

**PATIENT ASSISTANCE
FOUNDATION**

(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

YEARS ENDED DECEMBER 31, 2007 AND 2006

PATIENT ASSISTANCE FOUNDATION
(A California Nonprofit Public Benefit Corporation)
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2007 AND 2006

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JAMES M. KRAFT
S. SCOTT SEAMANDS
MARK O. BRITTAIN
ALEXIS H. WONG
CHARLOTTE SIEW-KUN TAY

CATHY L. HWANG
RITA B. DELA CRUZ
STANLEY WOO

Board of Directors
Patient Assistance Foundation
San Francisco, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statement of financial position of Patient Assistance Foundation, a California nonprofit public benefit corporation, as of December 31, 2007, and the related statement of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Patient Assistance Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of Patient Assistance Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Patient Assistance Foundation as of December 31, 2007, and the change in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The 2006 financial statements were compiled by us, and our report thereon, dated August 21, 2007, stated we did not audit or review those financial statements and, accordingly, expressed no opinion or other form of assurance on them. However, we did become aware of a departure from generally accepted accounting principles in that contributions receivable in future years representing promises to give are to be recorded at the discounted net present value of those contributions receivable. As disclosed in Note 8 to the financial statements, Patient Assistance Foundation has restated its 2006 financial statements to reflect contributions receivable in future years at the discounted net present value, in conformity with generally accepted accounting principles. Accordingly, our report on the 2006 financial statements would no longer be modified because of that departure.

September 8, 2008

PATIENT ASSISTANCE FOUNDATION
(A California Nonprofit Public Benefit Corporation)
STATEMENTS OF FINANCIAL POSITION
YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007 <i>(Audited)</i>	2006 <i>(Unaudited)</i>
ASSETS		
Current assets:		
Cash	\$ 203,999	\$ 102,883
Accounts receivable	54,600	8,677
Contributions receivable – current portion	523,730	500,000
Prepaid expenses	11,734	-
Total current assets	794,063	611,560
Contributions receivable – net of current portion (Note 3)	3,290,359	3,375,557
Equipment – net	780	1,404
Deposits	6,214	6,714
Investments (Note 4)	277,098	268,063
Total assets	\$ 4,368,514	\$ 4,263,298
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 17,482	\$ 21,666
Total liabilities	17,482	21,666
Net assets		
Temporarily restricted net assets (Note 5)	3,800,359	3,875,557
Unrestricted net assets	550,673	366,075
Total net assets	4,351,032	4,241,632
Total liabilities and net assets	\$ 4,368,514	\$ 4,263,298

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

PATIENT ASSISTANCE FOUNDATION
(A California Nonprofit Public Benefit Corporation)
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2007 AND 2006

	<i>2007 (Audited)</i>			<i>2006 (Unaudited)</i>		
	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Total</i>	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Total</i>
Support and Revenue:						
CPMC contribution – discount amortization (Note 3)	\$ 414,802	\$ -	\$ 414,802	\$ 423,407	\$ -	\$ 423,407
Program revenue	187,205	-	187,205	108,970	-	108,970
Grants and contributions	124,831	10,000	134,831	114,178	60,000	174,178
Donations – individuals	54,936	-	54,936	36,664	-	36,664
Interest and other revenue	26,968	-	26,968	3,859	-	3,859
Realized and unrealized investment gain (loss), net	(2,944)	-	(2,944)	35,508	-	35,508
Net assets released from restrictions	85,198	(85,198)	-	242,853	(242,853)	-
Total support and revenue	890,996	(75,198)	815,798	965,439	(182,853)	782,586
Expenses:						
Program services	591,374	-	591,374	836,841	-	836,841
Management and general	53,982	-	53,982	118,350	-	118,350
Fundraising	61,042	-	61,042	28,265	-	28,265
Total expenses	706,398	-	706,398	983,456	-	983,456
Change in net assets	184,598	(75,198)	109,400	(18,017)	(182,853)	(200,870)
Net assets, beginning of year (as restated – Note 8)	366,075	3,875,557	4,241,632	384,092	4,058,410	4,442,502
Net assets, end of year	\$ 550,673	\$ 3,800,359	\$ 4,351,032	\$ 366,075	\$ 3,875,557	\$ 4,241,632

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

PATIENT ASSISTANCE FOUNDATION
 (A California Nonprofit Public Benefit Corporation)
 STATEMENTS OF FUNCTIONAL EXPENSES
 YEARS ENDED DECEMBER 31, 2007 AND 2006

