

Financial Statements
Years Ended
June 30, 2006 and 2005

Patient Advocate Foundation



Certified Public Accountants
Financial Planning
Specialized Services

Patient Advocate Foundation

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Report of Independent Auditors

Certified Public Accountants
Specialized Services
Business Solutions

Board of Directors
Patient Advocate Foundation

We have audited the accompanying statements of financial position of **Patient Advocate Foundation** (a nonprofit organization) as of June 30, 2006 and 2005 and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of **Patient Advocate Foundation's** management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of **Patient Advocate Foundation** as of June 30, 2006 and 2005 and the change in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 21, 2006, on our consideration of **Patient Advocate Foundation's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Our audits were performed for the purpose of forming an opinion on the basic financial statements of **Patient Advocate Foundation** taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Newport News, Virginia
July 21, 2006

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Patient Advocate Foundation

Statements of Financial Position

June 30,	2006	2005
Assets		
Current assets		
General operating cash and cash equivalents	\$ 2,062,002	\$ 1,197,904
Restricted CPR cash and cash equivalents	11,996,924	4,957,855
Unconditional promises to give	13,000	37,574
Interest receivable	38,553	43,913
Employee receivable	498	954
Due from NPAF	110	74
Inventory	42,235	51,539
Prepaid expenses	39,841	17,694
Investments	1,729,082	1,750,680
Total current assets	15,922,245	8,058,187
Property and equipment - net	267,313	217,071
Other assets		
Refundable deposits	11,402	10,254
	\$ 16,200,960	\$ 8,285,512
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 232,997	\$ 148,513
Deferred revenue	1,349,167	511,875
Accrued vacation leave	88,930	84,198
Total liabilities	1,671,094	744,586
Net assets		
Unrestricted	712,913	723,400
Temporarily restricted	11,996,924	4,957,855
Permanently restricted	1,820,029	1,859,671
Total net assets	14,529,866	7,540,926
	\$ 16,200,960	\$ 8,285,512

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

Patient Advocate Foundation
Statements of Activities

Years Ended June 30,

	2006			2005				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support								
Contributions								
Grants	\$ 4,307,317	\$ 12,866,667	\$ -	\$ 17,173,984	\$ 3,329,967	\$ 5,711,250	\$ -	\$ 9,041,217
Private and public donations	31,556	-	-	31,556	23,741	-	-	23,741
Donated services and materials	126,395	-	-	126,395	129,563	-	-	129,563
Patient Congress	199,390	-	-	199,390	192,255	-	-	192,255
Promise of Hope	146,388	-	-	146,388	145,735	-	-	145,735
Special events	59,011	-	-	59,011	134,471	-	-	134,471
Investment income (loss)	416,178	-	(39,642)	376,536	101,346	-	43,836	145,182
Net assets released from restrictions	5,827,598	(5,827,598)	-	-	1,738,270	(1,738,270)	-	-
Total revenues, gains and other support	11,113,833	7,039,069	(39,642)	18,113,260	5,795,348	3,972,980	43,836	9,812,164
Expenses								
Program services								
Patient services	2,523,380	-	-	2,523,380	1,968,656	-	-	1,968,656
Co-Pay relief	7,461,400	-	-	7,461,400	2,551,960	-	-	2,551,960
Patient Congress	338,037	-	-	338,037	206,269	-	-	206,269
Scholarships	75,248	-	-	75,248	68,514	-	-	68,514
Supporting services:								
Management and general	576,354	-	-	576,354	636,389	-	-	636,389
Fundraising	149,902	-	-	149,902	84,731	-	-	84,731
Total expenses	11,124,320	-	-	11,124,320	5,516,519	-	-	5,516,519
Change in net assets	(10,487)	7,039,069	(39,642)	6,988,940	278,829	3,972,980	43,836	4,295,645
Net assets - beginning of year	723,400	4,957,855	1,859,671	7,540,926	444,571	984,875	1,815,835	3,245,281
Net assets - end of year	\$ 712,913	\$ 11,996,924	\$ 1,820,029	\$ 14,529,866	\$ 723,400	\$ 4,957,855	\$ 1,859,671	\$ 7,540,926

