

**PATIENT SERVICES, INC.
AND SUBSIDIARY**

Consolidated Financial Statements

December 31, 2013 and 2012



> Certified Public
Accountants & Consultants
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**PATIENT SERVICES, INC.
AND SUBSIDIARY**

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of
Patient Services, Inc.
Midlothian, Virginia

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Patient Services, Inc. and its subsidiary (collectively, the "Organization"), which comprise the consolidated statements of financial position as of December 31, 2013 and 2012, and the related consolidated statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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; 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits 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 auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Patient Services, Inc. and its subsidiary as of December 31, 2013 and 2012, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information described in the Table of Contents is presented for purposes of additional analysis and 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. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

A handwritten signature in black ink, appearing to read "Keita", with a stylized flourish at the end.

March 25, 2014
Glen Allen, Virginia

**PATIENT SERVICES, INC.
AND SUBSIDIARY**

Consolidated Statements of Financial Position
December 31, 2013 and 2012

ASSETS	<u>2013</u>	<u>2012</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 20,697,641	\$ 26,370,295
Investments	5,227,561	5,427,415
Contract fees receivable, net	58,023,545	38,497,137
Other prepaid expenses	<u>91,067</u>	<u>48,301</u>
 Total current assets	 <u>84,039,814</u>	 <u>70,343,148</u>
PROPERTY AND EQUIPMENT		
Land	291,100	291,100
Buildings	2,485,867	2,485,867
Vehicle	27,799	-
Furniture and equipment	<u>1,606,155</u>	<u>1,402,570</u>
	4,410,921	4,179,537
Less accumulated depreciation	<u>1,659,071</u>	<u>1,501,256</u>
 Total property and equipment	 <u>2,751,850</u>	 <u>2,678,281</u>
OTHER ASSETS		
Intellectual property	476,000	476,000
Life insurance annuity	1,139,101	1,010,365
Deferred financing costs, net	56,003	64,003
Deposits	<u>43,524</u>	<u>43,524</u>
Total other assets	<u>1,714,628</u>	<u>1,593,892</u>
 Total assets	 <u>\$ 88,506,292</u>	 <u>\$ 74,615,321</u>

See accompanying notes to consolidated financial statements.

**PATIENT SERVICES, INC.
AND SUBSIDIARY**

Consolidated Statements of Financial Position, Continued
December 31, 2013 and 2012

LIABILITIES AND NET ASSETS	<u>2013</u>	<u>2012</u>
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 154,235	\$ 149,788
Accounts payable	175,018	322,266
Accrued expenses	<u>719,695</u>	<u>933,262</u>
Total current liabilities	1,048,948	1,405,316
OTHER LIABILITIES		
Long-term debt	<u>704,124</u>	<u>856,913</u>
Total liabilities	<u>1,753,072</u>	<u>2,262,229</u>
NET ASSETS		
Unrestricted net assets	12,253,018	11,849,073
Temporarily restricted net assets	<u>74,500,202</u>	<u>60,504,019</u>
Total net assets	<u>86,753,220</u>	<u>72,353,092</u>
Total liabilities and net assets	<u>\$ 88,506,292</u>	<u>\$ 74,615,321</u>

See accompanying notes to consolidated financial statements.