	<i>2007 (Audited)</i>				<i>2006 (Unaudited)</i>			
	<i>Program Services</i>	<i>Management and General</i>	<i>Fundraising</i>	<i>Total</i>	<i>Program Services</i>	<i>Management and General</i>	<i>Fundraising</i>	<i>Total</i>
Salaries	\$ 255,719	\$ 21,987	\$ 26,396	\$ 304,101	\$ 491,600	\$ 58,762	\$ 16,360	\$ 566,722
Occupancy	114,203	9,819	11,788	135,810	115,920	14,827	4,044	134,791
Program costs	72,079	6,197	7,440	85,716	65,842	1,342	37	67,221
Employee benefits	28,586	2,458	2,951	33,995	63,607	7,917	2,159	73,683
Payroll taxes	28,834	2,479	2,976	34,289	50,606	6,290	1,715	58,611
Administrative expense	21,870	1,880	2,258	26,008	15,474	14,669	2,771	32,914
Insurance expense	10,937	940	1,129	13,006	9,933	3,270	347	13,550
Professional & consulting fees	59,146	5,085	6,104	70,335	23,859	5,006	832	29,697
Depreciation	-	624	-	624	-	468	-	468
Other expense	-	2,512	-	2,512	-	5,799	-	5,799
Total expenses	\$ 591,374	\$ 53,982	\$ 61,042	\$ 706,398	\$ 836,841	\$ 118,350	\$ 28,265	\$ 983,456

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

PATIENT ASSISTANCE FOUNDATION
(A California Nonprofit Public Benefit Corporation)
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007 (Audited)	2006 (Unaudited)
Cash flows from operating activities:		
Change in net assets	\$ 109,400	\$ (200,870)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	624	468
Realized and unrealized (gain) loss on investments, net	2,944	(35,508)
(Increase) decrease in assets:		
Accounts receivable	(45,923)	(8,677)
Contributions receivable	61,468	76,593
Deposit	500	(500)
Contributions receivable – net of current portion (Note 3)	(11,734)	-
Increase (decrease) in liabilities:		
Accounts payable	(4,184)	16,724
Net cash provided by (used in) operating activities	113,095	(151,770)
 Cash flows from investing activities:		
Net (increase) decrease in investments	(11,979)	155,395
Purchase of equipment	-	(1,872)
Net cash provided by (used in) investing activities	(11,979)	153,523
 Net increase in cash	101,116	1,753
 Cash, beginning of year	102,883	101,130
 Cash, end of year	\$ 203,999	\$ 102,883

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

PATIENT ASSISTANCE FOUNDATION
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2007 AND 2006

NOTE 1 – ORGANIZATION

Patient Assistance Foundation (the Organization) is a nonprofit corporation incorporated in August 1984 and is supported by contributions. The purpose of the Organization is to provide health education, nutrition consultation and other supportive counseling services to individuals and families within the community and/or patients who receive care at the California Pacific Medical Center (CPMC).

The Organization operates the Community Health Resource Center.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Accounting Method

The financial statements are prepared on the accrual basis of accounting, which recognizes income in the period earned and expenses when incurred.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Basis of Presentation

The Organization reports information regarding its financial position and activities according to up to three classes of net assets, as applicable: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Revenue Recognition

Contributions are recognized as revenue when they are unconditionally communicated. Grants represent contributions if resource providers receive no value in exchange for the assets transferred. Contributions are recorded at their fair value as unrestricted support, temporarily restricted support, or permanently restricted support, depending on the absence or existence of donor-imposed restrictions as applicable. When a restriction expires (that is when a stipulated time restriction ends or purpose 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 restrictions. If a donor's restrictions are satisfied in the same period that the contribution is received, the contribution is reported as unrestricted support.

Contributed services are stated at their estimated fair value, if they are ordinarily purchased and are of a specialized nature.

Contributions receivable

Unconditional promises to give that are expected to be collected in future years are recorded at the discounted net present value. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promise is received. Amortization of the discounts is included in contribution revenue.

PATIENT ASSISTANCE FOUNDATION
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Cash

Cash is defined as cash in demand deposit accounts as well as cash on hand. Patient Assistance Foundation occasionally maintains cash on deposit at a bank in excess of the Federal Deposit Insurance Corporation limit. The uninsured cash balance, was approximately \$132,000 as of December 31, 2007. Patient Assistance Foundation has not experienced any losses in such accounts and believes that it is not exposed to any significant cash credit risk.

