

**PARTNERS IN CARE FOUNDATION, INC.
AND SUBSIDIARY**

**CONSOLIDATED FINANCIAL STATEMENTS,
SUPPLEMENTAL SCHEDULE,
and
ADDITIONAL INFORMATION**

JUNE 30, 2015

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Certified Public Accountants, LLP

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Partners In Care Foundation, Inc. and Subsidiary

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Partners In Care Foundation, Inc. (a nonprofit corporation) and Subsidiary, which comprise the Consolidated Statement of Financial Position as of June 30, 2015, and the related Consolidated Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Partners In Care Foundation, Inc. and Subsidiary as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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INDEPENDENT AUDITORS' REPORT

continued

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements of Partners In Care Foundation, Inc. and Subsidiary as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, "*Audit of States, Local Government, and Nonprofit Organizations*" is presented for the purpose of additional analysis. This supplemental information is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Summarized Comparative Information

We have previously audited Partners In Care Foundation, Inc. and Subsidiaries' 2014 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 23, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2015 on our consideration of Partners In Care Foundation, Inc. and Subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Partners In Care Foundation, Inc. and Subsidiary's internal control over financial reporting and compliance.

Harrington Group

Pasadena, California
October 20, 2015

PARTNERS IN CARE FOUNDATION, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2015

With comparative totals at June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2015</u>	Restated (Note 12) <u>2014</u>
Assets				
Cash and cash equivalents (Note 2)	\$ 1,629,867	\$ 239,949	\$ 1,869,816	\$ 846,578
Grants receivable	15,000		15,000	-
Contracts receivable net of allowance for doubtful accounts of \$250,000 and \$31,844 respectively	860,427		860,427	1,636,126
Accounts receivable	3,196,569		3,196,569	1,983,661
Prepaid expenses	101,485		101,485	21,676
Deposits	23,672		23,672	-
Investments (Note 3)		532,539	532,539	676,598
Charitable remainder unitrust (Note 4)		117,754	117,754	129,984
Property and equipment (Note 6)	578,151		578,151	557,492
Total assets	<u>6,405,171</u>	<u>890,242</u>	<u>7,295,413</u>	<u>5,852,115</u>
Liabilities and net assets				
Liabilities				
Accounts payable	\$ 268,396	\$ -	\$ 268,396	\$ 381,893
Accrued liabilities (Note 7)	779,302		779,302	828,966
Contract advances	242,228		242,228	85,152
Line of credit (Note 8)			-	-
Total liabilities	<u>1,289,926</u>	<u>-</u>	<u>1,289,926</u>	<u>1,296,011</u>
Net assets				
Unrestricted	5,115,245		5,115,245	2,947,921
Temporarily restricted (Note 10)		890,242	890,242	1,608,183
Total net assets	<u>5,115,245</u>	<u>890,242</u>	<u>6,005,487</u>	<u>4,556,104</u>
Total liabilities and net assets	<u>\$ 6,405,171</u>	<u>\$ 890,242</u>	<u>\$ 7,295,413</u>	<u>\$ 5,852,115</u>

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

PARTNERS IN CARE FOUNDATION, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES
 For the year ended June 30, 2015
 With comparative totals for the year ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2015</u>	<u>Restated (Note 12) 2014</u>
Revenue and support				
Direct service income	\$ 6,788,103	\$ -	\$ 6,788,103	\$ 3,855,873
Government contracts	5,092,331		5,092,331	5,286,802
Project contracts	1,983,725		1,983,725	1,966,695
Project income	1,026,942	34,932	1,061,874	1,749,136
Special events income	445,527		445,527	478,840
Contributions	41,473		41,473	149,993
Interest and dividends	31,258		31,258	13,711
Other revenues	19,024		19,024	36,462
(Loss) gain on investments	(51,104)		(51,104)	120,851
Change in the value of charitable remainder unitrust	(12,230)		(12,230)	9,554
Net assets released from purpose restrictions	752,873	(752,873)	-	-
Total revenue and support	<u>16,117,922</u>	<u>(717,941)</u>	<u>15,399,981</u>	<u>13,667,917</u>
Expenses				
Program services	11,620,636		11,620,636	10,487,878
Support services	2,329,962		2,329,962	1,719,027
Total expenses	<u>13,950,598</u>	<u>-</u>	<u>13,950,598</u>	<u>12,206,905</u>
Change in net assets	<u>2,167,324</u>	<u>(717,941)</u>	<u>1,449,383</u>	<u>1,461,012</u>
Net assets, beginning of year (Note 12)	<u>2,947,921</u>	<u>1,608,183</u>	<u>4,556,104</u>	<u>2,749,092</u>
Transfer of assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>346,000</u>
Net assets, end of year	<u>\$ 5,115,245</u>	<u>\$ 890,242</u>	<u>\$ 6,005,487</u>	<u>\$ 4,556,104</u>

