

GREATER PHILADELPHIA HEALTH ACTION, INC.

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

**FOR THE YEARS ENDED
DECEMBER 31, 2014 AND 2013**

**GREATER PHILADELPHIA HEALTH ACTION, INC.
AUDITED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS AND SCHEDULE OF EXPENDITURES OF FEDERAL 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, 2014 and 2013, 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, 2014 and 2013, 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.

Emphasis of Matter

As discussed in Note 16 to the financial statements, the 2013 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of GPHA taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2015 on our consideration of GPHA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering GPHA's internal control over financial reporting and compliance.


Largo, Maryland
May 15, 2015

GREATER PHILADELPHIA HEALTH ACTION, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2014 and 2013

	2014	Restated 2013
ASSETS		
Current assets		
Cash (Note 2)	\$ 113,497	\$ 9,740
Grants receivable (Note 3)	329,296	169,488
Accounts receivable, net (Note 4)	10,205,427	10,680,663
Accounts receivable, capitation and referrals (Note 5)	3,359,276	2,552,836
Accounts receivable, other	940,000	792,536
Prepaid expenses	445,927	122,292
Pharmacy inventory	163,789	143,624
Total current assets	15,557,212	14,471,179
Property and equipment, net (Note 2 and Note 6)		
Land	91,891	91,891
Capital leases	529,220	529,220
Capitalized loan costs	485,831	485,831
Construction in progress	685,934	142,511
Medical practice purchase	949,631	949,631
Building and improvements	17,412,691	17,367,521
Furniture and equipment	3,934,013	3,728,451
Less accumulated depreciation & amortization	(13,487,480)	(12,246,573)
Total property and equipment, net	10,601,731	11,048,483
Other assets		
Deposits	14,606	14,606
Total assets	\$ 26,173,549	\$ 25,534,268
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,867,439	\$ 1,717,591
Accrued payroll and related expenses	2,803,363	2,571,204
Notes payable (Note 7)	2,656,273	3,075,852
Capital lease obligations	64,339	114,200
Bonds payable (Note 8)	765,000	430,000
Total current liabilities	8,156,414	7,908,847
Noncurrent liabilities		
Capital lease obligations	94,233	180,097
Interest rate swap liability (Note 9)	617,816	744,817
Notes payable (Note 7)	100,770	134,108
Bonds payable (Note 8)	6,685,000	7,020,000
Total liabilities	15,654,233	15,987,869
Net assets		
Unrestricted	10,494,866	9,546,399
Temporarily restricted	24,450	-
Total net assets	10,519,316	9,546,399
Total liabilities and net assets	\$ 26,173,549	\$ 25,534,268

