611	-	611
Depreciation	<u>1,285,673</u>	<u>-</u>	<u>1,285,673</u>
Change in net assets	3,726,042	-	3,726,042
Net Assets, December 31, 2010	<u>8,162,573</u>	<u>-</u>	<u>8,162,573</u>
Net Assets, December 31, 2011	<u>\$ 11,888,615</u>	<u>\$ -</u>	<u>\$ 11,888,615</u>

The accompanying notes are an integral part of these financial statements

**GREATER PHILADELPHIA HEALTH ACTION, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**  
(with summarized totals for the year ended December 31, 2011)

	Program					TOTAL	Management & General	Total	
	A	B	C	D	E			2012	2011
Salaries and wages	\$ 7,944,479	\$ 574,730	\$ 2,654,312	\$ 813,371	\$ 1,618,180	13,605,072	\$ 4,059,996	17,665,068	\$ 17,433,052
Fringe benefits	1,511,786	128,224	520,846	172,370	325,291	2,658,517	658,080	3,316,597	3,246,839
Medical consultant services	2,594,197	-	9,176	29,835	5,426	2,638,634	95,705	2,734,339	2,644,300
Temporary office services	203,192	-	341,166	12,942	18,557	575,857	43,785	619,642	644,043
Lab fees	775,669	-	11,988	-	-	28,560	-	816,217	623,192
Referral costs	81,600	-	-	-	-	81,600	-	81,600	89,944
Office supplies	85,937	-	29,691	62,420	7,779	185,827	191,421	377,248	327,314
Medical supplies	949,980	-	7,271	1,956	5,141	964,348	5,044	969,392	1,256,083
Dental supplies	848	-	-	-	229,997	230,845	1,126	231,971	162,804
Professional fees	-	-	-	-	-	-	547,504	547,504	562,168
Security & transportation	54,664	-	43,846	1,592	20,652	120,754	2,788	123,542	170,962
Utilities	303,284	-	44,172	32,969	16,063	396,488	59,319	455,807	458,588
Equipment rental & lease	85,440	-	5,239	3,960	14,211	108,850	219,681	328,531	214,158
Repair and maintenance	165,854	-	15,885	31,452	64,861	278,052	26,885	304,937	306,561
Cleaning	624,697	-	88,202	84,079	35,654	832,632	60,217	892,849	804,673
Insurance	1,091	-	936	17,157	-	19,184	619,066	638,250	528,218
Space rental	429,624	-	199,249	-	64,350	693,223	27,192	720,415	649,569
Data processing	481	-	7,870	420	601	9,372	1,098,283	1,107,655	530,524
Telephone	101,768	-	24,918	13,509	16,332	156,527	403,200	559,727	451,210
Travel and board expenses	12,607	-	4,829	5,170	6,361	28,967	123,435	152,402	171,792
Taxes and licenses	15,956	-	9,779	1,912	2,310	29,957	7,957	37,914	53,594
Marketing expense	2,063	-	-	-	-	2,063	65,027	67,090	104,027
Dues and subscriptions	5,398	-	6,809	880	1,773	14,860	35,558	50,418	49,721
Recruitment	483	-	485	-	263	1,231	6,615	7,846	18,704
Interest and bank charges	13,237	-	1,325	575	801	15,938	643,276	659,214	578,622
Bad debt expense	2,022,815	21,632	520,499	-	-	2,564,946	-	2,564,946	1,934,838
Translation	124,298	-	14,501	-	195	138,994	-	138,994	220,319
Equipment and furniture	5,775	-	2,336	119	(4,949)	3,281	13,994	17,275	23,253
Anniversary expense	-	-	-	-	-	-	-	-	(1,088)
Miscellaneous	1,696	-	3,020	800	735	6,251	10,614	16,865	67,440
<b>Total</b>	<b>18,118,919</b>	<b>724,586</b>	<b>4,568,350</b>	<b>1,287,488</b>	<b>2,479,144</b>	<b>27,178,487</b>	<b>9,025,768</b>	<b>36,204,255</b>	<b>34,325,424</b>
Management and general allocation	6,628,525	370,057	1,037,060	444,970	545,156	9,025,768	(9,025,768)	-	-
Total expenses before other expenses	24,747,444	1,094,643	5,605,410	1,732,458	3,024,300	36,204,255	-	36,204,255	34,325,424
A/P cleanup	-	-	-	-	-	-	-	-	3,750
Loss on disposal of assets	-	-	-	-	-	-	-	-	611
Depreciation/amortization	644,788	-	137,429	124,625	182,044	1,088,886	254,952	1,343,838	1,285,673
<b>Total</b>	<b>\$ 25,392,232</b>	<b>\$ 1,094,643</b>	<b>\$ 5,742,839</b>	<b>\$ 1,857,083</b>	<b>\$ 3,206,344</b>	<b>\$ 37,293,141</b>	<b>\$ 254,952</b>	<b>\$ 37,548,093</b>	<b>\$ 35,615,458</b>