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

PARTNERS IN CARE FOUNDATION, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2015

With comparative totals for the year ended June 30, 2014

	Program Services					
	Network Services	Long Term Support Services	Care Coordination	Health Self Management	Fiscal Intermediary	Total Program Services
Salaries, payroll taxes, and benefits	\$ 1,446,535	\$ 1,884,812	\$ 2,212,575	\$ 1,035,158	\$ 214,670	\$ 6,793,750
Contract labor	714,087	137,656	216,777	253,497	51,765	1,373,782
Program oversight	407,666	279,761	731,893	57,220	23,628	1,500,168
Bad debt expense (Note 13)		145,297				145,297
Purchased services	6,368	811,427	4,190	14,962	3,112	840,059
Travel and entertainment	143,407	39,533	68,861	23,801	19,479	295,081
Office supplies and expenses	75,189	73,254	45,356	18,269	18,942	231,010
Professional fees	43,309	4,202	9,551		465	57,527
Special events expense			1,483		11,309	12,792
Occupancy		103,037	16,256	5,892	21,804	146,989
Telephone and internet	15,566	25,105	27,698	9,737	4,049	82,155
Insurance	19,796	24,264	13,800		1,085	58,945
Contingency reserve						-
Dues, license, and subscriptions	19,505	25,997	5,067	8,254	350	59,173
Depreciation						-
Public relations and recruitment	5,263	2,283	8,543	3,432	1,728	21,249
Bank charges		1,430				1,430
Other expenses	139	106		984		1,229
Interest						-
Total 2015 functional expenses	\$ 2,896,830	\$ 3,558,164	\$ 3,362,050	\$ 1,431,206	\$ 372,386	\$ 11,620,636
Total 2014 functional expenses	\$ 2,142,428	\$ 3,930,659	\$ 2,296,554	\$ 1,082,356	\$ 1,035,881	\$ 10,487,878

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

PARTNERS IN CARE FOUNDATION, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2015

With comparative totals for the year ended June 30, 2014

continued

	Total Program Services	Support Services		Total Support Services	Total	
		Management and General	Development		2015	2014
Salaries, payroll taxes, and benefits	\$ 6,793,750	\$ 858,611	\$ 250,310	\$ 1,108,921	\$ 7,902,671	\$ 7,130,509
Contract labor	1,373,782	251,428	42,195	293,623	1,667,405	1,416,750
Program oversight	1,500,168			-	1,500,168	651,415
Bad debt expense (Note 13)	145,297	79,808		79,808	225,105	-
Purchased services	840,059	391	44	435	840,494	990,147
Travel and entertainment	295,081	80,221	3,204	83,425	378,506	424,965
Office supplies and expenses	231,010	40,451	9,823	50,274	281,284	304,777
Professional fees	57,527	137,035		137,035	194,562	341,360
Special events expense	12,792	3,804	158,224	162,028	174,820	189,704
Occupancy	146,989	25,852		25,852	172,841	268,701
Telephone and internet	82,155	42,934	700	43,634	125,789	60,105
Insurance	58,945	51,682		51,682	110,627	68,470
Contingency reserve	-	100,000		100,000	100,000	44,452
Dues, license, and subscriptions	59,173	31,628	7,723	39,351	98,524	98,796
Depreciation	-	88,234		88,234	88,234	80,690
Public relations and recruitment	21,249	37,911	2,911	40,822	62,071	38,214
Bank charges	1,430	14,024	4,036	18,060	19,490	21,428
Other expenses	1,229	6,778		6,778	8,007	62,702
Interest	-			-	-	13,720
Total 2015 functional expenses	\$ 11,620,636	\$ 1,850,792	\$ 479,170	\$ 2,329,962	\$ 13,950,598	
Total 2014 functional expenses	\$ 10,487,878	\$ 1,229,171	\$ 489,856	\$ 1,719,027		\$ 12,206,905

