

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

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

JUNE 30, 2014

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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, 2014, 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 auditors consider 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, 2014, 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' 2013 consolidated financial statements, and our report dated October 18, 2013 expressed an unmodified opinion on those consolidated financial statements. In our opinion the summarized comparative information presented herein as of and for the year ended June 30, 2013, 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 23, 2014 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 23, 2014

PARTNERS IN CARE FOUNDATION, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2014

With comparative totals at June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2014</u>	<u>Restated 2013</u>
Assets				
Cash and cash equivalents (Note 2)	\$ 829,126	\$ 17,452	\$ 846,578	\$ 294,428
Grants receivable			-	207,736
Contracts receivable	1,667,970		1,667,970	1,810,564
Accounts receivable net of allowance for doubtful accounts of \$31,844	1,951,817		1,951,817	1,877,858
Prepaid expenses	21,676		21,676	2,500
Deposits			-	14,000
Investments (Note 3)		676,598	676,598	483,447
Charitable remainder unitrust (Note 4)		129,984	129,984	120,430
Property and equipment (Note 6)	557,492		557,492	573,002
	<u>5,028,081</u>	<u>824,034</u>	<u>5,852,115</u>	<u>5,383,965</u>
Total assets				
Liabilities and net assets				
Liabilities				
Accounts payable	\$ 381,893	\$ -	\$ 381,893	\$ 474,487
Accrued liabilities (Note 7)	828,966		828,966	412,113
Contract advances	85,152		85,152	835,803
Line of credit (Note 8)			-	850,000
Note payable			-	62,470
	<u>1,296,011</u>	<u>-</u>	<u>1,296,011</u>	<u>2,634,873</u>
Total liabilities				
Net assets				
Unrestricted	3,732,070		3,732,070	2,263,957
Temporarily restricted (Note 10)		824,034	824,034	485,135
	<u>3,732,070</u>	<u>824,034</u>	<u>4,556,104</u>	<u>2,749,092</u>
Total net assets				
Total liabilities and net assets	<u>\$ 5,028,081</u>	<u>\$ 824,034</u>	<u>\$ 5,852,115</u>	<u>\$ 5,383,965</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, 2014
 With comparative totals for the year ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2014</u>	<u>Restated 2013</u>
Revenue and support				
Government contracts	\$ 4,479,782	\$ -	\$ 4,479,782	\$ 4,919,096
Contributions	620,587	1,228,086	1,848,673	1,072,060
Project contracts	799,612		799,612	765,100
Direct service income	5,937,588		5,937,588	2,142,005
Special events income	421,684		421,684	477,559
Other revenues	36,462		36,462	1,793
Interest and dividends	13,711		13,711	14,384
Gain on investments	120,851		120,851	36,040
Change in the value of charitable remainder unitrust	9,554		9,554	22,406
Net assets released from program restrictions	889,187	(889,187)	-	-
Total revenue	<u>13,329,018</u>	<u>338,899</u>	<u>13,667,917</u>	<u>9,450,443</u>
Expenses				
Program services	10,487,878		10,487,878	8,117,130
Support services	1,719,027		1,719,027	1,328,062
Total expenses	<u>12,206,905</u>	<u>-</u>	<u>12,206,905</u>	<u>9,445,192</u>
Change in net assets	<u>1,122,113</u>	<u>338,899</u>	<u>1,461,012</u>	<u>5,251</u>
Net assets, beginning of year	<u>2,263,957</u>	<u>485,135</u>	<u>2,749,092</u>	<u>2,743,841</u>
Transfer of assets (Note 14)	<u>346,000</u>	<u>-</u>	<u>346,000</u>	<u>-</u>
Net assets, end of year	<u><u>\$ 3,732,070</u></u>	<u><u>\$ 824,034</u></u>	<u><u>\$ 4,556,104</u></u>	<u><u>\$ 2,749,092</u></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, 2014