**PATIENT SERVICES, INC.
AND SUBSIDIARY**

Consolidated Statements of Activities
Years Ended December 31, 2013 and 2012

	<u>2013</u>			<u>2012</u>		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUES AND OTHER SUPPORT						
Contributions	\$ 8,311,855	\$73,795,489	\$82,107,344	\$ 8,005,311	\$53,297,487	\$61,302,798
Fees for contracted services	328,655	1,098,169	1,426,824	424,968	1,660,760	2,085,728
Interest income	30,929	-	30,929	31,857	-	31,857
Miscellaneous income	50,515	-	50,515	23,531	-	23,531
Gain on life insurance annuity	128,736	-	128,736	73,237	-	73,237
	<u>8,850,690</u>	<u>74,893,658</u>	<u>83,744,348</u>	<u>8,558,904</u>	<u>54,958,247</u>	<u>63,517,151</u>
Net assets released from restrictions	<u>60,897,475</u>	<u>(60,897,475)</u>	<u>-</u>	<u>50,332,149</u>	<u>(50,332,149)</u>	<u>-</u>
 Total revenues and other support	 <u>69,748,165</u>	 <u>13,996,183</u>	 <u>83,744,348</u>	 <u>58,891,053</u>	 <u>4,626,098</u>	 <u>63,517,151</u>
 EXPENSES AND LOSSES						
Program services	63,341,649	-	63,341,649	52,578,742	-	52,578,742
Fund-raising	1,093,041	-	1,093,041	1,007,476	-	1,007,476
Management and general	4,909,530	-	4,909,530	3,212,185	-	3,212,185
	<u>69,344,220</u>	<u>-</u>	<u>69,344,220</u>	<u>56,798,403</u>	<u>-</u>	<u>56,798,403</u>
 Total expenses and losses	 <u>69,344,220</u>	 <u>-</u>	 <u>69,344,220</u>	 <u>56,798,403</u>	 <u>-</u>	 <u>56,798,403</u>
 Change in net assets	 403,945	 13,996,183	 14,400,128	 2,092,650	 4,626,098	 6,718,748
 NET ASSETS						
Beginning	<u>11,849,073</u>	<u>60,504,019</u>	<u>72,353,092</u>	<u>9,756,423</u>	<u>55,877,921</u>	<u>65,634,344</u>
Ending	<u>\$12,253,018</u>	<u>\$74,500,202</u>	<u>\$86,753,220</u>	<u>\$11,849,073</u>	<u>\$60,504,019</u>	<u>\$72,353,092</u>

See accompanying notes to consolidated financial statements.

**PATIENT SERVICES, INC.
AND SUBSIDIARY**

Consolidated Statements of Cash Flows
Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 14,400,128	\$ 6,718,748
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization expense	259,789	182,840
Loss on disposal of property and equipment	1,286	-
Gain on life insurance annuity	(128,736)	(73,237)
Changes in assets and liabilities:		
Contract fees receivable	(19,526,408)	3,771,771
Other prepaid expenses	(42,766)	(20,591)
Deposits	-	(3,237)
Accounts payable	(147,248)	164,724
Accrued expenses	(213,567)	534,275
Net cash (used in) provided by operations	<u>(5,397,522)</u>	<u>11,275,293</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(326,644)	(200,530)
Purchase of life insurance annuity	-	(300,000)
Purchase of investments	(410,760)	(2,248,881)
Proceeds from sale of investments	<u>610,614</u>	<u>2,188,814</u>
Net cash used in investing activities	<u>(126,790)</u>	<u>(560,597)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal repayment of long-term debt	<u>(148,342)</u>	<u>(142,487)</u>
Net cash used in financing activities	<u>(148,342)</u>	<u>(142,487)</u>
Net (decrease) increase in cash and cash equivalents	(5,672,654)	10,572,209
CASH AND CASH EQUIVALENTS		
Beginning	<u>26,370,295</u>	<u>15,798,086</u>
Ending	<u>\$ 20,697,641</u>	<u>\$ 26,370,295</u>
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash paid for interest	<u>\$ 18,246</u>	<u>\$ 21,819</u>

See accompanying notes to consolidated financial statements.

**PATIENT SERVICES, INC.
AND SUBSIDIARY**

Consolidated Statements of Functional Expenses
Years Ended December 31, 2013 and 2012