Program Legend

A	Public Health Service
B	DHHS-HIV
C	AI-Assist
D	Daycare
E	Dental

The accompanying notes are an integral part of these financial statements

**GREATER PHILADELPHIA HEALTH ACTION, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (719,615)	\$ 3,726,042
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,343,838	1,285,673
Loss on disposal of assets	-	611
Decrease (increase) in grants receivable	(1,211)	130,566
Decrease (increase) in accounts receivable	(1,744,091)	(894,885)
Decrease (increase) in accounts receivable, capitation and referrals	(40,326)	(608,088)
Decrease (increase) in accounts receivable, other	97,230	(464,064)
Decrease (increase) in prepaid expenses	(15,541)	72,554
Decrease (increase) in pharmacy inventory	103,589	(139,910)
Decrease (increase) in other assets	-	-
Decrease (increase) in book overdraft	619,067	-
Increase (decrease) in accounts payable and accrued liabilities	464,123	(395,106)
Increase (decrease) in accrued payroll and related expenses	(23,151)	106,671
Net cash provided by operating activities	83,912	2,820,064
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(470,438)	(1,635,584)
Net cash (used in) by investing activities	(470,438)	(1,635,584)
<b>Cash flows from financing activities:</b>		
Increase (decrease) in notes payable	818,827	(734,432)
Increase(decrease) in capital lease obligation	176,284	(30,048)
Increase (decrease) in bond payable	(775,000)	(355,000)
Net cash provided by (used in) financing activities	220,111	(1,119,480)
Net increase (decrease) in cash	(166,415)	65,000
Cash, beginning of the year	166,415	101,415
Cash, end of the year	\$ 0	\$ 166,415
<b>Supplemental data:</b>		
Interest paid	\$ 453,644	\$ 403,465

**GREATER PHILADELPHIA HEALTH ACTION, INC.**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

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**Note 1**      *Organization*

Greater Philadelphia Health Action, Inc. (GPHA) was incorporated in the Commonwealth of Pennsylvania on July 20, 1970, as a non-profit, non-stock corporation dedicated to the purpose of carrying out the delivery of primary health care services to the city of Philadelphia and surrounding areas.

**Note 2**      *Summary of Significant Accounting Policies*

Cash

Cash, as presented in the statements of cash flows, consists of amounts on hand and in demand bank accounts without restricted access. GPHA reclassifies cash overdrafts to notes payable-current portion. Cash overdrafts included in notes payable-current portion was \$619,067 for the year ended December 31, 2012.

Accounting Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Classification of Net Assets

The net assets of the organization are reported as followed:

*Unrestricted Net Assets*—Represents the portion of expendable funds that are available for general support of the organization.

*Temporarily Restricted Net Assets*—Represents assets that are temporarily restricted from use in the operation of GPHA, until all applicable grantor restrictions have been met.