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

Patient Advocate Foundation

Statement of Functional Expenses

Year Ended June 30, 2006

	Program Services				Supporting Services				
	Patient/ Educational Services	Co-Pay Relief	Patient Congress	Scholarships	Total Program Expenses	Management and General	Fund- raising	Total Supporting Services	Total Functional Expenses
Salaries and related expenses									
Salaries	\$ 1,315,520	\$ 1,086,734	\$ 28,598	\$ 28,598	\$ 2,459,450	\$ 343,179	\$ 57,197	\$ 400,376	\$ 2,859,826
Payroll taxes	95,008	78,485	2,065	2,065	177,624	24,785	4,131	28,915	206,539
Employee insurance	67,655	55,889	1,471	1,471	126,485	17,649	2,942	20,591	147,076
Employee retirement	24,589	20,313	535	535	45,970	6,414	1,069	7,484	53,454
Total salaries and related expenses	1,502,772	1,241,420	32,669	32,668	2,809,529	392,028	65,338	457,365	3,266,895
Accounting fees	-	-	-	-	-	26,526	-	26,526	26,526
Conferences, conventions and meetings	70,021	11,670	154,629	-	236,320	-	-	55,433	291,753
Consultants	116	10,184	1,273	-	11,573	-	-	-	11,573
Co-Pay relief payments	-	5,723,760	-	-	5,723,760	-	-	-	5,723,760
Depreciation	-	-	-	-	-	60,541	-	60,541	60,541
Donations	-	-	-	-	-	2,550	-	2,550	2,550
Equipment rental and maintenance	50,208	6,355	-	-	56,563	6,991	-	6,991	63,554
Hurricane relief payments	103,838	-	-	-	103,838	-	-	-	103,838
Insurance	9,759	4,975	-	-	14,734	3,444	957	4,401	19,135
Legal fees	24,058	11,849	-	-	35,907	-	-	-	35,907
Marketing	13,571	28,017	-	-	41,588	1,751	438	2,189	43,777
Occupancy	64,743	31,172	-	-	95,915	22,780	1,199	23,979	119,894
Penalties and finance charges	-	-	-	-	-	4,227	-	4,227	4,227
Postage and shipping	46,888	38,734	1,019	1,019	87,661	12,232	2,039	14,270	101,931
Printing and publications	96,432	27,069	25,377	-	148,878	8,459	11,843	20,301	169,179
Professional fees - NPAF	240,000	240,000	-	-	480,000	-	-	-	480,000
Scholarships	-	-	-	40,000	40,000	-	-	-	40,000
Staff meeting and incentives	5,901	5,480	-	-	11,381	2,670	-	2,670	14,051
Supplies	60,424	18,390	876	-	79,690	4,379	3,503	7,881	87,571
Telephone	71,794	59,308	1,561	1,561	134,223	18,729	3,121	21,850	156,073
Travel	162,856	3,016	120,634	-	286,507	9,048	6,032	15,079	301,586
Total functional expenses	\$ 2,523,380	\$ 7,461,400	\$ 338,037	\$ 75,248	\$10,398,066	\$ 576,354	\$ 149,902	\$ 726,254	\$ 11,124,320