	<u>2013</u>				<u>2012</u>			
	<u>Program Services</u>	<u>Fund - Raising</u>	<u>Management and General</u>	<u>Total</u>	<u>Program Services</u>	<u>Fund - Raising</u>	<u>Management and General</u>	<u>Total</u>
DIRECT EXPENSES								
Direct payment assistance	\$ 60,897,475	\$ -	\$ -	\$ 60,897,475	\$ 50,332,148	\$ -	\$ -	\$ 50,332,148
INDIRECT EXPENSES								
Advertising	-	6,972	16,843	23,815	119	45,250	62,210	107,579
Amortization	6,270	416	1,314	8,000	6,315	403	1,283	8,001
Bank fees	683	45	228	956	820	52	167	1,039
Computer network	26,463	6,202	177,042	209,707	11,002	6,802	46,787	64,591
Conferences and travel	10,275	160,902	245,210	416,387	17,261	164,804	205,875	387,940
Continuing education	1,806	9,369	18,644	29,819	2,720	6,045	8,178	16,943
Depreciation	113,161	7,516	131,112	251,789	131,786	8,417	34,636	174,839
Dues and subscriptions	992	7,447	38,798	47,237	1,884	20,533	47,409	69,826
Gifts and incentives	13,931	1,243	24,636	39,810	17,293	1,465	22,266	41,024
Insurance	19,498	1,295	10,807	31,600	23,495	1,501	4,775	29,771
Interest expense	14,297	950	2,999	18,246	17,219	1,100	3,500	21,819
Legal and accounting	50,830	3,075	311,189	365,094	49,053	2,472	207,158	258,683
Meals	823	25,177	76,562	102,562	1,734	12,793	40,620	55,147
Occupancy	40,352	30,031	278,344	348,727	28,156	31,062	103,212	162,430
Office expense	100,789	23,177	56,030	179,996	125,164	25,632	51,506	202,302
Patient representation	38,981	-	-	38,981	34,384	-	-	34,384
Public relations	-	6,424	31,100	37,524	-	10,000	10,848	20,848
Registration fees	4,647	309	974	5,930	6,294	402	1,938	8,634
Salaries and benefits	1,805,819	757,476	2,965,672	5,528,967	1,713,146	640,941	2,205,292	4,559,379
Subcontractors	162,761	31,723	471,334	665,818	38,180	15,298	115,738	169,216
Taxes and licenses	17,264	1,147	5,314	23,725	6,327	399	1,294	8,020
Telecommunications	14,532	12,145	45,378	72,055	14,242	12,105	37,493	63,840
Total indirect expenses	<u>2,444,174</u>	<u>1,093,041</u>	<u>4,909,530</u>	<u>8,446,745</u>	<u>2,246,594</u>	<u>1,007,476</u>	<u>3,212,185</u>	<u>6,466,255</u>
	<u>\$ 63,341,649</u>	<u>\$ 1,093,041</u>	<u>\$ 4,909,530</u>	<u>\$ 69,344,220</u>	<u>\$ 52,578,742</u>	<u>\$ 1,007,476</u>	<u>\$ 3,212,185</u>	<u>\$ 56,798,403</u>

See accompanying notes to consolidated financial statements.

PATIENT SERVICES, INC.
Notes to Consolidated Financial Statements
December 31, 2013 and 2012

NOTE 1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Patient Services, Inc. ("PSI") is a national non-profit organization based in Midlothian, Virginia. The Organization provides financial support to patients and families effected by Alpha 1 Antitrypsin Deficiency, Bone Metastases, Breast Cancer Screening, Chronic Myelogenous Leukemia, Chronic Inflammatory Demyelinating Polyneuropathy, Complement Mediated Diseases, Corneal Crystal Accumulation in Cystinosis, Clostridium Difficile, Cystic Fibrosis (with Pseudomonas), Fabry Disease, Gastrointestinal Stromal Tumors, Gaucher's Disease, Hemophilia, Hereditary Angioedema (C1 Inhibitor Deficiencies), Homozygous Familial Hypercholesterolemia, Inhibitors in Hemophilia, MPS 1, Pompe Disease, Primary Immune Deficiency, Virginia HIV/AIDS SPAP and ADAP Programs, Pleural Effusions & Malignant Ascites, Metastatic Melanoma, Metastatic Renal Cell Carcinoma, Pseudobulbar Affect (PBA) and von Willebrand Disease.

During 2012, PSI formed Accessia, Inc. ("Accessia"), as a wholly-owned taxable subsidiary, with its primary offices located in California. Accessia was established as a Virginia stock corporation on April 25, 2012. Its purpose is to provide certain services to third parties in connection with the administration of patient assistant programs. Accessia is structured to comply, and operates in compliance with, relevant provisions of the Social Security Act, including the maintenance of an "ethical wall" between PSI and Accessia designed to ensure PSI's independence in the operation of its patient assistance programs.

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of PSI and Accessia (collectively, the "Organization"). All significant intercompany accounts and transactions have been eliminated in consolidation.