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

PARTNERS IN CARE FOUNDATION, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended June 30, 2015

With comparative totals for the year ended June 30, 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,449,383	\$ 1,461,012
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	88,234	80,690
Loss (gain) on investments	51,104	(120,851)
Reinvested dividends	(31,258)	(13,711)
Change in allowance for bad debts	218,156	2,985
Change in value of charitable remainder trust	12,230	(9,554)
Transfer of assets	-	346,000
Changes in operating assets and liabilities:		
Decrease in grants and contracts receivable	542,543	350,330
(Increase) in accounts receivable	(1,212,908)	(76,944)
(Increase) in prepaid expenses	(79,809)	(19,176)
(Increase) decrease in deposits	(23,672)	14,000
(Decrease) in accounts payable	(113,497)	(92,594)
(Decrease) increase in accrued liabilities	(49,664)	416,853
Increase (decrease) in deferred revenue	157,076	(750,651)
Net cash provided by operating activities	<u>1,007,918</u>	<u>1,588,389</u>
Cash flows from investing activities:		
Purchase of property and equipment	(108,893)	(65,180)
Purchase of investments	(59,880)	(58,589)
Proceeds from sale of investments	184,093	-
Net cash provided (used) by investing activities	<u>15,320</u>	<u>(123,769)</u>
Cash flows from financing activities:		
Borrowings from line of credit	-	547,000
Payments of line of credit	-	(1,397,000)
Principal payments on note payable	-	(62,470)
Net cash (used) by financing activities	<u>-</u>	<u>(912,470)</u>
Net increase in cash and cash equivalents	<u>1,023,238</u>	<u>552,150</u>
Cash and cash equivalents, beginning of year	<u>846,578</u>	<u>294,428</u>
Cash and cash equivalents, end of year	<u>\$ 1,869,816</u>	<u>\$ 846,578</u>
Supplemental disclosure:		
Operating activities reflects interest paid of:	<u>\$ -</u>	<u>\$ 13,720</u>

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

PARTNERS IN CARE FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

Partners In Care Foundation, Inc. and Subsidiary (“Partners”) has been in the business of bringing medicine, families, and community-based services together since its inception in 1997. Partners was founded to enhance healthcare by partnering with organizations, families and community leaders to better serve communities and improve quality of life. Its vision is to be both a think-tank and proving ground for shaping a new era of healthcare that integrates medical and social services for adults with chronic and disabling conditions. Partners develops, tests and disseminates high-impact, innovative models of home and community based care that bring efficient and effective health and social services to diverse people and communities. We are a state and national leader in disseminating evidence-based health-impacting self-management programs throughout care systems and community settings. In addition to developing collaborative networks that address comprehensive and continuous quality care to older adults, Partners is also at the forefront of reducing hospital readmissions and nursing home placement, a leadership effort that began long before the issue gained national prominence under the Affordable Care Act.

Partner’s model in-home and community-based programs and services have focused on improving chronic disease self-management, identifying dangerous medication errors, preventing falls, averting costly hospitalizations and readmissions, and preventing premature nursing home placement for diverse low income populations across the southland. These programs yield high-impact health results, meeting the widely recognized Institute for Healthcare Improvement’s Triple Aim model of better population health, better patient experience, and reduced per-capita cost. Partners was awarded a 2-year National Committee for Quality Assurance (NCQA) accreditation—the second Community Based Organization in the country to have received this prestigious honor.