Major Funding Source

GPHA receives funds from the United States Department of Health and Human Services (DHHS). In accordance with DHHS policies, all funds disbursed must be in compliance with the specific terms of the grant agreement. DHHS may, at its discretion, request reimbursement for expenses or return of unexpended funds, or both, as a result of noncompliance by the corporation with the terms of the grant. In addition, if the corporation terminated its DHHS grant activities, all unexpended funds must be returned to the Department of Health and Human Services. All amounts advanced to GPHA through periodic draw downs from DHHS grant awards are reported as grant income during the operating year of the grantee, based on a calendar year.

**GREATER PHILADELPHIA HEALTH ACTION, INC.**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

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**Note 2**      *Summary of Significant Accounting Policies* (Continued)

Pharmacy Inventory

Pharmacy inventory is recorded at the lower of cost or market value using the first in first out (FIFO) inventory method.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets ranging from five to thirty years. The cost of leasehold improvements is amortized on a straight-line basis over the term of the lease or the useful lives of the assets whichever is shorter. Construction in progress includes consultants, legal and other costs for projects under development. Depreciation is not recorded on the construction in progress until the project is complete and ready for use. GPHA purchased two medical practices, one in 2006 and the other in 2007. The medical practices are included in property and equipment and are amortized on a straight-line basis over 25 years. A summary of property and equipment is contained in Note 6. Repairs and maintenance are charged to operations when incurred. Betterments and renewals are capitalized. When property and equipment are sold or otherwise disposed of, the asset and related accumulated depreciation are removed from the accounts and any gain or loss is recorded. GPHA capitalizes all fixed assets greater than \$2,000. Property and certain equipment items acquired with federal government funds are considered to be owned by GPHA while used in the program or in future authorized programs. However, the federal government retains a reversionary interest in these assets as well as the right to determine the use of any proceeds from sale or disposal. Accordingly, GPHA may not transfer, mortgage, assign, lease, or in any other manner encumber these restricted items without prior approval of the federal government.

Fair Value

Management follows the accounting standards pertaining to *Fair Value Measurements* for qualifying assets and liabilities. These standards define fair value, establish a framework for measuring fair value under U.S. GAAP, and mandate disclosures about fair value measurements. The standards establish a fair value hierarchy that prioritizes the inputs and assumptions used to measure fair value. The three levels of the fair value framework are as follows:

- Level 1—Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date. Instruments which are generally included in this category include equity and debt securities publicly traded on an exchange.
- Level 2—Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active. Level 2 also includes investments with notice periods for redemption of ninety days or less.
- Level 3—Inputs that are unobservable and which require significant judgment or estimation. Level 3 also includes investments with notice periods for redemption of more than ninety days.

**GREATER PHILADELPHIA HEALTH ACTION, INC.**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

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**Note 2**      *Summary of Significant Accounting Policies* (Continued)

All qualifying assets or liability's level within the framework are based upon the lowest level of any input that is significant to the fair value measurement. GPHA values all its qualified assets and liabilities using Level 1 inputs, except for the notes and bonds payable which used Level 2 inputs.

Income Taxes

GPHA is a non-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state codes. Management believes all of GPHA's income is related to its exempt purpose. Accordingly, no provision for federal and state income taxes is included in the accompanying financial statements.

Prior Year Summarized Information

The financial statements include certain prior summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with GPHA's financial statements for the year ended December 31, 2011, from which the summarized information was derived.

**Note 3**      *Grants Receivable*

GPHA receives funding from various sources to operate specified programs in accordance with designated regulations. Grant receivables at December 31, 2012 and 2011, represent non-reimbursed services provided. A summary of grants receivable is as follows:

	<b>2012</b>	<b>2011</b>
Philadelphia School District	\$ 52,805	\$ 69,516
Child Care Information Services	<u>163,551</u>	<u>145,629</u>
	<u>\$ 216,356</u>	<u>\$ 215,145</u>