Financial Statement Presentation: PSI's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP"), under the accrual basis of accounting. The accrual basis of accounting records revenue in the period in which earned rather than when received and records expenses in the period in which incurred rather than when paid. The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As of December 31, 2013 and 2012, total temporarily restricted net assets of \$74,500,202 and \$60,504,019, respectively, are restricted by donors for program purposes in the amount of \$69,032,029 and \$55,808,489, respectively, and restricted by time for administrative purposes in the amount of \$5,468,173 and \$4,695,530, respectively. The Organization did not have any permanently restricted net assets as of December 31, 2013 and 2012. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restriction.

PATIENT SERVICES, INC.
Notes to Consolidated Financial Statements
December 31, 2013 and 2012

NOTE 1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Cash and Cash Equivalents: For purposes of reporting cash flows, the Organization considers demand deposits and all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Investments: Investments are reported at fair value in the consolidated statement of financial position. Donated stocks and other securities are recorded at fair value as of the date received. Interest, dividends, realized and unrealized gains and losses are reflected in the consolidated statement of activities.

Use of Estimates: The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, the actual results could differ from those estimates. Any adjustments applied to estimated amounts are recognized in the year in which such adjustments are determined.

Promises to Give: Contributions are promises to give to the Organization that are, in substance, unconditional. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires or is otherwise satisfied, temporarily restricted net assets are reclassified to unrestricted net assets.

Property and Equipment: Property and equipment are recorded at cost if purchased or fair value if contributed. Depreciation is computed using an accelerated method for furniture and equipment and the straight-line method for buildings and improvements over estimated useful lives as follows:

Furniture and equipment	5 – 15 years
Buildings	15 – 39 years
Vehicle	5 years

New acquisitions of property and equipment having a cost of less than \$2,500, or which are not expected to last for more than a year, are expensed in the year of acquisition. Depreciation expense was \$251,789 and \$174,839 for 2013 and 2012, respectively.

In accordance with GAAP, management reviews the recorded value of the property for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

PATIENT SERVICES, INC.
Notes to Consolidated Financial Statements
December 31, 2013 and 2012

NOTE 1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Contract Fees Receivable: Contract fees receivable consist primarily of amounts due from the contributing drug companies. Receivables are recorded at the net realizable value, which approximates their fair value. Management reviews receivables on a regular basis and accounts are written-off once deemed uncollectible.

Functional Allocation of Expenses: The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Deferred Financing Costs: Deferred financing costs are amortized over the life of the related long-term debt using the straight-line method. Amortization expense was \$8,000 and \$8,001 for 2013 and 2012, respectively. Amortization expense is expected to be \$8,000 for each of the next 5 years.

Income Taxes: PSI is exempt from paying income taxes under Internal Revenue Code Section 501(c)(3) and is an organization that is not a private foundation under Section 509(A)(1). No income tax was paid during the years ended December 31, 2013 or 2012, respectively. Accessia was formed as a C corporation during 2012. Due to its lack of activity during 2013 and 2012, no provision or liability for income taxes has been included in the accompanying consolidated financial statements.

Management has evaluated the effect of accounting guidance surrounding uncertain income tax positions and concluded that the Organization and its subsidiary has no significant financial statement exposure to uncertain tax positions at December 31, 2013 or 2012. The Organization's informational returns (Form 990) for years since 2010 remain open for examination by tax authorities. The Organization is not currently under audit by any tax jurisdiction.

Advertising: Advertising costs are expensed as incurred and are included in functional expenses in the accompanying statement of activities. Advertising expense for the years ended December 31, 2013 and 2012 were \$23,815 and \$107,579, respectively.

Organization Costs: Costs of start-up activities and other organization costs related to Accessia have been expensed as incurred.

Subsequent Events: Management has evaluated subsequent events through March 25, 2014, the date the consolidated financial statements were available for issuance, and has determined that no additional disclosure is necessary.

PATIENT SERVICES, INC.
Notes to Consolidated Financial Statements
December 31, 2013 and 2012

NOTE 2. FAIR VALUE MEASUREMENTS OF ASSETS

The Organization has adopted Financial Accounting Standards Board (“FASB”) guidance on fair value measurements. The provisions of the guidance provides a framework for measuring fair value under GAAP and defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This guidance requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. This guidance also establishes a fair value hierarchy which prioritizes the valuation inputs into three broad levels. Based on the underlying inputs, each fair value measurement in its entirety is reported in one of three levels.