Partners has the following programs:

Partners at Home Network: Partners at Home is the culmination of years of effort to build a network of community-based organizations with the expertise, local knowledge, and cultural sensitivity to deliver services that enable people to live in the community, streamlining access to these services for health plans and physician groups.

Partners at Home provides:

- A single point of access to a large spectrum of services, scalable for regional and state coverage
- Coordination of resources (medication management, home services, meal delivery, etc.) provided at a competitive price
- Continuity of services provided by culturally diverse providers with local expertise to engage patients in their own outcomes
- Quality-accredited provider of a full-continuum of patient centered services

HomeMedsSM and HomeMeds Plus: Data shows that 40-50% of elders using home or community-based care are using medications inappropriately, leading to a range of preventable issues including falls, 911 calls, ER visits, and hospitalization. HomeMedsSM utilizes a computerized risk assessment and alert process. A pharmacist reviews medications to identify problems and follows through with the patient, their family, and the prescriber. Now being implemented across 45 sites in 18 states, the US Administration for Community Living has awarded HomeMedsSM with its Highest Evidence Level rating, and chose it for its rigorously screened.

continued

PARTNERS IN CARE FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **Organization**, continued

Aging and Disability Evidence-Based Programs and Practices. HomeMeds Plus adds psychosocial, functional needs and safety assessments to the evaluation. Performed by highly skilled health coaches competent in cultural and linguistic diversity, adept at patient engagement and knowledgeable about community resources, these evaluations are carried out in the home to create an individualized service plan.

Community-Based Adult Services Assessments (CBAS): Partners is the largest provider of eligibility evaluations in California, serving four major managed care plans and more than 200 CBAS centers throughout the state. Our team of multi-lingual and culturally competent registered nurses is highly-experienced in undertaking “face-to-face” screening evaluations via the CBAS Eligibility Determination Tool, either at a CBAS center or at member’s home. *Partners* has achieved 100% compliance in state managed care plan audits since July 2013.

Community-Based Care Transitions Program (CCTP): Partnering with hospitals and medical providers, this program helps individuals develop self-care skills, tracks medications, identifies the red flags pointing to worsening conditions, and connects patients and their caregivers with community resources. Partners’ longstanding work in the provision of evidence-based, in-home support services and strong relationships with regional hospitals and physician networks resulted in the Centers for Medicare and Medicaid Services (CMS) awarding *Partners* one of only 72 CCTP grants nationally. Additionally, *Partners’* CCTP provision in Kern County has resulted in CMS designating it a ‘best practice’ site.

Multipurpose Senior Services (MSSP): This program empowers the elderly to live independently in the community for as long as possible, thus delaying or avoiding entirely the need for nursing home placement. Trained coaches visit the person at home to conduct a health and psychosocial assessment, enabling them to determine the best range of services for each individual’s needs. Services may include home delivered meals, transportation, chore and personal assistance, emergency response system, home safety modifications, medical equipment, protective supervision, counseling, and caregiver respite.

Chronic Disease Self-Management Education: Partners offers the Stanford University developed and licensed Chronic Disease, Diabetes, and Chronic Pain Self-Management Programs. Each workshop is six weeks long, and guides participants through peer led sessions to develop skills and learn new tools to help them manage their conditions on a daily basis. Topics covered include healthy eating, symptom and medications management, physical activity, and communicating with medical providers. The overall Chronic Disease Self-Management Program is a cross-cutting program for any chronic condition, such as high blood pressure, arthritis, diabetes, and heart disease, while the others have specific focus for individuals with diabetes or chronic pain. Participants who attend workshops are better able to manage symptoms, exercise more, are better able to communicate with physicians, and have better self-reported health and improved energy. They typically also spend fewer days in the hospital or have fewer outpatient visits and hospitalizations. The workshop is also available in Spanish as **Tomando Control de su Salud**.

PARTNERS IN CARE FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **Organization**, continued

Evidence-Based Leadership Council (EBLC): EBLC is a collaboration among twelve national partner organizations, offering 19 highly recognized evidence-based, health promotion programs delivered via a network of more than 2,000 community-based organizations. Programs include: Healthy IDEAS - designed to detect and reduce the severity of depressive symptoms in older adults with chronic conditions; Fit and Strong! – an eight-week physical activity and behavior change program for older adults with mobility and balance challenges; and A Matter of Balance – a program designed to reduce the fear of falling and increase activity levels among older adults.

