PATIENT ASSISTANCE FOUNDATION

(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

YEARS ENDED DECEMBER 31, 2009 AND 2008

Tentative & Preliminary
For Discussion Purposes Only

PATIENT ASSISTANCE FOUNDATION

(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

TABLE OF CONTENTS

* * * *

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, 2009, 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, 2009, and the changes 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 2008 financial statements were reviewed by us, and our report thereon, dated July 17, 2009, stated that we were not aware of any material modifications that should be made to those statements for them to be in conformity with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements taken as a whole.

TENTATIVE & PRELIMINARY
For Discussion Purposes Only

_____________, 2010

PATIENT ASSISTANCE FOUNDATION

(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF FINANCIAL POSITION

YEARS ENDED DECEMBER 31, 2009 AND 2008

ASSETS

	2009 (Audited)	*2008 (Unaudited)*
Current assets:		
Cash	$ 354,528	$ 285,052
Accounts receivable	996	46,680
Contributions receivable – current portion	500,000	515,000
Prepaid expenses	8,463	14,877
Total current assets	863,987	861,609
Contributions receivable – net of current portion (Note 3)	3,090,172	3,195,589
Charitable gift annuity receivable (Note 8)	57,570	-
Equipment – net	-	156
Deposits	6,214	6,214
Investments (Note 4)	356,879	277,029
Total assets	$ 4,374,822	$ 4,340,597

LIABILITIES AND NET ASSETS

	2009 (Audited)	*2008 (Unaudited)*
Current liabilities:		
Accounts payable and accrued expenses	$ 29,013	$ 18,431
Total liabilities	29,013	18,431
Net assets:		
Unrestricted net assets		
Designated by the Board for endowment purposes (Note 8)	57,570	-
Undesignated	698,067	505,497
Unrestricted net assets	755,637	505,497
Temporarily restricted net assets (Note 5)	3,590,172	3,816,669
Total net assets	4,345,809	4,322,166
Total liabilities and net assets	$ 4,374,822	$ 4,340,597

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, 2009 AND 2008

	2009 (Audited)			*2008 (Unaudited)*		
	Unrestricted	*Temporarily Restricted*	*Total*	*Unrestricted*	*Temporarily Restricted*	*Total*
Support and Revenue:						
CPMC contribution – discount amortization (Note 3)	$ 394,583	$ -	$ 394,583	$ 405,230	$ -	$ 405,230
Program revenue	85,836	-	85,836	180,884	-	180,884
Grants and contributions	18,150	29,430	47,580	5,000	171,644	176,644
Charitable gift annuity, including investment earnings of $10,283 (Note 8)	57,570		57,570	-	-	-
Donations – individuals	67,807	-	67,807	55,435	-	55,435
Rental, interest and other revenue	40,006	-	40,006	44,138	-	44,138
Realized and unrealized investment gain (loss), net	75,512	-	75,512	(115,666)	-	(115,666)
Net assets released from restrictions	255,927	(255,927)	-	155,334	(155,334)	-
Total support and revenue	995,391	(226,497)	768,894	730,355	16,310	746,665
Expenses:						
Program services	577,596	-	577,596	607,058	-	607,058
Management and general	94,369	-	94,369	96,207	-	96,207
Fundraising	73,286	-	73,286	72,266	-	72,266
Total expenses	745,251	-	745,251	775,531	-	775,531
Change in net assets	250,140	(226,497)	23,643	(45,176)	16,310	(28,866)
Net assets, beginning of year	505,497	3,816,669	4,322,166	550,673	3,800,359	4,351,032
Net assets, end of year	$ 755,637	$ 3,590,172	$ 4,345,809	$ 505,497	$ 3,816,669	$ 4,322,166

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, 2009 AND 2008

	2009 (Audited)				*2008 (Unaudited)*			
	Program Services	*Management and General*	*Fundraising*	*Total*	*Program Services*	*Management and General*	*Fundraising*	*Total*
Salaries	$ 279,188	$ 24,140	$ 39,946	$ 343,274	$ 285,380	$ 18,412	$ 37,163	$ 340,955
Occupancy	127,831	7,032	11,649	146,512	127,163	5,681	11,552	144,396
Program costs	71,691	1,539	438	73,668	71,613	558	286	72,457
Employee benefits	45,909	4,062	6,448	56,419	50,600	3,411	6,868	60,879
Payroll taxes	27,038	2,313	3,741	33,092	27,382	1,757	3,706	32,845
Administrative expense	13,859	1,006	2,651	17,516	10,790	92	1,243	12,125
Insurance expense	8,999	2,716	712	12,427	8,287	2,175	768	11,230
Professional & consulting fees	2,143	50,898	7,547	60,588	22,810	63,038	9,719	95,567
Depreciation	-	156	-	156	-	624	-	624
Other expense	938	507	154	1,599	3,033	459	961	4,453
Total expenses	$ 577,596	$ 94,369	$ 73,286	$ 745,251	$ 607,058	$ 96,207	$ 72,266	$ 775,531

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, 2009 AND 2008

	2009 (Audited)	*2008 (Unaudited)*
Cash flows from operating activities:		
Change in net assets	$ 23,643	$ (28,866)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	156	624
Unrealized (gain) loss on investments, net	(75,512)	115,666
(Increase) decrease in assets:		
Accounts receivable	45,684	7,920
Contributions receivable	120,417	103,500
Charitable gift annuity receivable	(57,570)	-
Prepaid expenses	6,414	(3,143)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	10,582	949
Net cash provided by operating activities	73,814	196,650
Cash flows from investing activities:		
Net increase in investments	(4,338)	(115,597)
Net cash used in investing activities	(4,338)	(115,597)
Net increase in cash	69,476	81,053
Cash, beginning of year	285,052	203,999
Cash, end of year	$ 354,528	$ 285,052

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

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. Actual results could differ from those estimates.