The Organization’s assets recorded at fair value on a recurring basis are categorized based on the priority of the inputs used to measure fair value. The inputs used in measuring fair value are categorized into three levels, as follows:

- **Level 1:** Inputs that are based upon quoted prices for identical instruments traded in active markets.
- **Level 2:** Inputs that are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar investments in markets that are not active, or models based on valuation techniques for which all significant assumptions are observable in the marker or can be corroborated by observable market data for substantially the full item of the investment.
- **Level 3:** Inputs that are generally unobservable and typically reflect management’s estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flows models, and similar techniques.

The asset’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used to maximize the use of observable inputs and minimize the use of unobservable inputs. Following is a description of the valuation methodologies used for assets measured at fair value.

Government agencies - Valued utilizing the market approach as determined by the fund manager or market process for similar instruments within public markets.

PATIENT SERVICES, INC.
Notes to Consolidated Financial Statements
December 31, 2013 and 2012

NOTE 2. FAIR VALUE MEASUREMENTS OF ASSETS, CONTINUED

Money market funds - Valued at the net asset value of shares held by PSI at year end.

Annuity contracts - Valued based on summation of values assigned to underlying investments in equity and fixed income securities, most of which are traded on an active market.

The following table summarizes the valuation of the Organization's financial assets measured at fair value on a recurring basis at December 31, 2013, based on the level of input utilized to measure fair value:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Investments:				
Government agencies	\$ -	\$ 2,830,000	\$ -	\$ 2,830,000
Money market funds	<u>2,397,561</u>	<u>-</u>	<u>-</u>	<u>2,397,561</u>
	2,397,561	2,830,000	-	5,227,561
Annuity contracts	<u>-</u>	<u>-</u>	<u>1,139,101</u>	<u>1,139,101</u>
Total assets at fair value	<u>\$ 2,397,561</u>	<u>\$ 2,830,000</u>	<u>\$ 1,139,101</u>	<u>\$ 6,366,662</u>

The following table summarizes the valuation of the Organization's financial assets measured at fair value on a recurring basis at December 31, 2012, based on the level of input utilized to measure fair value:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Investments:				
Government agencies	\$ -	\$ 3,030,000	\$ -	\$ 3,030,000
Money market funds	<u>2,397,415</u>	<u>-</u>	<u>-</u>	<u>2,397,415</u>
	2,397,415	3,030,000	-	5,427,415
Annuity contracts	<u>-</u>	<u>-</u>	<u>1,010,365</u>	<u>1,010,365</u>
Total assets at fair value	<u>\$ 2,397,415</u>	<u>\$ 3,030,000</u>	<u>\$ 1,010,365</u>	<u>\$ 6,437,780</u>

At December 31, 2013, there were no unfunded commitments or redemption restrictions on the Company's level 2 or 3 assets.

PATIENT SERVICES, INC.
Notes to Consolidated Financial Statements
December 31, 2013 and 2012

NOTE 2. FAIR VALUE MEASUREMENTS OF ASSETS, CONTINUED

The following table presents additional information about level 3 assets measured at fair value on a recurring basis at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Beginning balance	\$ 1,010,365	\$ 637,128
Purchases	-	300,000
Unrealized gain	128,736	73,237
Ending Balance	<u>\$ 1,139,101</u>	<u>\$ 1,010,365</u>

NOTE 3. LONG-TERM DEBT

The Organization has a note payable dated December 1, 2010 in the original principal amount of \$1,632,000; the note is collateralized by real property, and bears interest at 68% of one-month LIBOR plus 65% of 2.75% (1.90% at December 31, 2013).

The outstanding balance was \$858,359 and \$1,006,701 at December 31, 2013 and 2012, respectively. Current maturities were \$154,235 and \$149,788 at December 31, 2013 and 2012, respectively.