With comparative totals for the year ended June 30, 2013

	Program Services									Total Program Services
	Research	Multipurpose Senior Services Program	City AAA	Family Care Network	Fiscal Management	Meds Management	CMS Care Transitions	Contract Services	CBAS	
Salaries, payroll taxes, and benefits	\$ 588,493	\$ 1,815,922	\$ 268,242	\$ 39,081	\$ 755,269	\$ 596,153	\$ 1,347,655	\$ 694,839	\$ 299,723	\$ 6,405,377
Contract labor	240,164	84,235	4,516		17,818	350,499	410,941	127,446	27,569	1,263,188
Purchased services	3,403	891,490	18,766		25,422	865	1,722	619	43,442	985,729
Program oversight	83,621	272,389	25,417	1,058	65,145	31,696		135,003	37,086	651,415
Travel and entertainment	134,382	25,269	9,573		44,450	13,489	52,739	42,976	8,273	331,151
Professional fees	2,571	5,650			2,254	525	46,950		58,704	116,654
Office supplies and expenses	15,282	66,810	14,640	511	30,540	21,628	37,062	33,272	25,577	245,322
Occupancy		115,014	3,836		62,576	1,842	1,732		72,838	257,838
Special events expense	1,400		153		14,986	40	106	124	1,022	17,831
Dues, license, and subscriptions	11,185	5,364	179		2,306	20,701	17,094	2,625	5,627	65,081
Depreciation										-
Insurance		29,405			1,085		4,694	4,570		39,754
Other expenses	897	59	4,036			1,440	405			6,837
Telephone and internet	7,206	33,404	2,382		6,637	144	17,816	5,397	4,246	77,232
Contingency reserve										-
Public relations and recruitment	5,979	464	625	374	7,393	2,310	5,273	974	205	23,597
Bank charges								872		872
Interest										-
Bad Debt Expense										-
In-Kind Expense										-
Total 2014 functional expenses	\$ 1,094,583	\$ 3,345,475	\$ 352,365	\$ 41,024	\$ 1,035,881	\$ 1,041,332	\$ 1,944,189	\$ 1,047,845	\$ 585,184	\$ 10,487,878
Total 2013 functional expenses	\$ 595,394	\$ 3,501,501	\$ 229,625	\$ 125,086	\$ 1,005,588	\$ 721,209	\$ 300,569	\$ 1,638,158	\$ -	\$ 8,117,130

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, 2014

With comparative totals for the year ended June 30, 2013

continued

	Total Program Services	Support Services		Total Support Services	Total	
		Management and General	Development		2014	2013
Salaries, payroll taxes, and benefits	\$ 6,405,377	\$ 453,484	\$ 271,648	\$ 725,132	\$ 7,130,509	\$ 5,674,475
Contract labor	1,263,188	133,826	19,736	153,562	1,416,750	536,278
Purchased services	985,729	4,305	113	4,418	990,147	1,089,993
Program oversight	651,415			-	651,415	626,626
Travel and entertainment	331,151	80,173	13,641	93,814	424,965	262,855
Professional fees	116,654	224,706		224,706	341,360	105,106
Office supplies and expenses	245,322	48,876	10,579	59,455	304,777	306,714
Occupancy	257,838	10,863		10,863	268,701	268,176
Special events	17,831	6,410	165,463	171,873	189,704	172,801
Dues, license, and subscriptions	65,081	28,882	4,833	33,715	98,796	57,085
Depreciation		80,690		80,690	80,690	72,296
Insurance	39,754	28,716		28,716	68,470	74,876
Other expenses	6,837	55,865		55,865	62,702	45,123
Telephone and internet	77,232	(18,410)	1,283	(17,127)	60,105	78,344
1% Contingency		44,452		44,452	44,452	-
Public relations and recruitment	23,597	13,997	620	14,617	38,214	23,232
Bank charges	872	18,616	1,940	20,556	21,428	20,991
Interest				13,720	13,720	11,330
Bad debt expense				-	-	18,391
In-kind expense				-	-	500
Total 2014 functional expenses	\$ 10,487,878	\$ 1,229,171	\$ 489,856	\$ 1,719,027	\$ 12,206,905	
Total 2013 functional expenses	\$ 8,117,130	\$ 916,051	\$ 412,011	\$ 1,328,062		\$ 9,445,192