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

Patient Advocate Foundation

Statement of Functional Expenses

Year Ended June 30, 2005

	Program Services				Supporting Services				
	Patient/ Educational Services	Co-Pay Relief	Patient Congress	Scholarships	Total Program Expenses	Management and General	Fund- raising	Total Supporting Services	Total Functional Expenses
Salaries and related expenses									
Salaries	\$ 1,108,749	\$ 554,374	\$ 21,322	\$ 21,322	\$ 1,705,767	\$ 405,120	\$ 21,322	\$ 426,442	\$ 2,132,209
Payroll taxes	79,833	39,917	1,535	1,535	122,820	29,170	1,535	30,705	153,525
Employee insurance	53,533	26,767	1,029	1,029	82,358	19,560	1,029	20,589	102,947
Employee retirement	27,346	13,673	526	526	42,071	9,992	526	10,518	52,589
Total salaries and related expenses	1,269,461	634,731	24,412	24,412	1,953,016	463,842	24,412	488,254	2,441,270
Accounting fees	-	-	-	-	-	9,087	-	9,087	9,087
Bank charges	-	-	-	-	-	1,506	-	1,506	1,506
Conferences, conventions and meetings	35,346	5,891	78,056	-	119,293	-	27,983	27,983	147,276
Consultants	508	44,700	5,587	-	50,795	-	-	-	50,795
Co-Pay relief payments	-	1,518,979	-	-	1,518,979	-	-	-	1,518,979
Depreciation	-	-	-	-	-	65,464	-	65,464	65,464
Donations	-	-	-	-	-	2,945	-	2,945	2,945
Equipment rental and maintenance	51,441	6,512	-	-	57,953	7,162	-	7,162	65,115
Insurance	7,313	3,728	-	-	11,041	2,581	717	3,298	14,339
Legal fees	33,402	16,451	-	-	49,853	-	-	-	49,853
Marketing	38,212	78,890	-	-	117,102	4,931	1,232	6,163	123,265
Occupancy	50,526	24,327	-	-	74,853	17,778	935	18,713	93,566
Penalties and finance charges	-	-	-	-	-	6,754	-	6,754	6,754
Postage and shipping	40,912	16,898	2,668	5,336	65,814	16,898	6,226	23,124	88,938
Printing and publications	64,778	18,183	17,047	-	100,008	5,682	7,955	13,637	113,645
Professional fees - NPAF	150,000	150,000	-	-	300,000	-	-	-	300,000
Scholarships	-	-	-	37,500	37,500	-	-	-	37,500
Staff meeting and incentives	2,877	2,672	-	-	5,549	1,301	-	1,301	6,850
Supplies	46,728	14,222	677	-	61,627	3,386	2,709	6,095	67,722
Telephone	77,219	13,925	3,798	1,266	96,208	21,520	8,861	30,381	126,589
Travel	99,933	1,851	74,024	-	175,808	5,552	3,701	9,253	185,061
Total functional expenses	\$ 1,968,656	\$ 2,551,960	\$ 206,269	\$ 68,514	\$ 4,795,399	\$ 636,389	\$ 84,731	\$ 721,120	\$ 5,516,519

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

Patient Advocate Foundation

Statements of Cash Flows

Years Ended June 30,	2006	2005
Cash flows from operating activities		
Change in net assets	\$ 6,988,940	\$ 4,295,645
Adjustments to reconcile to net cash from operating activities:		
Depreciation	60,541	65,464
(Gain) loss on investments	40,340	(12,531)
Changes in:		
Unconditional promises to give	24,574	178,830
Interest receivable	5,360	(39,393)
Employee receivable	456	(954)
Due from NPAF	(36)	(74)
Inventory	9,304	(48,118)
Prepaid expenses	(22,147)	(9,654)
Accounts payable and accrued expenses	84,484	73,614
Deferred revenue	837,292	511,875
Accrued vacation leave	4,732	34,001
Net cash from operating activities	<u>8,033,840</u>	<u>5,048,705</u>
Cash flows from investing activities		
Acquisition of property and equipment	(110,783)	(32,334)
Net purchase and proceeds from investments	(18,742)	14,981
Refundable deposits	(1,148)	(170)
Net cash from investing activities	<u>(130,673)</u>	<u>(17,523)</u>
Cash flows from financing activities		
Payments on long-term debt	-	(4,537)
Net change in cash and cash equivalents	<u>7,903,167</u>	<u>5,026,645</u>
Cash and cash equivalents - beginning of year	<u>6,155,759</u>	<u>1,129,114</u>
Cash and cash equivalents - end of year	<u>\$ 14,058,926</u>	<u>\$ 6,155,759</u>
Balance sheet presentation of cash and cash equivalents		
General operating cash and cash equivalents	\$ 2,062,002	\$ 1,197,904
Restricted CPR cash and cash equivalents	<u>11,996,924</u>	<u>4,957,885</u>
	<u>\$ 14,058,926</u>	<u>\$ 6,155,789</u>