Future maturities were as follows at December 31, 2013:

2014	\$ 154,235
2015	155,686
2016	158,722
2017	161,817
2018	164,972
Thereafter	<u>62,927</u>
	<u>\$ 858,359</u>

PATIENT SERVICES, INC.
Notes to Consolidated Financial Statements
December 31, 2013 and 2012

NOTE 4. INTELLECTUAL PROPERTY

Intellectual property in the amount of \$476,000 was acquired from a member of management of PSI in 2004. In accordance with GAAP, no amortization of intangible assets with an indefinite life has been recorded. The Organization assesses intellectual property for impairment annually. No impairment adjustments were recorded during 2013 or 2012.

NOTE 5. LEASES

The Organization has entered into various leases for office space, office equipment, and a storage facility that originally ranged in duration from three to five years. Future minimum lease payments at December 31, 2013 were:

2014	\$ 296,601
2015	304,169
2016	<u>246,803</u>
	<u>\$ 847,573</u>

During the year ended December 31, 2013, Accessia entered into a sub-lease agreement with Tobira Therapeutics, Inc. Total revenue under this agreement for 2013 totaled \$25,008. Future lease income as of December 31, 2013 is as follows: 2014 –\$219,586, 2015 – \$219,586, 2016 – \$219,586 and 2017 – \$18,299.

NOTE 6. FUND-RAISING EXPENDITURES

The Organization solicits funds from organizations and individuals within the chronic illness community. Contributions are solicited through attending conferences, direct contact, literature mailings and other methods. Fund-raising expenditures totaled \$1,093,041 and \$1,007,476 in 2013 and 2012, respectively.

NOTE 7. RETIREMENT PLAN

Effective January 1, 2010, the Organization sponsors a qualified defined contribution plan under section 401(k) of the Internal Revenue Code, which covers eligible full-time employees after six months of continuous service. Voluntary contributions made by PSI are determined annually. Retirement expense for 2013 and 2012 was \$185,436 and \$130,635, respectively.

PATIENT SERVICES, INC.
Notes to Consolidated Financial Statements
December 31, 2013 and 2012

NOTE 8. CONCENTRATIONS

The Organization maintains several bank accounts at one bank located in the United States. The Federal Deposit Insurance Corporation (FDIC) provides insurance coverage for up to \$250,000 for substantially all depository accounts. Cash at this institution exceeded federally insured limits. The Organization, from time to time, may have amounts ion deposit in excess of the insured limits.

The Organization maintains investments through one financial institution. The Securities Investor Protection Corporation (SIPC) insures deposits up to \$500,000. The amount in excess of the SPIC limit totaled \$4,727,561 and \$4,927,415 as of December 31, 2013 and 2012, respectively.

For the year ended December 31, 2013, contributions from nine donors comprised approximately 96% of total contributions. In addition, 82% of contract fees receivable are due from two donors as of December 31, 2013.

For the year ended December 31, 2012, contributions from nine donors comprised approximately 96% of total contributions. In addition, 81% of contract fees receivable are due from one donor as of December 31, 2012.

SUPPLEMENTAL INFORMATION

**PATIENT SERVICES, INC.
AND SUBSIDIARY**

Statements of Financial Position – PSI Only
December 31, 2013 and 2012

ASSETS	<u>2013</u>	<u>2012</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 20,634,069	\$ 26,107,561
Investments	5,227,561	5,427,415
Contract fees receivable, net	58,023,545	38,497,137
Accounts receivable - other, net	1,976,183	468,320
Other prepaid expenses	<u>47,074</u>	<u>27,539</u>
Total current assets	<u>85,908,432</u>	<u>70,527,972</u>
PROPERTY AND EQUIPMENT		
Land	291,100	291,100
Buildings	2,459,497	2,459,497
Vehicle	27,799	-
Furniture and equipment	<u>1,193,193</u>	<u>1,237,678</u>
	3,971,589	3,988,275
Less accumulated depreciation	<u>1,543,832</u>	<u>1,493,406</u>
Total property and improvements	<u>2,427,757</u>	<u>2,494,869</u>
OTHER ASSETS		
Intellectual property	476,000	476,000
Life insurance annuity	1,139,102	1,010,365
Investment in Accesia	400,000	400,000
Deferred financing costs, net	56,003	64,003
Deposits	<u>2,000</u>	<u>2,000</u>
Total other assets	<u>2,073,105</u>	<u>1,952,368</u>
Total assets	<u>\$ 90,409,294</u>	<u>\$ 74,975,209</u>

See report of independent accountants.