**Note 4**      *Accounts Receivable, net*

GPHA extends credit to patients, as well as third-party intermediaries responsible for medical services provided to patients. In most cases, the amount collected is less than the amount billed. Therefore, the receivable balance has been reduced to the amount considered collectible. An allowance of gross receivable has been established based upon the organization's bad debt write-off policy. A summary of accounts receivable is presented below:

**GREATER PHILADELPHIA HEALTH ACTION, INC.**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

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**Note 4**      *Accounts Receivable, net (Continued)*

	<b>2012</b>	<b>2011</b>
Medicare	\$ 1,816,972	\$ 1,219,241
Medicaid	446,231	443,509
Commercial insurance	11,104,146	8,754,171
	<u>13,367,349</u>	<u>10,416,921</u>
Less: Allowance	(3,285,433)	(2,079,096)
Total	<u>\$ 10,081,916</u>	<u>\$ 8,337,825</u>

**Note 5**      *Accounts Receivable, Capitation and Referrals-Medicaid Wrap Around*

GPHA participates in several managed care plans in which it is reimbursed for specialty services provided. Specialty services are defined as services outside the normal core services included in the managed care agreements. Capitation refers to the amount per Medicaid enrollee that a state pays to a managed care plan per month. For the years ended December 31, 2012 and 2011, the total balance in this account was \$1,935,218 and \$1,894,892, respectively.

**Note 6**      *Property and Equipment*

Major categories of property and equipment are as follows:

	<b>2012</b>	<b>2011</b>
Land	\$ 91,891	\$ 91,891
Building and improvement	19,579,472	19,480,140
Furniture and equipment	3,953,315	3,898,680
Construction in progress	31,850	-
Capital leases	342,341	65,220
Capitalized loan costs	485,831	485,831
Medical practice purchases	949,631	949,631
Less: accumulated depreciation	<u>(12,220,941)</u>	<u>(10,884,603)</u>
Property and equipment, net	<u>\$ 13,213,390</u>	<u>\$ 14,086,790</u>

Depreciation and amortization expense was \$1,343,838 and \$1,285,673 for the years ended December 31, 2012 and 2011, respectively. Accumulated depreciation was decreased by \$7,500 due to the disposal of an asset.

**GREATER PHILADELPHIA HEALTH ACTION, INC.**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

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**Note 7**      *Notes Payable*

A term loan in the amount of \$300,000 was obtained by GPHA. The interest rate is 6.7%. Principal and interest is payable on a 10 year mortgage amortization schedule. Monthly payments are due on the 1<sup>st</sup> of each month starting September 1, 2008. On the first day of September 2018, the entire principal and interest is due and payable. Principal can be prepaid at any time without penalty. This loan is not collateralized. As of December 31, 2012, the total principal balance was \$194,312. The future payments required on the note are as follows:

December 31, 2013	\$	29,120
December 31, 2014		31,160
December 31, 2015		33,343
December 31, 2016		35,662
December 31, 2017		38,180
Thereafter		26,847
<b>Total</b>	<b>\$</b>	<b><u>194,312</u></b>

A line of credit in the amount of \$3,000,000 was obtained effective August 21, 2008. This is a revolving line of credit and GPHA, Inc. may repay and re-borrow the principal amount. The interest on the line of credit is equal to the banks prime rate of interest, and therefore the interest rate is variable. A loan fee of \$15,000 was charged in conjunction with obtaining the line of credit. Collateral requirements include equipment and fixtures, inventory, and receivables of GPHA, Inc. The line of credit also has additional reporting requirements and additional covenants. During the year ended December 31, 2012, some financial covenants were not met. As of December 31, 2012, the principal balance is \$3,101,067 and the whole balance represents the current portion.