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

Patient Advocate Foundation

Notes to Financial Statements

June 30, 2006 and 2005

1. **Organization and Nature of Business**

Patient Advocate Foundation (Foundation) is a national nonprofit organization that serves as an active liaison between the patient and the insurer, employer and/or creditors to resolve insurance, job discrimination, and/or debt crisis matters relative to the diagnosis through case managers and attorneys. The Foundation seeks to safeguard patients through effective mediation assuring access to care, maintenance of employment and preservation of their financial stability. The Foundation assists patients throughout the United States and is supported primarily through donor contributions and educational grants.

2. **Summary of Significant Accounting Policies**

Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Financial Statement Presentation

The Foundation reports information regarding its financial position according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Classes of Net Assets

The financial statements report amounts separately by class of net assets as follows:

- *Unrestricted* amounts are those currently available at the discretion of the Board of Directors for use in the Foundation's operations.
- *Temporarily restricted* amounts are those that are stipulated by donors for specific purposes. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.
- *Permanently restricted* amounts are restricted to investments in perpetuity, the income from which is expendable in accordance with the conditions of each specific donation.

All contributions are considered available for unrestricted use unless specifically restricted by the donor or subject to other legal restrictions.

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 certain reported amounts and disclosures. Amounts reported in the financial statements may be affected by these estimates and assumptions. Actual results could differ from these estimates.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Unconditional Promises to Give

Unconditional promises to give are recognized by the Foundation when a donor makes a promise to give that is in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other 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, temporarily restricted net assets are reclassified to unrestricted net assets.

All promises to give are deemed to be fully collectible by the Foundation therefore, no provision has been made for an allowance for uncollectible unconditional promises to give.

Contributed Services and Property

Certain contributed services and property are recorded as support and expenses at fair market value when determinable, otherwise at values indicated by the donor. Contributions of donated services that create or enhance non-financial assets or that require specialized skills are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

Inventories

Inventories, which consist of brochures and marketing material, are stated at the lower of cost or market.

Property and Equipment

It is the Foundation's policy to capitalize property and equipment over \$1,000. Lesser amounts are expensed. Purchased property and equipment are capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Asset donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Foundation reports expirations of donor restrictions when donated or acquired assets are placed in service as instructed by the donor. The Foundation reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using accelerated methods.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by donor are reported as increases in unrestricted net assets if the restrictions expire (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Deferred Revenue

The Foundation records a portion of the administrative funding for the Co-Pay Relief Program as deferred revenue. Revenue is recognized for administrative funding based on the contract term on the straight-line method.

Functional Expenses

The Foundation's expenses are related to the performance of three functions: program services, management and general, and fund raising. Definitions of these functions are as follows:

- ***Program Services*** - The Foundation operates various programs including, but not limited to case management on behalf of the patient working with his/her insurer, employer and creditors to resolve access to care, job retention and debt crisis matters. All costs related to the operation of these programs, including the day-to-day administration of the programs and other costs related to the programs are included in this function.
- ***Management and General*** - All management and general costs not identifiable with a program or fund raising activity, but indispensable to the conduct of such programs and activities and the Foundation's existence, are included in this function. This includes expenses for the overall direction of the Foundation's business management, general record keeping, budgeting, financial reporting and activities relating to the function such as salaries, rent, supplies, equipment and other general overhead.
- ***Fund Raising*** - Activities performed by the Foundation to generate funds to operate.

Income Taxes

The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, therefore, is exempt from federal and state income taxes.