**PATIENT SERVICES, INC.
AND SUBSIDIARY**

Statements of Financial Position – PSI Only, Continued
December 31, 2013 and 2012

LIABILITIES AND NET ASSETS	<u>2013</u>	<u>2012</u>
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 154,235	\$ 149,788
Accounts payable	152,084	154,345
Accrued expenses	<u>640,318</u>	<u>915,040</u>
Total current liabilities	946,637	1,219,173
OTHER LIABILITIES		
Long-term debt, net of current portion	<u>704,124</u>	<u>856,913</u>
Total liabilities	<u>1,650,761</u>	<u>2,076,086</u>
NET ASSETS		
Unrestricted net assets	14,258,331	12,395,104
Temporarily restricted net assets	<u>74,500,202</u>	<u>60,504,019</u>
Total net assets	<u>88,758,533</u>	<u>72,899,123</u>
Total liabilities and net assets	<u>\$ 90,409,294</u>	<u>\$ 74,975,209</u>

See report of independent accountants.

**PATIENT SERVICES, INC.
AND SUBSIDIARY**

Statements of Activities – PSI Only
Years Ended December 31, 2013 and 2012

	<u>2013</u>			<u>2012</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT						
Contributions	\$ 8,311,855	\$73,795,489	\$82,107,344	\$ 8,005,311	\$53,297,487	\$61,302,798
Fees for contracted services	202,657	1,098,169	1,300,826	424,968	1,660,760	2,085,728
Interest income	30,929	-	30,929	31,857	-	31,857
Miscellaneous income	25,166	-	25,166	23,531	-	23,531
Gain on life insurance annuity	128,736	-	128,736	73,237	-	73,237
	<u>8,699,343</u>	<u>74,893,658</u>	<u>83,593,001</u>	<u>8,558,904</u>	<u>54,958,247</u>	<u>63,517,151</u>
Net assets released from restrictions	<u>60,897,475</u>	<u>(60,897,475)</u>	<u>-</u>	<u>50,332,149</u>	<u>(50,332,149)</u>	<u>-</u>
Total revenues and other support	<u>69,596,818</u>	<u>13,996,183</u>	<u>83,593,001</u>	<u>58,891,053</u>	<u>4,626,098</u>	<u>63,517,151</u>
EXPENSES AND LOSSES						
Program services	63,341,649	-	63,341,649	52,578,742	-	52,578,742
Fund-raising	1,093,041	-	1,093,041	1,007,476	-	1,007,476
Management and general	3,298,901	-	3,298,901	2,666,154	-	2,666,154
	<u>67,733,591</u>	<u>-</u>	<u>67,733,591</u>	<u>56,252,372</u>	<u>-</u>	<u>56,252,372</u>
Total expenses and losses	<u>67,733,591</u>	<u>-</u>	<u>67,733,591</u>	<u>56,252,372</u>	<u>-</u>	<u>56,252,372</u>
Change in net assets	1,863,227	13,996,183	15,859,410	2,638,681	4,626,098	7,264,779
NET ASSETS						
Beginning	<u>12,395,104</u>	<u>60,504,019</u>	<u>72,899,123</u>	<u>9,756,423</u>	<u>55,877,921</u>	<u>65,634,344</u>
Ending	<u>\$14,258,331</u>	<u>\$74,500,202</u>	<u>\$88,758,533</u>	<u>\$12,395,104</u>	<u>\$60,504,019</u>	<u>\$72,899,123</u>

See report of independent accountants.