Geriatric Social Work Education Consortium (GSWEC): As one of ten Centers of Excellence, Partners is a founding partner in the collaboration of universities and agencies facilitating the GSWEC program - the nation's first integrated network to improve social work education and field training among those working in older adult services and care.

In-Home Palliative Care: Developed with Kaiser, and a standard of care in many areas of their system, the In-Home Palliative Care model is based on the premise that patients are empowered when they understand their treatment and actively participate in care decisions. This interdisciplinary program provides home visits by physicians, nurses, social workers, and other healthcare professionals to patients with an estimated life expectancy of one year. The program has resulted in significant increases in quality of life indicators, and a 30% reduction in costs associated with the last year of life. Partners offers consultancy services to assist healthcare providers in the planning of palliative care programs.

2. **Summary of Significant Accounting Policies**

A summary of the significant accounting policies applied in the preparation of the accompanying consolidated financial statements is as follows:

Basis of Presentation

Accounting

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of Partners are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

Unrestricted. These generally result from revenue generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

continued

PARTNERS IN CARE FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Temporarily Restricted. Partners reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from program or capital restrictions.

Permanently Restricted. These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit Partners to expend all of the income (or other economic benefits) derived from the donated assets. Partners did not have any permanently restricted assets at June 30, 2015.

Principles of Consolidation

The consolidated financial statements include the accounts of Partners In Care Foundation, Inc., and California Health Innovation Center, Inc. (“CHIC”). CHIC, a for-profit corporation, became subsidiary of Partners effective October 2010. All material inter-organization transactions have been eliminated. The two organizations are collectively referred to as “Partners” in these consolidated financial statements.

Cash and Cash Equivalents

Partners has defined cash and cash equivalents as cash in banks and all liquid investments purchased with a maturity date of three months or less.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Partners provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on an assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written-off through a charge to the valuation allowance and a credit to accounts receivable.

Partners established an allowance for doubtful accounts based on historical loss experience and management’s evaluation of collectability. The allowance for doubtful accounts at June 30, 2015 was \$250,000.

PARTNERS IN CARE FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Investments

Partners values its investments at fair value. Realized and unrealized gains or losses (including investments bought, sold, and held during the period) are reflected in the Consolidated Statement of Activities as gain or loss on investments. Short-term highly liquid money market deposits that are not used for operations are treated as investments.

Property and Equipment

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than or equal to one thousand dollar and the useful life is greater than one year.

Fair Value Measurements

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

Level 1 inputs - quoted prices in active markets for identical assets

Level 2 inputs - quoted prices in active or inactive markets for the same or similar assets

Level 3 inputs - estimates using the best information available when there is little or no market

Partners is required to measure investments and charitable remainder unitrusts at fair value. The specific techniques used to measure fair value for the consolidated financial statement elements are described in the notes below that relate to each element.

Concentration of Credit Risks

Partners places its temporary cash investments with high-credit, quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit. Partners has not incurred losses related to these investments.

The accounts and grants receivable balance outstanding at June 30, 2015 consists primarily of government contract receivables due from county, state, and federal granting agencies, and receivables from reputable private foundations. Concentration of credit risks with respect to these receivables are limited, as the majority of Partners' receivables consist of earned fees from contract programs granted by governmental agencies and grants awarded for the performance of services.

PARTNERS IN CARE FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Partners holds investments in the form of short-term money market investments and common stocks of publicly-held companies. The Board of Directors routinely reviews market values of such investments.

Approximately 31% of revenue generated by Partners at June 30, 2015 was derived from government contracts. In addition, for the year ended June 30, 2015, revenue from the Multipurpose Senior Services Program contracts represents 20% of total revenue and support.