3. Concentration of Credit Risk

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash with various banks and investment securities. The Foundation places its temporary cash investments with high credit quality financial institutions. Accounts at each financial institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. At times, the Foundation has bank cash deposit balances in excess of FDIC insured amounts. At June 30, 2006 and 2005, the Foundation had \$90,946 and \$108,991, respectively, in money market funds and \$1,729,082 and \$1,750,680, respectively, in investments at fair value (see Note 4), which are protected up to their full net equity value by a combination of coverage provided by the Securities Investor Protection Corporation (SIPC) and additional private insurer protection. SIPC protects up to \$500,000 of the Foundation's investments of which \$100,000 may be uninvested cash. Excess coverage provides additional protection up to the full equity value of each account including unlimited coverage for uninvested cash.

4. Investments

Investments are stated at fair value and consist of the following at June 30, 2006 and 2005:

	<u>2006</u>		
	<u>Cost</u>	<u>Fair Market Value</u>	<u>Unrealized Losses</u>
Corporate bonds	\$ 60,000	\$ 58,047	\$ (1,953)
Treasury securities	702,673	666,813	(35,860)
Federal agency bonds	410,792	390,423	(20,369)
Certificates of deposit	639,788	613,799	(25,989)
	<u>\$ 1,813,253</u>	<u>\$ 1,729,082</u>	<u>\$ (84,171)</u>

	<u>2005</u>		
	<u>Cost</u>	<u>Fair Market Value</u>	<u>Unrealized Losses</u>
Corporate bonds	\$ 350,464	\$ 336,903	\$ (13,561)
Treasury securities	839,591	806,067	(33,524)
Federal agency bonds	259,914	252,568	(7,346)
Certificates of deposit	360,000	355,142	(4,858)
	<u>\$ 1,809,969</u>	<u>\$ 1,750,680</u>	<u>\$ (59,289)</u>

5. Property and Equipment

Property and equipment consist of the following:

	<u>2006</u>	<u>2005</u>
Furniture and fixtures	\$ 116,782	\$ 58,031
Office equipment	103,642	103,642
Computers, software and other assets	219,177	181,254
Leasehold improvements	104,110	90,000
	<u>543,711</u>	<u>432,927</u>
Less - accumulated depreciation	<u>(276,398)</u>	<u>(215,856)</u>
	<u>\$ 267,313</u>	<u>\$ 217,071</u>

Depreciation expense for 2006 and 2005 was \$60,541 and \$65,464, respectively.

6. Restrictions on Net Assets

For 2006 and 2005, the Foundation had both temporarily and permanently restricted net assets.

Net assets are temporarily restricted by time and specific purpose as presented below:

	<u>2006</u>	<u>2005</u>
Hurricane Relief Program	\$ 46,163	\$ -
Co-Pay Relief Program funding	11,950,761	4,957,855
	<u>\$ 11,996,924</u>	<u>\$ 4,957,855</u>

The Co-Pay Relief Program was implemented during 2004 to specifically provide cash assistance to individuals diagnosed with certain illnesses in need of financial assistance for medical and/or pharmaceutical out-of-pocket expenditures. The Co-Pay Relief Program is a patient assistance program approved for operation under an OIG opinion. The program has been approved to operate twenty-seven (27) separate disease specific silos. As funding becomes available, the Foundation will evaluate the provision of financial assistance for additional disease silos. Program funds are specifically designated for the exclusive use of patients who meet certain eligibility requirements as established by the federal poverty guidelines. Unused funds at the end of a twelve-month period are reallocated for use by other eligible individuals and are not available for general operating purposes.

In September 2005, the Hurricane Relief Fund was established by the Foundation to help assist people with debilitating diseases who were displaced due to Hurricane Katrina. Funds for the program were provided by the Susan G. Komen Breast Cancer Foundation and Lance Armstrong Foundations. The funds are to be used to help victims with emergency housing, rental expenses, chemotherapy treatment, and various prescriptions. Once the remainder of funds has been disbursed, the program will terminate.