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, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and support:			
Federal grants	\$ -	\$ 6,828,410	\$ 6,828,410
Patient services	28,927,409	-	28,927,409
Pharmacy income	3,662,959	-	3,662,959
EHR Incentive	115,500	-	115,500
Rental income	32,458	-	32,458
Other	154,356	-	154,356
Anniversary income		24,450	24,450
Daycare fees and support			
Grants and contracts	-	721,674	721,674
Fees	-	317,449	317,449
Net assets released from restrictions			
	<u>7,867,533</u>	<u>(7,867,533)</u>	<u>-</u>
Total revenue and support			
	<u>40,760,215</u>	<u>24,450</u>	<u>40,784,665</u>
Expenses:			
Program services			
Public Health Service	18,647,551	-	18,647,551
DHHS-HIV	663,351	-	663,351
Al-Assist	5,517,970	-	5,517,970
Daycare	1,461,089	-	1,461,089
Dental	<u>2,709,207</u>	<u>-</u>	<u>2,709,207</u>
	28,999,168	-	28,999,168
Management and general			
Total expenses before other expenses	<u>9,698,674</u>	<u>-</u>	<u>9,698,674</u>
	<u>38,697,842</u>	<u>-</u>	<u>38,697,842</u>
Change in net assets before other expenses	2,062,373	24,450	2,086,823
Depreciation	1,240,907	-	1,240,907
Other Change in Net Assets			
Unrealized gain on interest rate swap	<u>127,001</u>	<u>-</u>	<u>127,001</u>
Change in net assets	948,467	24,450	972,917
Net Assets, December 31, 2013, restated			
	<u>9,546,399</u>	<u>-</u>	<u>9,546,399</u>
Net Assets, December 31, 2014	<u>\$ 10,494,866</u>	<u>\$ 24,450</u>	<u>\$ 10,519,316</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, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Restated Total</u>
Revenue and support:			
Federal grants	\$ -	\$ 6,333,675	\$ 6,333,675
Grants and contracts	-	-	-
Patient services	25,763,842	-	25,763,842
EHR Incentive	450,500	-	450,500
Pharmacy income	2,974,601	-	2,974,601
Rental income	63,814	-	63,814
Interest income	479	-	479
Other	256,800	-	256,800
Daycare fees and support			
Grants and contracts	-	975,761	975,761
Fees	-	63,471	63,471
Net assets released from restrictions	<u>7,372,907</u>	<u>(7,372,907)</u>	<u>-</u>
Total revenue and support	<u>36,882,943</u>	<u>-</u>	<u>36,882,943</u>
Expenses:			
Program services			
Public Health Service	17,717,253	-	17,717,253
DHHS-HIV	552,792	-	552,792
AI-Assist	4,730,788	-	4,730,788
Daycare	1,388,001	-	1,388,001
Dental	<u>2,597,413</u>	<u>-</u>	<u>2,597,413</u>
	26,986,247	-	26,986,247
Management and general	<u>9,175,163</u>	<u>-</u>	<u>9,175,163</u>
Total expenses before other expenses	<u>36,161,410</u>	<u>-</u>	<u>36,161,410</u>
Change in net assets before other expenses	721,533	-	721,533
Loss on disposal of assets	318,564	-	318,564
Depreciation	1,280,753	-	1,280,753
Other Change in Net Assets			
Unrealized gain on interest rate swap	<u>333,239</u>	<u>-</u>	<u>333,239</u>
Change in net assets	(544,545)	-	(544,545)
Net Assets, December 31, 2012, restated	<u>10,090,944</u>	<u>-</u>	<u>10,090,944</u>
Net Assets, December 31, 2013, restated	<u>\$ 9,546,399</u>	<u>\$ -</u>	<u>\$ 9,546,399</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, 2014

	Program Services					Management & General	Total 2014	
	A	B	C	D	E	TOTAL		
Salaries and wages	\$ 8,871,512	\$ 494,295	\$ 3,264,611	\$ 901,351	\$ 1,827,944	\$ 15,359,713	\$ 4,289,107	\$ 19,648,820
Fringe benefits	1,596,400	119,771	578,085	190,497	315,357	2,800,110	884,212	3,684,322
Professional fees	25	-	2,925	-	-	2,950	128,114	131,064
Consultant & contractual	2,544,972	44,888	126,531	38,935	2,071	2,757,397	70,010	2,827,407
Temporary office services	459,577	-	276,984	385	33,133	770,079	206,709	976,788
Security & transportation	30,022	-	41,584	5,519	1,985	79,110	3,808	82,918
Translation services	117,852	-	34,649	-	185	152,686	-	152,686
Laboratory fees	500,090	-	11,290	-	8,945	520,325	-	520,325
Referral costs	60,000	-	-	-	-	60,000	-	60,000
Medical supplies	1,195,015	4,397	7,005	2,475	11,502	1,220,394	(1,643)	1,218,751
Dental supplies	160	-	-	-	257,387	257,547	-	257,547
Office supplies	96,874	-	25,165	67,100	10,573	199,712	212,937	412,649
Recruitment	-	-	-	-	-	-	10,982	10,982
Marketing expense	213	-	200	-	-	413	38,582	38,995
Insurance and bonding	-	-	-	17,193	-	17,193	604,612	621,805
Data processing	8,103	-	18,149	-	3,350	29,602	1,455,669	1,485,271
Space rental	453,035	-	196,807	94,080	59,400	803,322	-	803,322
Equipment rental/lease	43,317	-	2,047	2,347	6,865	54,576	492,168	546,744
Repair and maintenance	141,211	-	32,080	9,546	68,117	250,954	23,407	274,361
Cleaning	631,866	-	85,545	72,579	54,502	844,492	53,095	897,587
Utilities	278,926	-	71,043	28,513	18,619	397,101	57,395	454,496
Telephone	200,633	-	32,759	8,658	17,223	259,273	280,332	539,605
Travel, conferences/meetings	17,834	-	7,453	10,539	3,521	39,347	116,872	156,219
Taxes & licenses	20,297	-	9,919	2,060	2,216	34,492	20,163	54,655
Subscription & dues	8,876	-	220	2,800	4,656	16,552	51,904	68,456
Interest & bank charges	7,053	-	663	160	700	8,576	673,102	681,678
Noncapitalized equip/furniture	2,560	-	866	-	626	4,052	6,744	10,796
Bad debt expense	1,356,695	-	683,305	-	-	2,040,000	-	2,040,000
Miscellaneous	4,433	-	1,694	4,470	330	10,927	20,302	31,229
Anniversary	-	-	-	-	-	-	22	22
Event expense	-	-	6,391	1,882	-	8,273	69	8,342
Total	18,647,551	663,351	5,517,970	1,461,089	2,709,207	28,999,168	9,698,674	38,697,842
Management and general allocation	7,131,518	396,307	1,110,844	476,108	583,897	9,698,674	(9,698,674)	-
Total expenses before other expenses	25,779,069	1,059,658	6,628,814	1,937,197	3,293,104	38,697,842	-	38,697,842
Depreciation/amortization	631,763	-	180,511	12,489	131,654	956,417	284,490	1,240,907
Total	\$ 26,410,832	\$ 1,059,658	\$ 6,809,325	\$ 1,949,686	\$ 3,424,758	\$ 39,654,259	\$ 284,490	\$ 39,938,749