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, 2014

With comparative totals for the year ended June 30, 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,461,012	\$ 5,251
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	80,690	72,296
(Gain) on investments	(120,851)	(36,040)
Reinvested dividends	(13,711)	(14,384)
Change in allowance for bad debts	2,985	(18,391)
Change in value of charitable remainder trust	(9,554)	(22,406)
Transfer of assets (Note 14)	346,000	-
Changes in operating assets and liabilities:		
Decrease (increase) in grants and contracts receivable	350,330	(856,036)
(Increase) in accounts receivable	(76,944)	(1,053,991)
(Increase) in prepaid expenses	(19,176)	(2,000)
Decrease (increase) in deposits	14,000	(2,400)
(Decrease) increase in accounts payable	(92,594)	198,939
Increase in accrued liabilities	416,853	74,883
(Decrease) increase in deferred revenue	(750,651)	593,915
Net cash provided (used) by operating activities	<u>1,588,389</u>	<u>(1,060,364)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(65,180)	(16,497)
Purchase of investments	(58,589)	(17,572)
Net cash (used) by investing activities	<u>(123,769)</u>	<u>(34,069)</u>
Cash flows from financing activities:		
Borrowings from line of credit	547,000	1,800,000
Payments of line of credit	(1,397,000)	(1,150,000)
Principal payments on note payable	(62,470)	(58,858)
Net cash (used) provided by financing activities	<u>(912,470)</u>	<u>591,142</u>
Net increase (decrease) in cash and cash equivalents	552,150	(503,291)
Cash and cash equivalents, beginning of year	<u>294,428</u>	<u>797,719</u>
Cash and cash equivalents, end of year	<u>\$ 846,578</u>	<u>\$ 294,428</u>
Supplemental disclosure:		
Operating activities reflects interest paid of:	<u>\$ 21,428</u>	<u>\$ 20,991</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”) is a private, nonprofit corporation, located in San Fernando, California. It assists healthcare providers and community-based organizations to create, implement, and evaluate ways of delivering care. Partners serves as a catalyst to help shape a new vision of care by partnering with organizations, families, and community leaders. Partners focuses on several areas of interest including Aging Well, Children and Families at Risk, Access to Care, End-of-Life Care and Education/Advocacy.

The goal of Partners is to develop key partnerships with health care agencies and community organizations to create new programs and care models that will serve to bridge gaps in the current health care system and increase access to health care. These goals are served through innovative research projects, charitable funds and direct service programs. Through research, demonstration projects and technical assistance, Partners assists organizations to improve the delivery of home and community-based services to meet the needs of the chronically ill.

Partners has the following programs:

Research: Partners is the leading agency for many research, consulting, and evaluation projects. These projects are funded by private and federal entities. They provide expertise and capabilities in facilitating design, development, financial support, and evaluation of health and social services projects through the Institute for Change. All of the projects through the Institute for Change Program are in collaboration with community-based organizations, private and public funding sources, and national associations.

Multipurpose Senior Services Program: Multipurpose Senior Services Program was created to avoid inappropriate placement of frail older persons in nursing facilities, as well as to foster independent living in their own communities for those individual who may be safely discharged from nursing facilities or those persons whose frail condition has resulted in their being certified or certifiable for placement in a nursing facility.

CMS Care Transitions: Through partnerships with hospitals and medical providers care transition coaches work with patients and their caregivers before and after discharge, with the goal to minimize the risk of readmission. They visit the patient in the hospital and follow up with in-home and phone contacts to help build skills for self-care, ensure medication safety, connect with community and home care resources, and identify the red flags of a worsening condition and appropriate actions to take.