Income Taxes

Partners is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by Partners in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. Partners' returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

CHIC, a for-profit subsidiary, accounts for income taxes in accordance with generally accepted accounting principles. These principles require an asset and liability approach to the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements or tax returns. Under this method deferred tax liabilities and assets are determined based on the difference between the consolidated financial statements carrying amounts and the tax basis of assets and liabilities using enacted laws and rates currently in effect. For the year ended June 30, 2015, CHIC has not recorded any tax liability or asset in its consolidated financial statements in the belief that these amounts would be immaterial.

Functional Allocation of Expenses

Costs of providing Partners' programs and other activities have been presented in the Consolidated Statement of Functional Expenses. During the period, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. Partners allocates indirect costs based on ratios determined by management.

PARTNERS IN CARE FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented. Actual results could differ from those estimates.

Comparative Totals

The consolidated financial statements include certain prior-year 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 Partners' consolidated financial statements for the year ended June 30, 2014, from which the summarized information was derived.

Reclassifications

Certain amounts from the June 30, 2014 consolidated financial statements have been reclassified for comparative purposes to conform to June 30, 2015 presentation.

Subsequent Events

Management has evaluated subsequent events through October 20, 2015, the date which the consolidated financial statements were available. No events have come to our attention that would require any adjustments to the financial statements.

3. Investments

Investments at June 30, 2015 consist of the following:

Mutual funds	<u>\$532,539</u>
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continued

PARTNERS IN CARE FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Charitable Remainder Unitrust

In 1995, a donor established an irrevocable charitable remainder unitrust with a local bank naming Partners as the sole beneficiary. Under the terms of the trust agreement, the donor will receive distributions equal to 9% of the fair market value of the trust for the donor's lifetime. At the end of the trust's term, the remaining assets are available for Partners' use. The value of the benefits expected to be received by Partners at June 30, 2015 was estimated to be \$117,754.

5. Fair Value Measurements

The table below presents the balances of assets measured at fair value at June 30, 2015 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Equity funds				
Large blend	\$176,996	\$ -	\$ -	\$176,996
Mid cap growth	123,021			123,021
Small blend	<u>127,403</u>	_____	_____	<u>127,403</u>
	427,420			427,420
Bond funds				
High yield bond	<u>105,119</u>	_____	_____	<u>105,119</u>
	532,539			532,539
Money market	<u>157,051</u>	_____	_____	<u>157,051</u>
	689,590			689,590
Charitable remainder unitrust				
	<u>689,590</u>	<u>\$ -</u>	<u>117,754</u>	<u>117,754</u>
	<u>\$689,590</u>	<u>\$ -</u>	<u>\$117,754</u>	<u>\$807,344</u>

The fair value of mutual funds have been measured on a recurring basis using quoted process for identical assets in active markets (Level 1 inputs).

The fair value of charitable remainder unitrust has been measured on a recurring basis by calculating the change in the value of Partners' beneficial interest in the trust (Level 3 inputs).

The following is a reconciliation of the Level 3 assets as of June 30, 2015:

Fair value at July 1, 2014	<u>Total</u>
Change in value of beneficial interest	\$129,984
Fair value at June 30, 2015	<u>(12,230)</u>
	<u>\$117,754</u>

continued

PARTNERS IN CARE FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Property and Equipment

Property and equipment at June 30, 2015 consist of the following:

Leasehold improvements	\$ 707,104
Furniture and equipment	562,877
Computers and software	315,160
Vehicles	<u>92,878</u>
	1,678,019
Less: accumulated depreciation	<u>(1,099,868)</u>
	<u>\$ 578,151</u>

Depreciation expense for the year ended June 30, 2015 was \$88,234.

7. Accrued Liabilities

Accrued liabilities at June 30, 2015 consist of the following:

Accrued payroll	\$348,045
Accrued expenses	262,272
Accrued vacation	<u>168,985</u>
	<u>\$779,302</u>

8. Line of Credit

Partners has a revolving line of credit, with a bank, in the amount of \$1,350,000. The line of credit bears interest at the bank's reference rate of 3.25% at June 30, 2015. The line of credit matures in November 2015. There is no balance due as of June 30, 2015.

continued

PARTNERS IN CARE FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Commitments and Contingencies

Obligations Under Operating Leases

Partners leases various facilities and equipment under operating leases with various terms. Future minimum payments, by year and in the aggregate, under these leases with initial or remaining terms of one year or more, consist of the following:

<u>Year ended June 30,</u>	
2016	\$143,001
2017	143,001
2018	117,001
2019	111,801
2020	111,801
Thereafter	<u>281,775</u>
	<u>\$908,380</u>

Rent expense under operating leases for the year ended June 30, 2015 was \$217,985.