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.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2013

	Program Services					Management & General	Total 2013	
	A	B	C	D	E	TOTAL		
Salaries and wages	\$ 7,790,384	\$ 411,913	\$ 2,943,666	\$ 886,237	\$ 1,695,584	\$ 13,727,784	\$ 3,767,633	\$ 17,495,417
Fringe benefits	1,517,368	99,809	509,998	189,077	313,879	2,630,131	820,756	3,450,887
Professional fees	-	-	-	-	-	-	461,802	461,802
Consultant & contractual	2,617,328	37,406	9,233	32,250	9,610	2,705,827	27,531	2,733,358
Temporary office services	652,830	-	181,120	200	40,939	875,089	51,394	926,483
Security & transportation	20,682	-	42,250	3,319	1,279	67,530	3,895	71,425
Translation services	137,241	-	14,663	-	-	151,904	-	151,904
Laboratory fees	562,290	-	8,423	-	45,179	615,892	(56)	615,836
Referral costs	60,000	-	-	-	-	60,000	-	60,000
Medical supplies	960,044	3,664	7,932	3,917	12,593	988,150	6,499	994,649
Dental supplies	77	-	-	-	248,344	248,421	-	248,421
Office supplies	79,583	-	20,490	34,574	8,400	143,047	160,816	303,863
Recruitment	-	-	-	-	-	-	9,492	9,492
Marketing expense	2,268	-	-	-	1,156	3,424	33,109	36,533
Insurance and bonding	1,091	-	936	17,454	-	19,481	630,623	650,104
Data processing	30,334	-	17,044	3,005	6,022	56,405	1,339,910	1,396,315
Space rental	446,039	-	190,990	63,240	59,400	759,669	-	759,669
Equipment rental/lease	68,438	-	3,412	3,195	11,441	86,486	459,728	546,214
Repair and maintenance	119,399	-	30,708	14,040	43,279	207,426	33,898	241,324
Cleaning	623,498	-	97,896	80,853	53,298	855,545	58,122	913,667
Utilities	314,857	-	53,955	34,129	16,725	419,666	58,290	477,956
Telephone	156,170	-	25,051	11,370	19,317	211,908	335,829	547,737
Travel, conferences/meetings	12,706	-	10,945	8,487	2,535	34,673	127,138	161,811
Taxes & licenses	20,961	-	12,553	1,486	3,165	38,165	15,885	54,050
Subscription & dues	7,664	-	4,334	357	3,950	16,305	46,053	62,358
Interest & bank charges	9,408	-	3,385	401	1,073	14,267	708,099	722,366
Noncapitalized equip/furniture	3,765	-	-	-	-	3,765	9,070	12,835
Bad debt expense	1,500,891	-	540,265	-	-	2,041,156	-	2,041,156
Miscellaneous	1,937	-	1,539	410	245	4,131	9,647	13,778
Total	17,717,253	552,792	4,730,788	1,388,001	2,597,413	26,986,247	9,175,163	36,161,410
Management and general allocation	6,738,000	376,238	1,054,594	452,000	554,331	9,175,163	(9,175,163)	-
Total expenses before other expenses	24,455,253	929,030	5,785,382	1,840,001	3,151,744	36,161,410	-	36,161,410
Loss on disposal of assets	51,148	-	8,330	238,321	2,038	299,837	18,727	318,564
Depreciation/amortization	652,661	-	148,831	67,070	132,582	1,001,144	279,609	1,280,753
Total	\$ 25,159,062	\$ 929,030	\$ 5,942,543	\$ 2,145,392	\$ 3,286,364	\$ 37,462,391	\$ 298,336	\$ 37,760,727