Accounts Receivable

Management elects to record bad debts using the direct write off method. Accounting principles generally accepted in the United States of America require that the allowance method be used to reflect bad debts. However, the effect of the use of the direct write off method is not materially different from the result that would have been obtained had the allowance method been followed.

Equipment

Equipment is stated at cost less depreciation. Depreciation is computed using the straight-line method over an estimated useful life of five years for office equipment.

Investments

Investments are stated at fair value.

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and the related California code sections. In addition, contributions to the Organization qualify for the charitable contribution deduction and the Organization is classified as an organization other than a private foundation under Section 509(a).

Functional Expenses Allocation

The costs of providing program services and supporting services are summarized on a functional basis in the statements of activities and statements of functional expenses. Accordingly, certain costs are allocated among program services and supporting services based on estimates of employees' time incurred and on usage of resources.

Reclassification

Certain amounts previously reported in the 2006 financial statements were reclassified to conform to the 2007 presentation for comparative purposes.

NOTE 3 – CONCENTRATION OF CONTRIBUTIONS AND CONTRIBUTIONS RECEIVABLE

The Organization receives \$500,000 annually under a grant from the CPMC dated September 6, 1985, which provides for funding through February 13, 2023. The risk-free rate of return in 1985 was 10.79% which is the discount rate used to calculate the net present value of this contribution.

This donor generally represents over one-half of the Organization's total support and revenue.

PATIENT ASSISTANCE FOUNDATION
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Long-term contributions receivable at December 31, 2007 and 2006 are summarized as follows:

	2007	2006
Contribution receivable for future years	\$ 8,000,000	\$ 8,500,000
Discount to reflect contributions receivable at present value	(4,209,641)	(4,624,443)
Net contribution receivable	\$ 3,790,359	\$ 3,875,557

Amortization of the net present value discount for 2007 and 2006 was \$414,802 and \$423,407, respectively.

NOTE 4 – INVESTMENTS

Investments at Charles Schwab and Co, Inc. at December 31, 2007 and 2006 are summarized as follows:

	2007		2006	
	<i>Fair market value</i>	<i>Cost</i>	<i>Fair market value</i>	<i>Cost</i>
Mutual funds	\$ 277,098	\$ 246,764	\$ 268,063	\$ 229,681
Total investments	\$ 277,098	\$ 246,764	\$ 268,063	\$ 229,681

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

The temporarily restricted net assets are for the following purposes:

	2007			
	<i>December 31, 2006</i>	<i>Contributions</i>	<i>Released from Restrictions</i>	<i>December 31, 2007</i>
General support	\$ 3,875,557	\$ -	\$ (85,198)	\$ 3,790,359
Designated program	-	10,000	-	10,000
	\$ 3,875,557	\$ 10,000	\$ (85,198)	\$ 3,890,359

	2006			
	<i>December 31, 2005</i>	<i>Contributions</i>	<i>Released from Restrictions</i>	<i>December 31, 2006</i>
General support	\$ 4,058,410	\$ 60,000	\$ (242,853)	\$ 3,875,557

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NOTE 6 – LEASE

The Organization leased its premises in a medical office building owned by CPMC. The lease commenced January 2006 and will expire in December 2008. The monthly base rent is \$7,645 plus allocated expenses of approximately \$3,280. The future aggregate minimum lease payments required under the lease at December 31, 2007 follow:

2008	\$	131,498
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NOTE 7 – RETIREMENT PLAN

The Organization has a 403(b) tax deferred annuity plan available to eligible employees who have completed one year of service. Employee contributions are subject to IRS limitations. The Organization contributes \$1 for every \$3 contributed by each participant. The Organization's contributions were \$3,740 and \$21,720 in 2007 and 2006, respectively.

NOTE 8 – PRIOR PERIOD ADJUSTMENT

Net assets of the Organization have been restated to conform with generally accepted accounting principles, which require contributions receivable in future years representing promises to give to be recorded at the discounted net present value of those contributions receivable. The effect of conformity with the generally accepted accounting principles is to record contributions receivable in future years at the discounted net present value, with the following impact on net assets as of December 31, 2005:

Net assets as previously reported	\$	484,138
Rent deposit previously expensed		6,214
Contributions revenue – temporarily restricted		<u>3,952,150</u>
Net assets as restated	\$	<u>4,442,502</u>