Contracts

Partners' grants and contracts are subject to inspection and audit by the appropriate governmental funding agency. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously-funded program costs. The ultimate liability, if any, which may result from these governmental audits cannot be reasonably estimated and, accordingly, Partners have no provision for the possible disallowance of program costs on its consolidated financial statements.

10. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2015 consist of the following:

Partners caregiver support	\$486,427
Care coordination	197,979
Network services	155,889
Health self-management	<u>49,947</u>
	<u>\$890,242</u>

For year ended June 30, 2015, net assets released from purpose restrictions were \$752,873.

continued

PARTNERS IN CARE FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Employee Profit Sharing Plan

Partners has adopted a 401(k) plan for eligible employees. Employees of Partners become eligible participants in the plan upon reaching 21 years of age and completing a minimum of 90 days of employment. Eligible participants may contribute from 1% to 90% of their eligible compensation to the plan, the total amount to be contributed however is limited to the maximum as determined by the Internal Revenue Service for each year.

Partners' contributions to the plan are categorized as Safe Harbor, and are equal to 100% of the first 4% of eligible pay contributed by the participant to the plan on a pay period basis. The participant becomes immediately vested 100% in the matching contributions. Partners contributed \$107,104 in the current fiscal year and \$91,700 in the prior fiscal year.

12. Restatement

Unrestricted net assets as of June 30, 2014 have been restated to record \$784,149 in temporary net assets which was incorrectly reported as unrestricted net assets in prior period. The comparative totals for June 30, 2014 presented in the financial statements have been restated to reflect the corrected balances as follows:

	As previously Reported	As Adjusted	As Restated
<u>Statement of Financial Position:</u>			
Unrestricted net assets, beginning June 30, 2014	\$3,732,071	(\$784,149)	\$2,947,922
Temporary restricted net assets, beginning June 30, 2014	\$824,034	\$784,149	\$1,608,183

13. Bad Debt Expense

During the fiscal year June 30, 2015, as part of a reconciliation process, management determined to write off certain receivables that were considered to be uncollectible. Total amount recorded as bad debt expense was \$225,102.

SUPPLEMENTAL SCHEDULE

PARTNERS IN CARE FOUNDATION, INC. AND SUBSIDIARY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2015

<u>Program Name</u>	<u>Grant Number</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
Federal Awards			
Agency/Program Grant Title			
U.S. Department of Health and Human Services ("DHHS"):			
Pass-through, State of California - Department of Aging			
Medical Assistance Program (a)	MS-1213-40		\$ 349,155
Medical Assistance Program (a)	MS-1213-43		343,380
Medical Assistance Program (a)	MS-1213-51		947,186
		93.778	<u>1,639,721</u>
California Department of Aging			
Chronic Disease Self-Management Education	CT-1213-11	93.734	<u>467,967</u>
Pass-through, City of Los Angeles - Department of Aging:			
Special programs for the Aging - Title III - Part D			
Disease Prevention and Health Promotion Services	C-119597	93.043	<u>227,228</u>
Pass-through, City of Los Angeles - Department of Aging:			
National Family Caregiver Support - Title III - Part E	C-119597	93.052	<u>92,548</u>
Pass-through, County of Los Angeles:			
Family Planning Services - Black Infant Health (a)	700340	93.217	<u>299,907</u>
Total DHHS			<u>2,727,371</u>
U.S. Department of Housing and Urban Development ("HUD"):			
Pass-through, City of Los Angeles - Department of Aging:			
Evidence Based Program CDBG Funds/CDBO Funds/City General Funds:			
West Adams and Technical Assistance (07/2014 through 03/15)	C-122428		80,300
West Adams and Technical Assistance (04/2015 through 06/2015)			12,522
Southwestern Service Area (07/2014 through 03/2015)	C-122428		64,574
Southwestern Service Area (04/2015 through 06/2015)			10,176
		14.218	<u>167,572</u>
Total HUD			<u>167,572</u>
Corporation for National and Community Service ("CNCS"):			
AmeriCorps Planning Grant (a)	12NDHCA002	94.006	<u>406,185</u>
Total CNCS			<u>406,185</u>
Total Federal Awards			<u>\$ 3,301,128</u>

(a) Audited as a major program.