City AAA: The City AAA program administers monthly disease prevention and health promotion services to 16 Multipurpose Senior Centers and many congregate meal sites throughout the city. The program provides free health screenings (glucose, vision, hearing, memory loss, gait and balance, and many others), counseling, education, and referrals to senior citizens who reside in the city. In addition, field practicum and internship opportunities are afforded to medical residents, advanced nursing, pharmacy, social work, and gerontology students from local universities.

continued

PARTNERS IN CARE FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **Organization**, continued

Family Care Network: The Family Care Network is a unique partnership between health care providers and service agencies that have come together to improve access to needed services. The primary focus of the Family Care Network is to maintain individual and family structure while maximizing independence when faced with life threatening situations or catastrophic life events. Partners identifies and refers individuals meeting these criterias for funding through Partners. Emphasis is placed on services, equipment, supplies and other resources that are most likely to prevent family breakdown, “avoid” premature institutionalization, improve an individual’s quality of life, health or mental health status, or prevent functional degeneration. The secondary focus is to develop and staff collaborative to enhance access to care for the uninsured and underinsured.

Adult Day Health Care Program: The Adult Day Health Care Program assisted the frail, elderly, and other physically or mentally impaired adults. The program provided for medically related needs of participants as well as non-medical guidance and assistance in sustaining daily living activities. The business segment was transferred to another nonprofit during the year (see Note 14).

Fiscal Agent Services: Partners is the lead fiscal agent on many community-based projects. Partners provides project and fiscal management, staffing and meets all reporting requirements to funders for collaborative community groups that are seeking to improve health care within their communities.

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.

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, 2014.

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, 2014 was \$31,844.

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, 2014 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 33% of revenue generated by Partners at June 30, 2014 was derived from government contracts. In addition, for the year ended June 30, 2014, revenue from the Multipurpose Senior Services Program contracts represents 37% of total revenue and support.

Donated Materials and Services

Contributions of donated non-cash assets are measured on a non-recurring basis and recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are also measured on a non-recurring basis and recorded at fair value in the period received. Partners did not receive donations of materials or services that satisfy the criteria of recognition.

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 fiscal year end June 30, 2014, CHIC has not recorded any tax liability or asset in its consolidated financial statements in the belief that these amounts would be immaterial.

PARTNERS IN CARE FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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.

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, 2013, from which the summarized information was derived.

Reclassifications

Certain amounts from the June 30, 2013 consolidated financial statements have been reclassified for comparative purposes to conform to June 30, 2014 presentation.

Subsequent Events

Management has evaluated subsequent events through October 23, 2014, the date which the consolidated financial statements were available.

3. Investments

Investments at June 30, 2014 consist of the following:

Equities	\$667,624
Money market funds	<u>8,974</u>
	<u>\$676,598</u>

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, 2014 was estimated to be \$129,984.

5. Fair Value Measurements

The table below presents the balances of assets measured at fair value at June 30, 2014 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	\$346,349	\$ -	\$ -	\$346,349
Mid cap growth	136,475			136,475
Small blend	119,204			119,204
Money market	<u>8,974</u>			<u>8,974</u>
	<u>\$611,002</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$611,002</u>
Bond funds				
High yield bond	<u>65,596</u>			<u>65,596</u>
	<u>\$676,598</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$676,598</u>
Charitable remainder unitrust				
	<u>-</u>	<u>-</u>	<u>129,984</u>	<u>129,984</u>
	<u>\$676,598</u>	<u>\$ -</u>	<u>\$129,984</u>	<u>\$806,582</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, 2014:

Fair value at July 1, 2013	<u>Total</u>
Change in value of beneficial interest	<u>\$120,430</u>
Fair value at June 30, 2014	<u>9,554</u>
	<u>\$129,984</u>

continued

PARTNERS IN CARE FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Property and Equipment

Property and equipment at June 30, 2014 consist of the following:

Leasehold improvements	\$ 707,104
Furniture and equipment	556,971
Computers and software	212,174
Vehicles	<u>92,878</u>
	1,569,127
Less: accumulated depreciation	<u>(1,011,635)</u>
	<u>\$ 557,492</u>

Depreciation expense for the year ended June 30, 2014 was \$80,690.