**PATIENT SERVICES, INC.
AND SUBSIDIARY**

Statements of Cash Flows – PSI Only
Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 15,859,410	\$ 7,264,779
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	152,399	174,990
Loss on disposal of property and equipment	1,286	-
Gain on life insurance annuity	(128,736)	(73,237)
Changes in assets and liabilities:		
Contract fees receivable	(19,526,408)	3,771,771
Accounts receivable - other	(1,507,863)	(468,320)
Other Prepaid expenses	(19,534)	171
Deposits	-	38,287
Accounts payable	(2,262)	(3,197)
Accrued expenses	<u>(274,722)</u>	<u>516,053</u>
Net cash (used in) provided by operations	<u>(5,446,430)</u>	<u>11,221,297</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(78,574)	(9,268)
Purchase of life insurance annuity	-	(300,000)
Purchase of Investment-Accessia	-	(400,000)
Purchase of investments	(410,760)	(2,248,881)
Proceed from sale of investments	<u>610,614</u>	<u>2,188,814</u>
Net cash provided by (used in) investing activities	<u>121,280</u>	<u>(769,335)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal repayment of long-term debt	<u>(148,342)</u>	<u>(142,487)</u>
Net cash used in financing activities	<u>(148,342)</u>	<u>(142,487)</u>
Net increase (decrease) in cash and cash equivalents	(5,473,492)	10,309,475
CASH AND CASH EQUIVALENTS		
Beginning	<u>26,107,561</u>	<u>15,798,086</u>
Ending	<u>\$ 20,634,069</u>	<u>\$ 26,107,561</u>
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash paid for interest	<u>\$ 18,246</u>	<u>\$ 21,819</u>

See report of independent accountants.

**PATIENT SERVICES, INC.
AND SUBSIDIARY**

Statements of Functional Expenses – PSI Only
Years Ended December 31, 2013 and 2012

	2013				2012			
	Program Services	Fund - Raising	Management and General	Total	Program Services	Fund - Raising	Management and General	Total
DIRECT EXPENSES								
Direct Payment Assistance	\$60,897,475	\$ -	\$ -	60,897,475	\$50,332,148	\$ -	\$ -	\$50,332,148
INDIRECT EXPENSES								
Advertising	-	6,972	635	7,607	119	45,250	392	45,761
Amortization	6,270	416	1,314	8,000	6,315	403	1,283	8,001
Bank Fees	683	45	143	871	820	52	167	1,039
Computer Network	26,463	6,202	53,280	85,945	11,002	6,802	32,709	50,513
Conferences and travel	10,275	160,902	211,628	382,805	17,261	164,804	186,855	368,920
Continuing education	1,806	9,369	18,644	29,819	2,720	6,045	8,178	16,943
Depreciation	113,161	7,516	23,722	144,399	131,786	8,417	26,786	166,989
Dues and subscriptions	992	7,447	34,793	43,232	1,884	20,533	46,359	68,776
Gifts and incentives	13,931	1,243	24,396	39,570	17,293	1,465	22,266	41,024
Insurance	19,498	1,295	4,087	24,880	23,495	1,501	4,775	29,771
Interest expense	14,297	950	2,997	18,244	17,219	1,100	3,500	21,819
Legal and accounting	50,830	3,075	180,544	234,449	49,053	2,472	146,548	198,073
Meals	823	25,177	71,785	97,785	1,734	12,793	37,780	52,307
Occupancy	40,352	30,031	91,327	161,710	28,156	31,062	100,228	159,446
Office expense	100,789	23,177	38,131	162,097	125,164	25,632	47,176	197,972
Patient Representation	38,981	-	-	38,981	34,384	-	-	34,384
Public Relations	-	6,424	31,100	37,524	-	10,000	10,848	20,848
Registration fees	4,647	309	974	5,930	6,294	402	1,279	7,975
Salaries and benefits	1,805,819	757,476	2,139,741	4,703,036	1,713,146	640,941	1,844,026	4,198,113
Subcontractors	162,761	31,723	338,189	532,673	38,180	15,298	110,247	163,725
Taxes and licenses	17,264	1,147	3,619	22,030	6,327	399	1,269	7,995
Telecommunications	14,532	12,145	27,852	54,529	14,242	12,105	33,483	59,830
Total indirect expenses	<u>2,444,174</u>	<u>1,093,041</u>	<u>3,298,901</u>	<u>6,836,116</u>	<u>2,246,594</u>	<u>1,007,476</u>	<u>2,666,154</u>	<u>5,920,224</u>
TOTAL EXPENSES	<u>\$63,341,649</u>	<u>\$ 1,093,041</u>	<u>\$ 3,298,901</u>	<u>\$67,733,591</u>	<u>\$52,578,742</u>	<u>\$ 1,007,476</u>	<u>\$ 2,666,154</u>	<u>\$56,252,372</u>

See report of independent accountants.