PATIENT ASSISTANCE FOUNDATION

(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

YEARS ENDED DECEMBER 31, 2011 AND 2010

Tentative & Preliminary
For Discussion Purposes Only

PATIENT ASSISTANCE FOUNDATION

(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

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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, 2011, 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, 2011, 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 2010 financial statements were reviewed by us, and our report thereon, dated September 28, 2011, 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

_________, 2012

PATIENT ASSISTANCE FOUNDATION

(A California Nonprofit Public Benefit Corporation)

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2011 AND 2010

	2011 (Audited)	2010 (Unaudited)
ASSETS		
Current assets:		
Cash	$ 298,507	$ 268,083
Accounts receivable	6,655	8,383
Contributions receivable – current portion	510,000	500,000
Prepaid expenses	5,311	9,231
Total current assets	820,473	785,697
Contributions receivable – net of current portion (Note 3)	2,842,479	2,972,912
Charitable gift annuity receivable (Note 8)	54,704	57,645
Deposits	6,214	6,214
Investments held by CPMC Foundation – board-designated endowment (Note 8)	119,511	113,839
Other investments (Note 4)	400,697	408,692
Total assets	$ 4,244,078	$ 4,344,999
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 29,832	$ 37,608
Total liabilities	29,832	37,608
Net assets:		
Unrestricted net assets		
Designated by the Board for endowment purposes (Note 8)	174,215	171,484
Undesignated	668,552	660,730
Unrestricted net assets	842,767	832,214
Temporarily restricted net assets (Note 5)	3,371,479	3,475,177
Total net assets	4,214,246	4,307,391
Total liabilities and net assets	$ 4,244,078	$ 4,344,999

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, 2011 AND 2010

	2011 *(Audited)*			2010 *(Unaudited)*		
	Unrestricted	*Temporarily Restricted*	*Total*	*Unrestricted*	*Temporarily Restricted*	*Total*
Support and Revenue:						
CPMC contribution – discount amortization (Note 3)	$ 369,566	$ -	$ 369,566	$ 382,740	$ -	$ 382,740
Program revenue	156,028	-	156,028	141,062	-	141,062
Grants and contributions	2,500	44,500	47,000	-	28,765	28,765
Investment earnings – charitable gift annuity (Note 8)	2,592	-	2,592	2,489	-	2,489
Donations – individuals	69,344	-	69,344	73,398	-	73,398
Rental, interest and other revenue	46,268	-	46,268	50,855	-	50,855
Realized and unrealized investment gain (loss) – net	(21,181)	-	(21,181)	46,622	-	46,622
Net assets released from restrictions	148,198	(148,198)	-	143,760	(143,760)	-
Total support and revenue	773,315	(103,698)	669,617	840,926	(114,995)	725,931
Expenses:						
Program services	590,713	-	590,713	570,193	-	570,193
Management and general	103,482	-	103,482	117,360	-	117,360
Fundraising	68,567	-	68,567	76,796	-	76,796
Total expenses	762,762	-	762,762	764,349	-	764,349
Change in net assets	10,553	(103,698)	(93,145)	76,577	(114,995)	(38,418)
Net assets, beginning of year	832,214	3,475,177	4,307,391	755,637	3,590,172	4,345,809
Net assets, end of year	$ 842,767	$ 3,371,479	$ 4,214,246	$ 832,214	$ 3,475,177	$ 4,307,391

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, 2011 AND 2010

	2011 *(Audited)*				2010 *(Unaudited)*			
	Program Services	*Management and General*	*Fundraising*	*Total*	*Program Services*	*Management and General*	*Fundraising*	*Total*
Salaries	$ 323,698	$ 28,490	$ 38,222	$ 390,410	$ 288,860	$ 32,151	$ 43,352	$ 364,363
Occupancy	127,198	5,878	7,994	141,070	126,701	8,230	10,790	145,721
Program costs	25,620	463	182	26,265	31,658	3,069	346	35,073
Employee benefits	40,623	5,424	4,797	50,844	43,192	4,858	6,477	54,527
Payroll taxes	33,945	2,988	4,008	40,941	31,365	3,384	4,709	39,458
Administrative expense	11,442	1,007	700	13,149	11,775	3,037	1,140	15,952
Insurance expense	7,991	2,142	502	10,635	6,235	2,661	539	9,435
Professional & consulting fees	19,576	55,226	7,944	82,746	29,135	57,547	9,416	96,098
Other expense	620	1,864	4,218	6,702	1,272	2,423	27	3,722
Total expenses	$ 590,713	$ 103,482	$ 68,567	$ 762,762	$ 570,193	$ 117,360	$ 76,796	$ 764,349

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, 2011 AND 2010

	2011 (Audited)	2010 (Unaudited)
Cash flows from operating activities:		
Change in net assets	$ (93,145)	$ (38,418)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Charitable gift annuity – net present value adjustment	2,941	(75)
Unrealized loss (gain) on investments, net	21,181	(46,622)
(Increase) decrease in assets:		
Accounts receivable	1,728	(7,387)
Contributions receivable	120,433	117,260
Due from CPMC Foundation – board-designated endowment investment earnings	-	(13,839)
Prepaid expenses	3,920	(768)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(7,776)	8,595
Net cash provided by operating activities	49,282	18,746
Cash flows from investing activities:		
Advance to CPMC Foundation – board-designated endowment	(10,000)	(100,000)
Net increase in investments	(8,858)	(5,191)
Net cash used in investing activities	(18,858)	(105,191)
Net increase (decrease) in cash	30,424	(86,445)
Cash, beginning of year	268,083	354,528
Cash, end of year	$ 298,507	$ 268,083

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 (CHRC).