Summary of Significant Accounting Policies

1. Basis of Accounting - The Schedule of Expenditures of Federal Awards has been reported on the accrual basis of accounting.
2. Partners is exempt from income taxation under Internal Revenue Code Section 501(c)(3) and California Revenue Taxation Code Section 23701d.
3. Non-Federal Matching Share:
The City of Los Angeles - Department of Aging requires Partners to have a non-federal match on certain contracts.
Partners for the year ended June 30, 2014 matched with grants from non-federal resources the following contracts:

	<u>Contract #</u>	<u>CFDA #</u>	<u>Match</u>
Special programs for the Aging - Title III - Part D	C-119597	93.043	\$ 24,995
National Family Caregiver Support - Title III - Part E	C-119597	93.052	13,574
Evidence Based Program - West Adams (07/2014-03/2015)	C-121761	14.218	8,741
Evidence Based Program - West Adams (04/2015-06/2015)		14.218	666
Evidence Based Program - Southwestern (07/2014-03/2015)	C-121761	14.218	6,944
Evidence Based Program - Southwestern (04/2015-06/2015)		14.218	666
AmeriCorps Strength to Serve (9/2014-06/2015)	12NDHCA002	94.006	97,484
			<u>\$ 153,070</u>

See independent auditors' report.

ADDITIONAL INFORMATION



Certified Public Accountants, LLP

**Independent Auditors' 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
Partners In Care Foundation, Inc. and Subsidiary

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 consolidated financial statements of Partners In Care Foundation, Inc. and Subsidiary ("Partners"), which comprise the Statement of Financial Position as of June 30, 2015, and the related Statements of Activities, 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 October 20, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Partners' 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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Partners' internal control. Accordingly, we do not express an opinion on the effectiveness of Partners' 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 consolidated 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 Partners' consolidated 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 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 Partners' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Harrington Group

Pasadena, California
October 20, 2015

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**Independent Auditors' Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by OMB Circular A-133**

To the Board of Directors
Partners In Care Foundation, Inc. and Subsidiary

Report on Compliance for Each Major Federal Program

We have audited Partners In Care Foundation, Inc. and Subsidiary ("Partners") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Partners' major federal programs for the year ended June 30, 2015. Partners' major federal programs are identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Partners' 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 Partners' 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 Partners' compliance.

Opinion on Each Major Federal Program

In our opinion, Partners 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 June 30, 2015.

**Independent Auditors' Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by OMB Circular A-133**
continued

Report on Internal Control Over Compliance

Management of Partners 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 Partners' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Partners' internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Harrington Group

Pasadena, California
October 20, 2015

PARTNERS IN CARE FOUNDATION, INC. AND SUBSIDIARY
Schedule of Findings and Questioned Costs
For the year ended June 30, 2015

Section I – Summary of Auditors’ Results

Consolidated financial statements

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiencies identified? None reported

Noncompliance material to consolidated financial statements noted? No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiencies identified? None reported

Type of auditors’ report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? No

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes

Identification of Major Programs:

U.S. Department of Health and Human Services:

Medical Assistance Program 93.778

Family Planning Services - Black Infant Health 93.217

Corporation for National and Community Service:

AmeriCorps Planning Grant 94.006

Section II – Financial Statements Findings

There are no findings required to be reported in accordance with *Generally Accepted Government Auditing Standards*.

Section III – Federal Award Findings and Questioned Costs

There are neither findings nor questioned costs for Federal awards as defined in OMB Circular A-133.

Section IV – Summary Schedule of Prior Year Findings

None.