Current portion of term loan	\$	29,120
Current portion of line of credit		<u>3,101,067</u>
<b>Total current portions of notes payable</b>	<b>\$</b>	<b><u>3,130,187</u></b>

**Note 8**      *Bonds Payable*

In August of 2008, GPHA obtained approval for \$9,720,000 in funds from a tax-exempt bond financing. The proceeds were used to liquidate the 2003 bond debt. The 2003 bond was used to finance a project consisting of the acquisition, renovations, and equipping of three properties, as well as the current refunding of the Authority's 1999 Series of Tax-Exempt Revenue Bonds and costs related to the financing of the project. As of December 31, 2012, the principal balance of the Bond Series was \$7,860,000. As of December 31, 2011, the principal balance was \$8,635,000.

**GREATER PHILADELPHIA HEALTH ACTION, INC.**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

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**Note 8**      *Bonds Payable (Continued)*

The proceeds of the bond are used by GPHA, Inc. in the form of a letter of credit. The letter of credit was issued in the amount of \$ 9,831,847. The expiration date of the letter of credit is January 1, 2033. The interest is computed at the LIBOR rate. Future payments required on the bond amortization are as follows:

December 31, 2013	\$ 400,000
December 31, 2014	410,000
December 31, 2015	430,000
December 31, 2016	335,000
December 31, 2017	340,000
Thereafter	5,945,000
Total	\$ 7,860,000

**Note 9**      *Pension Plan*

GPHA sponsors a defined contribution pension plan that covers substantially all salaried employees. Contributions to the plan are based on established guidelines and the plan is administered by the Pension Committee of the Corporation. For the years ended December 31, 2012 and 2011, pension expense was \$452,061 and \$459,170 respectively.

**Note 10**      *Federal Support Available for Future Periods*

The funding periods of the grants from the Department of Health and Human Services differ from the year-end of GPHA. As a result, a portion of each grant award is available for future utilization. The periods of the Community Health Center grant award is June 1, 2012 through May 31, 2013 and the period of the HIV award is July 1, 2012 through June 30, 2013. The current operating year of GPHA is January 1, 2012 through December 31, 2012.

**Note 11**      *Capital Leases*

GPHA leased equipment under a capital lease at a cost of \$277,120. The lease expires in January 2015. Accumulated depreciation reported in the accompanying statement of financial position included \$84,676 relating to the leased equipment. Future minimum lease payments under the capital lease as of December 31, 2012 are as follows:

December 31, 2013	\$ 84,022
December 31, 2014	100,827
December 31, 2015	1,455
Total minimum lease payments	186,304
Amount representing interest at 5.79%	(10,020)
Capital lease obligation	176,284
Less: Current portion	(77,182)
Capital Lease, net current portion	\$ 99,102

**GREATER PHILADELPHIA HEALTH ACTION, INC.**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

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**Note 12**      *Operating Leases*

GPHA has several operating leases for space, equipment, and automobiles. The leases are scheduled to end at various times, and some are extended annually or every five years.

Future minimum annual commitments under the operating leases are as follows:

Year	Space	Equipment/ Automobiles	Total
2013	\$ 684,162	\$ 467,628	\$ 1,151,790
2014	553,689	543,556	1,097,245
2015	562,051	450,434	1,012,485
2016	570,580	43,356	613,936
2017	579,280	-	579,280
	\$ 2,929,762	\$ 1,504,974	\$ 4,454,736

As of December 31, 2012 and 2011, space rental expense was \$720,415 and \$649,569, respectively.

**Note 13**      *Subsequent Events*

In preparing the financial statements, GPHA has evaluated events and transactions for potential recognition or disclosure through May 29, 2013, the date the financial statements were available to be issued. There were no subsequent events that require recognition of, or disclosure in, the financial statements.

**Note 14**      *Reclassification*

Certain reclassifications have been made to the 2011 financial statement balances to conform to the 2012 financial statement presentation.

**GREATER PHILADELPHIA HEALTH ACTION, INC.**  
**Schedule of Expenditures of Federal and City of Philadelphia Awards**  
**For the Year Ended December 31, 2012**

<u>Federal Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Expenditures</u>
<b>U.S. Department of Health and Human Services</b>			
Health Care Cluster	93.224		\$ 5,327,528
OP Early Intervention Svcs w/Respect to HIV Disease	93.918		<u>702,954</u>
<b>Total Expenditure of Federal Awards</b>			6,030,482
The School District of Philadelphia	N/A		<u>379,370</u>
<b>Total Expenditures of Federal and City Awards</b>			<u><u>\$ 6,409,852</u></u>

The accompanying note is an integral part of this schedule.