7. Accrued Liabilities

Accrued liabilities at June 30, 2014 consist of the following:

Accrued payroll	\$273,341
Professional services	243,744
Accrued vacation	183,779
Other accruals	66,875
Deferred Income	37,834
Rent	<u>23,393</u>
	<u>\$828,966</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, 2014. The line of credit matures in January 2015. There is no balance due as of June 30, 2014.

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>	
2015	\$ 128,533
2016	117,409
2017	117,409
2018	91,409
2019	86,209
Thereafter	<u>668,123</u>
	<u>\$1,209,092</u>

Rent expense under operating leases for the year ended June 30, 2014 was \$308,466.

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, 2014 consist of the following:

Research	\$247,332
Direct services	211,081
Health prevention	160,213
Evidence based	120,789
Government contracts	<u>84,619</u>
	<u>\$824,034</u>

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. Related Party Transactions

During the fiscal year ended June 30, 2014, Partners paid certain expenses on behalf of CHIC, a subsidiary, in the amount of \$1,464.

During 1997, Partners adopted a deferred compensation plan for certain officers. Under the terms of this plan, a participant must elect the amount of salary to be deferred for each plan year. Each plan year, Partners decided whether it would match a portion or all of the deferrals of the active participants for the plan year. In addition, effective March 2009, the Chief Executive Officer position was converted to a non-employee contracted position.

In May 2005, The Chief Executive Officer, elected to withdraw from the plan and was eligible to receive the funded portion of the plan. However, Partners had not fully funded the plan for the Chief Executive Officer and did not have sufficient financial resources to pay the amounts owed to the CEO for her deferred compensation balance. This resulted in a deferred payment arrangement being established. This liability to the Chief Executive Officer was paid as specified below.

Exclusively related to the unpaid deferred compensation plan detailed above, in August 2009, Partners signed a promissory note in the amount of \$282,389 to a corporation owned by the Chief Executive Officer. The note was intended to reflect Partner's obligation to pay the amount owed to the Chief Executive Officer. The period from May 2005 – August 2009 there were no payments made to the Chief Executive Officer towards her funded portion of the plan.

The terms of the note included quarterly payments of \$16,207, including interest at 6%, due in full in June 2014.

At June 30, 2014, the balance on the above note was fully paid. Total payments were \$62,470 for the fiscal period July 1, - June 30, 2014. There were no other related party transactions between Partners and this corporation.

PARTNERS IN CARE FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Reclassifications

Contracts receivable, contract advances, unrestricted net assets and temporarily restricted net assets have been restated to correct certain misclassifications incurred in previous years. The reclassifications detailed in this footnote directly impacted the Consolidated Statement of Financial Position for the period but had no direct impact on the Consolidated Statement of Activity for the period.

The comparative totals for June 30, 2014 presented in these financial statements have been restated to reflect the correct balances as follows:

	As previously <u>Reported</u>	As <u>Adjusted</u>	As <u>Restated</u>
<u>Statement of Financial Position:</u>			
Contracts receivable	\$5,015,385	(\$3,137,821)	\$1,810,564
Total assets	8,588,786	(3,137,821)	5,383,965
Contract advances	(4,040,624)	3,137,821	(835,803)
Total liabilities	(5,839,694)	3,137,821	(2,634,873)
Unrestricted net assets	1,466,571	797,386	2,263,957
Temporarily restricted net assets	1,282,521	(797,386)	485,135
<u>Statement of Activities:</u>			
Unrestricted net assets	\$1,466,571	\$797,386	\$2,263,957
Temporarily restricted net assets	1,282,521	(797,386)	485,135

14. Transfer of Assets

On March 2014, Partners transferred its Santa Clarita Adult Day Program to another nonprofit organization that is not affiliated with Partners. Under the terms of the agreement, the receiving corporation acquired the assets and assumed the liabilities of the Santa Clarita Adult Day Program. A consideration of \$360,000 was given to Partners as part of the program ownership transfer. Total proceeds to Partners after direct expenses related to the transfer was \$346,000.