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, 2014 AND 2013

	2014	Restated 2013
Cash flows from operating activities:		
Change in net assets	\$ 972,917	\$ (544,545)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,240,907	1,280,753
Loss on disposal of assets	-	318,564
Decrease (increase) in grants receivable	(159,808)	46,868
Decrease (increase) in accounts receivable	475,236	(598,747)
Decrease (increase) in accounts receivable, capitation and referrals	(806,440)	(617,618)
Decrease (increase) in accounts receivable, other	(147,464)	(36,715)
Decrease (increase) in prepaid expenses	(323,635)	37,174
Decrease (increase) in pharmacy inventory	(20,165)	(3,620)
Decrease (increase) in other assets	-	-
Decrease (increase) in book overdraft	-	-
Increase (decrease) in accounts payable and accrued liabilities	149,848	66,036
Increase (decrease) in accrued payroll and related expenses	232,159	194,255
Net cash provided by operating activities	1,613,555	142,405
Cash flows from investing activities:		
Proceeds on disposal of property and equipment	-	1,043,440
Purchase of property and equipment	(794,155)	(477,850)
Net cash (used in) by investing activities	(794,155)	565,590
Cash flows from financing activities:		
Increase (decrease) in notes payable	(452,917)	(85,419)
Increase(decrease) in capital lease obligation	(135,725)	130,403
Change in the fair value of interest rate swap	(127,001)	(333,239)
Increase (decrease) in bond payable	-	(410,000)
Net cash provided by (used in) financing activities	(715,643)	(698,255)
Net increase (decrease) in cash	103,757	9,740
Cash, beginning of the year	9,740	9,740
Cash, end of the year	\$ 113,497	\$ 9,740
Supplemental data:		
Interest paid	\$ 430,044	\$ 449,795

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

GREATER PHILADELPHIA HEALTH ACTION, INC.
Notes to Financial Statements
December 31, 2014 and 2013

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. The public health service program provided comprehensive health care to mostly the low income population. The HIV program provided health care services to patients with HIV.

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 a liability account. Cash overdrafts included in the line of credit account totaled \$41,697 as of December 31, 2013.

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 or donor restrictions have been met.

Revenue Recognition

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 drawdowns from DHHS grant awards are reported as grant income during the operating year of the grantee, based on a calendar year.

Contributions are considered available for unrestricted use unless specifically restricted by the donor. Support received with donor-imposed restrictions for either purpose or time is recorded as temporarily restricted revenue. When a restriction expires, that is, when a stipulated time restriction ends or a

GREATER PHILADELPHIA HEALTH ACTION, INC.
Notes to Financial Statements
December 31, 2014 and 2013

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

purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statement of activities as net assets released from restrictions.

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.

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.

Concentration of Credit Risk

At times during the year, the GPHA maintained cash balances at financial institutions in excess of the Federal Deposit Insurance Corporations (FDIC) insurance limitation of \$250,000.

GREATER PHILADELPHIA HEALTH ACTION, INC.

Notes to Financial Statements

December 31, 2014 and 2013

Note 3 *Grants Receivable*

GPHA receives funding from various sources to operate specified programs in accordance with designated regulations. Grant receivables at December 31, 2014 and 2013, represent non-reimbursed services provided. All grant receivables are considered fully collectible. A summary of grants receivable is as follows:

	<u>2014</u>	<u>2013</u>
Philadelphia School District	\$ 158,632	\$ 16,505
Child Care Information Services	170,664	152,983
	<u>\$ 329,296</u>	<u>\$ 169,488</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 management's judgment and is established based on a review of prior collection history. A summary of accounts receivable is presented below:

	<u>2014</u>	<u>2013</u>
Medicare	\$ 793,654	\$ 355,760
Medicaid	2,092	172,675
Commercial insurance	10,429,421	13,121,040
	<u>11,225,167</u>	<u>13,649,475</u>
Less: Allowance	<u>(1,019,740)</u>	<u>(2,968,812)</u>
Total	<u>\$ 10,205,427</u>	<u>\$ 10,680,663</u>

Note 5 *Accounts Receivable, Medicaid Wrap Around*

According to Section 4712(b) of the federal Balanced Budget Act of 1997 and the federal SCHIP Benefits Improvement and Protection Act (BIPA) of 2000 mandates that Department of Public Welfare(DPW) is required to make supplemental payments to Federally Qualified Health Centers (FQHC) equal to the difference, if any between the amounts paid to FQHC for eligible patients by managed care organizations (MCO) with which the clinic has a contractual relationship, and the amount that the FQHC would have received under the regular prospective payment system (PPS). For the years ended December 31, 2014 and 2013 the total balance in this account was \$3,359,276 and \$2,552,836, respectively.

GREATER PHILADELPHIA HEALTH ACTION, INC.
Notes to Financial Statements
December 31, 2014 and 2013

Note 6 *Property and Equipment*

Major categories of property and equipment are as follows:

	2014	2013
Land	\$ 91,891	\$ 91,891
Building and improvement	17,412,691	17,367,521
Furniture and equipment	3,934,013	3,728,451
Construction in progress	685,934	142,511
Capital leases	529,220	529,220
Capitalized loan costs	485,831	485,831
Medical practice purchases	949,631	949,631
Less: accumulated depreciation	<u>(13,487,480)</u>	<u>(12,246,573)</u>
Property and equipment, net	<u><u>\$10,601,731</u></u>	<u><u>\$11,048,483</u></u>

Depreciation and amortization expense was \$1,240,907 and \$1,280,753 for the years ended December 31, 2014 and 2013, respectively.

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 1st 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, 2014, the total principal balance was \$134,069. The future payments required on the note are as follows:

December 31, 2015	\$ 33,339
December 31, 2016	35,656
December 31, 2017	38,174
December 31, 2018	<u>26,900</u>
Total	<u><u>\$ 134,069</u></u>

A line of credit in the amount of \$5,000,000 was obtained effective July 24, 2014. 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 or an indicative rate of 3.25%. A loan fee of \$29,288 was charged in conjunction with obtaining the line of credit. Collateral requirement is first lien position on all business assets. GPHA has met all reporting requirements and covenants. As of December 31, 2014, the principal balance is \$2,622,934.

Current portion of term loan	\$ 33,339
Current portion of line of credit	<u>2,622,934</u>
Total current portions of notes payable	<u><u>\$ 2,656,273</u></u>

GREATER PHILADELPHIA HEALTH ACTION, INC.
Notes to Financial Statements
December 31, 2014 and 2013

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, which 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.

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. A portion of the interest rate has been fixed on the debt through an interest rate swap at 3.425%. See Note 9. As of December 31, 2014 and 2013, the principal balance of the Bond Series was \$7,450,000. Future payments required on the bond amortization are as follows:

December 31, 2015	\$ 765,000
December 31, 2016	340,000
December 31, 2017	355,000
December 31, 2018	375,000
December 31, 2019	385,000
Thereafter	<u>5,230,000</u>
Total	<u>\$ 7,450,000</u>

Note 9 *Interest Rate Swap*

GPHA has entered into an interest rate swap agreement in order to hedge the interest rate exposure. The swap agreement is as follows:

Agreement	Notional Amount	Start Date	Maturity Date	Fixed Rate	Floating Rate
Bank of America	\$7,450,000	8/21/2008	9/1/2018	3.425%	USD-USPSA-Bloomberg

GPHA expensed interest of \$252,360 and \$262,525 under the swap agreement for the years ended December 31, 2014 and 2013, respectively. Payments are made on a monthly basis. GPHA recorded a liability of \$617,816 and \$744,817 under the interest rate swap agreement for the years ended December 31, 2014 and 2013, respectively, on the accompanying statement of financial position. GPHA has recorded an unrealized gain on the swap agreement of \$127,001 and \$333,239 for the years ended December 31, 2014 and 2013, respectively, which is reflected in the accompanying statement of activities.

Note 10 *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, 2014 and 2013, pension expense was \$529,600 and \$510,592, respectively.