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. The equipment cost of $1,872 is fully depreciated.

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. 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.

The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The organization's federal and state income tax returns for the years 2007 through 2010 are subject to examination by regulatory agencies, generally for three years and four years after they were filed for federal and state, respectively.

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.

Subsequent Events

Management has evaluated subsequent events through __________, 2012, 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.

The CPMC contribution receivable at December 31, 2011 and 2010 is summarized as follows:

	2011	2010
Contribution receivable for future years	$ 6,000,000	$ 6,500,000
Discount to reflect contribution receivable at present value	(2,657,521)	(3,027,088)
Net present value of CPMC contribution receivable	$ 3,342,479	$ 3,472,912

Amortization of the net present value discount for 2011 and 2010 was $369,566 and $382,740, respectively.

NOTE 4 – INVESTMENTS

Investments held by Charles Schwab and Co, Inc. at December 31, 2011 and 2010 are summarized as follows:

	2011		2010	
	Fair Market Value	*Cost*	*Fair Market Value*	*Cost*
Mutual funds and corporate equity securities	$ 400,697	$ 378,989	$ 408,692	$ 362,914
Total investments	$ 400,697	$ 378,989	$ 408,692	$ 362,914

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

The temporarily restricted net assets are for the following purposes:

	2011			
	December 31, 2010	*Contributions*	*Released from Restrictions*	*December 31, 2011*
General support of future years – CPMC	$ 3,472,912	$ -	$ (130,433)	$ 3,342,479
Designated programs	2,265	44,500	(17,765)	29,000
	$ 3,475,177	$ 44,500	$ (148,198)	$ 3,371,479

	2010			
	December 31, 2009	*Contributions*	*Released from Restrictions*	*December 31, 2010*
General support of future years – CPMC	$ 3,590,172	$ -	$ (117,260)	$ 3,472,912
Designated programs	-	28,765	(26,500)	2,265
	$ 3,590,172	$ 28,765	$ (143,760)	$ 3,475,177

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 $35,967, for the 2011 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, 2011 are as follows:

2011	$	130,413
2012		135,413

The Organization entered into a sublease of its premises for a program operated by CPMC in accordance with rental terms that initially expired in January 2009. The sublease was renewed on a month-to-month basis at an aggregate monthly rental of approximately $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 $1.00 for every $3.00 contributed by each participant. The Organization’s contributions totaled $10,314 and $15,209 in 2011 and 2010, respectively.

NOTE 8 – BOARD-DESIGNATED ENDOWMENT

Charitable Gift Annuity

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 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 Organization recorded a receivable from the CPMC Foundation in 2009 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.

As of December 31, 2011, the amounts expected to be paid to the donor over his lifetime were re-valued using current life expectancy and discount rate factors. The net receivable for the charitable gift annuity held by the CPMC Foundation totals $54,704 and $57,645 as of December 31, 2011 and 2010, respectively. The net receivable is inclusive of reported investment earnings which totaled $2,592 and $2,489 for the years ended December 31, 2011 and 2010, respectively.

The Board of Directors resolved to establish a board-designated endowment with proceeds from the charitable gift annuity. Since the amount resulted from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets.

CHRC Program Funding

In July 2010, the Organization established a board-designated endowment in the amount of $100,000. A transfer of funds was made from the Organization's investment account to the CPMC Foundation for investment management purposes. An additional transfer of $10,000 was made in August 2011. The endowment was established to provide an enduring, reliable source of funding to CHRC in support of their programs and service objectives. In consultation with the CPMC Foundation, 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, the Organization has 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 amount held by the CPMC Foundation is $119,511 and $113,839 as of December 31, 2011 and 2010, respectively, inclusive of reported investment earnings (loss) of $(4,328) and $13,389 for the years ended December 31, 2011 and 2010.

Since the CHRC program funding amount resulted from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets.

Board-designated endowments are summarized below:

	2011	2010
Charitable gift annuity receivable from CPMC	$ 54,704	$ 57,645
Investments held by CPMC	119,511	113,839
Total	$ 174,215	$ 171,484

NOTE 9 – SUBSEQUENT EVENT

In July 2012 the Organization received an unrestricted contribution from an individual in the amount of $250,000. The funds were temporarily placed in the operating bank account while the Finance Committee reviews investment options, including a potential transfer of the contribution to the CPMC Foundation for investment management.