**GREATER PHILADELPHIA HEALTH ACTION, INC.**  
**Note to Schedule of Expenditures of Federal and City of Philadelphia Awards**  
**December 31, 2012**

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**Note 1**            *Basis of Presentation*

The accompanying schedule of expenditures of federal and city of Philadelphia awards includes the federal and city of Philadelphia grant activity of Greater Philadelphia Health Action, Inc. and is presented on the accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Certain costs have been allocated to the federal programs in accordance with OMB Circular A-122, *Cost Principles for Non-Profit Organizations*. The amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.



**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***

Board of Directors  
Greater Philadelphia Health Action, Inc.  
Philadelphia, Pennsylvania

Independent Auditor's Report

We have audited, in accordance with auditing standards general accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Greater Philadelphia Health Action, Inc. (GPHA), which comprise the statement of financial position as of December 31, 2012, and related statement of activities, functional expenses, and cash flows for the year then ended, and the notes to the financial statements, and have issued our report thereon dated May 29, 2013.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered GPHA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of GPHA's internal control. Accordingly, we do not express an opinion on the effectiveness of GPHA'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 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.

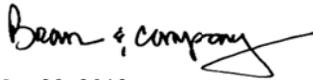
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 GPHA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



May 29, 2013  
Largo, Maryland



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133**

Board of Directors  
Greater Philadelphia Health Action, Inc.  
Philadelphia, Pennsylvania

Independent Auditor's Report

**Report of Compliance for Each Major Federal Program**

We have audited Greater Philadelphia Health Action, Inc. (GPHA) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012. GPHA's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

*Management's Responsibility*

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

*Auditor's Responsibility*

Our responsibility is to express an opinion on compliance for each of GPHA's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about GPHA'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 GPHA's compliance.

*Opinion on Each Major Federal Program*

In our opinion, GPHA 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, 2012.

## Internal Control over Compliance

Management of GPHA 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 GPHA's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose, of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the GPHA'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 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 the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



May 29, 2013  
Largo, Maryland

**GREATER PHILADELPHIA HEALTH ACTION, INC.**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended December 31, 2012**

**Section I - Summary of Auditor's Results**

*Financial Statements:*

Type of auditor's report issued:	<u>Unqualified</u>		
Internal control over financial reporting:			
▪ Material weakness (es) identified?	_____ yes	<u>  X  </u>	No
▪ Significant deficiency(s) identified that are not considered to be material weaknesses	_____ yes	<u>  X  </u>	none reported
Noncompliance material to financial statements noted?	_____ yes	<u>  X  </u>	No

*Federal Awards:*

Internal control over major programs:			
▪ Material weakness (es) identified?	_____ yes	<u>  X  </u>	No
▪ Significant deficiency(s) identified that are not considered to be material weaknesses	_____ yes	<u>  X  </u>	none reported

Type of auditor's report issued on compliance for major programs:	<u>Unqualified</u>
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Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	_____ yes	<u>  X  </u>	No
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Identification of major programs:

- 93.224 Health Care Cluster
- 93.918 OP Early Intervention Services with Respect to HIV

Dollar threshold used to distinguish between type A and type B programs:	\$ <u>  300,000  </u>
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Auditee qualified as low-risk auditee?	<u>  X  </u> yes	_____ No
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**GREATER PHILADELPHIA HEALTH ACTION, INC.**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended December 31, 2012**

**Section II - Financial Statement Findings**

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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

The results of our tests disclosed no instances of noncompliance with the requirements applicable to each major federal program that is required to be reported in accordance with section 510(a) of OMB Circular A-133.