GREATER PHILADELPHIA HEALTH ACTION, INC.
Notes to Financial Statements
December 31, 2014 and 2013

Note 11 *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, 2014 through May 31, 2015 and the period of the HIV award is May 1, 2014 through April 30, 2015. The current operating year of GPHA is January 1, 2014 through December 31, 2014.

Note 12 *Capital Leases*

GPHA leases equipment under a several capital leases at a cost of \$529,220. The leases have various expirations ending in 2018. Accumulated depreciation reported in the accompanying statement of financial position included \$329,305 relating to the leased equipment.

Future minimum lease payments under the capital lease as of December 31, 2014 are as follows:

December 31, 2015	\$	64,339
December 31, 2016		57,610
December 31, 2017		49,235
December 31, 2018		<u>8,206</u>
Total minimum lease payments		179,390
Amount representing interest		<u>(20,818)</u>
Capital lease obligation		158,572
Less: Current portion		<u>(64,339)</u>
Capital Lease, net current portion	\$	<u><u>94,233</u></u>

Note 13 *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
2015	\$ 565,870	\$ 517,360	\$ 1,083,230
2016	574,436	100,880	675,316
2017	583,174	49,235	632,409
2018	<u>592,086</u>	<u>4,105</u>	<u>596,191</u>
	<u>\$ 2,315,566</u>	<u>\$ 671,580</u>	<u>\$ 2,987,146</u>

As of December 31, 2014 and 2013, space rental expense was \$803,322 and \$759,669, respectively.

GREATER PHILADELPHIA HEALTH ACTION, INC.
Notes to Financial Statements
December 31, 2014 and 2013

Note 14 *Temporarily Restricted Net Assets*

Temporarily restricted net assets consist of \$24,450 which is restricted for GPHA's anniversary.

Note 15 *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—Quoted prices are available in active markets for identical assets or liabilities that are accessible at the reporting date. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2—Inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means; quoted prices for identical or similar assets or liabilities in inactive markets; quoted prices for similar assets or liabilities in active markets;
- Level 3—Pricing inputs that are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment and estimation and which require significant judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. GPHA's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. GPHA's interest rate swap liability is classified as Level 3.

The table below set forth the summary of changes in the fair value of GPHA's Level 3 liabilities hedging instruments for the years ended December 31, 2014 and 2013.

	2014	2013
Balance –beginning of year	\$ (744,817)	\$ (1,078,056)
Total Unrealized gains/losses included in the change in net assets	127,001	333,239
Balance, end of year	\$ (617,816)	\$ (744,817)

GREATER PHILADELPHIA HEALTH ACTION, INC.
Notes to Financial Statements
December 31, 2014 and 2013

Note 16 *Restatement*

The balance in unrestricted net assets, at the beginning of 2014, has been restated from amounts previously reported to reflect the recording of the interest swap rate valuation. The recording increased the liabilities and increased the unrealized gain/loss.

Net Assets, 12/31 (as previously reported)	\$ 10,291,216
Adjustment	<u>(744,817)</u>
Restated as of 12/31/13	<u>\$ 9,546,399</u>

Note 17 *Subsequent Events*

In preparing the financial statements, GPHA has evaluated events and transactions for potential recognition or disclosure through May 15, 2015, the date the financial statements were available to be issued. GPHA is working to purchase another building and refinance bonds and renovate its headquarters.

Note 18 *Reclassification*

Certain reclassifications have been made to the 2013 financial statement balances to conform to the 2014 financial statement presentation.

GREATER PHILADELPHIA HEALTH ACTION, INC.
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2014

<u>Federal Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. Department of Health and Human Services			
Health Care Cluster	93.224		\$ 6,165,060
OP Early Intervention Svcs w/Respect to HIV Disease	93.918		<u>663,350</u>
Total Expenditures of Federal Awards			<u><u>\$ 6,828,410</u></u>

The accompanying note is an integral part of this schedule.

GREATER PHILADELPHIA HEALTH ACTION, INC.
Note to Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2014

Note 1 ***Basis of Presentation***

The accompanying schedule of expenditures of federal awards includes the federal 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, 2014, 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 15, 2015.

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.



**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, 2014. 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, 2014.

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.


Largo, Maryland
May 15, 2015

GREATER PHILADELPHIA HEALTH ACTION, INC.
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2014

Section I - Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

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

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

Identification of major programs:

93.224 Health Care Cluster

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	<u> </u> No
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GREATER PHILADELPHIA HEALTH ACTION, INC.
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2014

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.