Basis of Presentation

The Organization reports information regarding its financial position and activities according 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.

Cash and Cash Equivalents

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 Organization 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.

Fair Value of Financial Instruments

The carrying value of cash and cash equivalents approximates fair value due to the short-term maturity of these instruments. It is not practicable for management to estimate the fair value of accounts receivable and notes payable because of the nature of such instruments and because there is no readily available market information for financial instruments with similar terms. Unconditional promises to give cash in the future generally are recorded at the net present value of the future cash flows at the time the promise was made.

Fair Value Measurements

Under generally accepted accounting principles, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date.

Generally accepted accounting principles establish a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of Patient Assistance Foundation. Unobservable inputs, if any, reflects Patient Assistance Foundation’s assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that Patient Assistance Foundation has the ability to access at measurement date. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 – Valuations based on significant inputs that are observable, either directly or indirectly or quoted prices in markets that are not active, that is, markets in which there are few transactions, the prices are not current or price quotations vary substantially either over time or among market makers.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors, including the type of security, whether the security is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed.

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

All of the Organization's investments were valued using Level 1 criteria.

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.

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 2008 financial statements were reclassified to conform to the 2009 presentation for comparative purposes.

Subsequent Events

Management has evaluated subsequent events through _________, 2010, the date on which the financial statements were available to be issued.

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

Long-term contributions receivable at December 31, 2009 and 2008 are summarized as follows:

	2009	2008
Contribution receivable for future years	$ 7,000,000	$ 7,500,000
Discount to reflect contributions receivable at present value	(3,409,828)	(3,804,411)
Net contribution receivable	$ 3,590,172	$ 3,695,589

Amortization of the net present value discount for 2009 and 2008 was $394,583 and $405,230, respectively.

NOTE 4 – INVESTMENTS

Investments at Charles Schwab and Co, Inc. at December 31, 2009 and 2008 are summarized as follows:

	2009		*2008*	
	Fair Market Value	*Cost*	*Fair Market Value*	*Cost*
Mutual funds and corporate equity securities	$ 356,879	$ 342,033	$ 277,029	$ 346,591
Total investments	$ 356,879	$ 342,033	$ 277,029	$ 346,591

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

The temporarily restricted net assets are for the following purposes:

	2009			
	December 31, 2008	*Contributions*	*Released from Restrictions*	*December 31, 2009*
General support	$ 3,695,589	$ -	$ (105,417)	$ 3,590,172
Designated program	121,080	29,430	(150,510)	-
	$ 3,816,669	$ 29,430	$ (255,927)	$ 3,590,172

	2008			
	December 31, 2007	*Contributions*	*Released from Restrictions*	*December 31, 2008*
General support	$ 3,790,359	$ -	$ (94,770)	$ 3,695,589
Designated program	10,000	171,644	(60,564)	121,080
	$ 3,800,359	$ 171,644	$ (155,334)	$ 3,816,669

NOTE 6 – LEASE AND SUBLEASES

The Organization operates and leases its premises in a medical office building owned by CPMC. The original lease expired in December 2008 and was renewed under terms of a three year agreement expiring in December 2012. The new agreement provides for a monthly base rent of $7,870, plus allocated operating costs of approximately $3,098, for the 2009 fiscal year. The monthly base rent may be increased upon occurrence of a Rental Stream Decision by the landlord, as that term is defined. The allocable operating costs will be reviewed and adjusted annually, if required, in accordance with the lease terms. The estimated future aggregate minimum lease payments under the lease at December 31, 2009 are as follows:

2010	$ 130,959
2011	135,959
2012	140,959

The Organization entered into two subleases of its premises for programs operated by CPMC in accordance with rental terms that initially expired in January 2009. Both subleases were renewed on a month-to-month basis at an aggregate monthly rental of approximately $2,204. One of the subleases was terminated on June 1, 2009 due to downsizing of the tenant's program personnel; the remaining sublease provides for anticipated monthly rental receipts of $968.

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 totaled $14,132 and $11,548 in 2009 and 2008, respectively.

NOTE 8 – BOARD-DESIGNATED ENDOWMENT

In January 2009 the CPMC Foundation received a charitable gift annuity in the amount of $100,000 with a stipulation that the gift be used to support the Community Health Resource Center (CHRC). Under terms of the Gift Annuity Agreement, the Foundation is required to make specified monthly payments to the donor as long as he is living. Accordingly, the Patient Assistance Foundation ("Organization") has recorded a receivable from the CPMC Foundation for $57,570, representing the net present value of the gift less amounts expected to be paid to the donor over his lifetime based upon certain life expectancy and discount rate factors.

The CHRC Board of Directors resolved to establish a board-designated endowment with proceeds from the charitable gift annuity. In accordance with generally accepted accounting principles, the endowment has been recorded at its estimated net present value of $57,570 as of December 31, 2009. Since the amount resulted from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets.

The CPMC Foundation, in consultation with the Organization, has adopted a spending policy of appropriating for distribution each quarter 5% of the fund's three year average rolling market value of principal which may be reinvested with the principal or distributed to CHRC for operational purposes. In establishing this policy, consideration has been given to the long-term expected investment return on the endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment fund to grow at an average rate of 5% annually. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

To achieve that objective, the Organization directed the CPMC Foundation to enter these monies into their investment portfolio, to be invested as seen fit by investment managers of the CPMC Foundation. The Organization anticipates that assets will be invested in a well diversified asset mix to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds if possible. Accordingly, the Organization expects its endowment assets, over time, to produce an average rate of return of approximately 5% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed not to expose the fund to unacceptable levels of risk.