SUPPLEMENTAL SCHEDULE

PARTNERS IN CARE FOUNDATION, INC. AND SUBSIDIARY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2014

	<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		\$ 353,513
Medical Assistance Program (a)	MS-1213-43		356,036
Medical Assistance Program (a)	MS-1213-51		963,196
		93.778	<u>1,672,745</u>
Center for Medicare and Medicaid Services			
Adult Day Health Center (a)		93.778	<u>292,592</u>
California Department of Aging			
Chronic Disease Self-Management Education	CT-1213-11	93.734	<u>531,737</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>225,340</u>
Pass-through, City of Los Angeles - Department of Aging:			
National Family Caregiver Support - Title III - Part E	C-119597	93.052	<u>88,336</u>
Pass-through, County of Los Angeles:			
Family Planning Services - Black Infant Health	700340	93.217	<u>303,898</u>
Total DHHS			<u>3,114,648</u>
U.S. Department of Agriculture (USDA)			
Adult Day Care Food Service Program		10.558	<u>21,022</u>
Total USDA			<u>21,022</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 Southwestern Aging Service Area (07/2013 through 03/14)	C-122428		58,255
West Adams and Southwestern Aging Service Area (04/2014 through 06/2014)			10,426
Southwestern Service Area (07/2013 through 03/2014)	C-122428		60,647
Southwestern Service Area (04/2014 through 06/2014)			10,425
		14.218	<u>139,753</u>
Total HUD			<u>139,753</u>
Corporation for National and Community Service ("CNCS"):			
AmeriCorps Planning Grant	12NDHCA002	94.006	<u>162,858</u>
Total CNCS			<u>162,858</u>
Total Federal Awards			<u>\$ 3,438,281</u>

(a) Audited as a major program

Summary of Significant Accounting Policies

- Basis of Accounting - The Schedule of Expenditures of Federal Awards has been reported on the accrual basis of accounting.
- Partners is exempt from income taxation under Internal Revenue Code Section 501(c)(3) and California Revenue Taxation Code Section 23701d.
- 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	\$ 25,245
National Family Caregiver Support - Title III - Part E	C-119597	93.052	13,288
Evidence Based Program - West Adams (07/2013-03/2014)	C-121761	14.218	13,908
Evidence Based Program - West Adams (04/2014-06/2014)		14.218	2,622
Evidence Based Program - Southwestern (07/2013-03/2014)	C-121761	14.218	6,666
Evidence Based Program - Southwestern (04/2014-06/2014)		14.218	2,083
AmeriCorps Strength to Serve (9/2013-06/2014)	12NDHCA002	94.006	69,994
			<u>\$ 133,806</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, 2014, 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 23, 2014.

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 23, 2014

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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, 2014. 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, 2014.

**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 23, 2014

PARTNERS IN CARE FOUNDATION, INC. AND SUBSIDIARY
Schedule of Findings and Questioned Costs
For the year ended June 30, 2014

Section I – Summary of Auditors’ Results

Consolidated financial statements

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? None reported

Significant deficiency(ies) identified that are not considered to be material weaknesses? None reported

Noncompliance material to consolidated financial statements noted? None reported

Federal Awards

Internal control over major programs:

Material weakness(es) identified? None reported

Significant deficiency(ies) identified that are not considered to be material weaknesses? 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? None reported

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:

Pass-through, State of California, Department of Aging: 93.778

Medical Assistance Program

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.