Permanently restricted net assets consist of endowment fund investments to be held indefinitely, the income from which is expendable to support the general operations of the Foundation. As of June 30, 2006 and 2005, permanently restricted net assets totaled \$1,820,029 (comprised of \$1,729,082 in investments and \$90,946 in restricted cash) and \$1,859,671 (comprised of \$1,750,680 in investments and \$108,992 in restricted cash), respectively.

7. Pension Plan

The Foundation maintains a 403(b) plan for the benefit of its employees. Employee retirement plan expense was \$53,454 and \$52,589, for 2006 and 2005, respectively.

8. Donated Services and Property

During 2006 and 2005, donated materials were valued at \$49,578 and \$30,563 respectively, primarily in support of the Foundation's annual Promise of Hope Affair.

In 2006 and 2005, the Foundation received pro bono legal services on behalf of patients being serviced by the Foundation through the National Legal Resources Network valued at \$28,000 and \$40,000, respectively. As well, during 2006 and 2005, \$48,817 and \$58,995 in other professional services were donated and recognized as related income and expense for donated services, respectively.

9. Related Party Transactions

During 2006 and 2005, the Foundation paid consulting fees of \$480,000 and \$300,000 respectively, to National Patient Advocate Foundation. These fees are governed by an arm's length contractual arrangement between the two separate organizations and are in accordance with Internal Revenue Service guidelines dealing with transactions between a section 501(c)(3) organization and a section 527 policy making entity.

10. Commitments

The Foundation leases 14,500 square feet of office space for \$12,823 per month, under a five-year lease agreement which was due to expire in February 2008. In October 2005, the lease term was extended for an additional two years and seven months and will expire in September 2010.

In March 2006, the Foundation began leasing additional office space in San Diego, California for \$1,147 per month, under a one-year lease agreement which expires in February 2007.

The Foundation also leases office equipment for use during operations, which consists of a copier and phone system.

Total lease payments for 2006 and 2005, were \$134,740 and \$107,129, respectively.

Minimum future lease payments under the noncancelable operating leases as of June 30, 2006, are as follows:

2007	\$	176,036
2008		166,860
2009		158,551
2010		153,876
2011		38,469
		<hr/>
	\$	693,792
		<hr/>

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Patient Advocate Foundation

Supplementary Information

Year Ended June 30, 2006

Patient Advocate Foundation

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2006

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number		Current Year Federal Expenditures
U.S. Department of Health and Human Services			
Strategies to Provide Information for Patients of Hematologic Cancers	93.283	*	\$ 304,902
Early Detection of Survivorship of Cancer in Underserved Populations	93.283	*	275,284
Project to Provide Direct Patient Services	93.779		<u>148,800</u>
Total			<u>\$ 728,986</u>

* Major Federal Program Award

Patient Advocate Foundation

Note to Schedule of Expenditures of Federal Awards

June 30, 2006

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of *Patient Advocate Foundation* and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented or used in the preparation of the basic financial statements.

Patient Advocate Foundation

Compliance Reports

Year Ended June 30, 2006



***Report on Internal Control Over
Financial Reporting and on Compliance
and Other Matters Based on an Audit of
Financial Statements Performed in Accordance
with Government Auditing Standards***

Certified Public Accountants
Specialized Services
Business Solutions

Board of Directors
Patient Advocate Foundation

We have audited the financial statements of ***Patient Advocate Foundation*** as of and for the years ended June 30, 2006 and 2005, and have issued our report thereon dated July 21, 2006. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the ***Patient Advocate Foundation***'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the ***Patient Advocate Foundation***'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. We noted certain other matters that we reported to management of the ***Patient Advocate Foundation*** in a separate letter date July 21, 2006.

This report is intended solely for the information and use of the ***Patient Advocate Foundation***'s management and Board of Directors and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Goodman & Company T.T.P.

Newport News, Virginia
July 21, 2006

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***Report on Compliance with Requirements
Applicable to Each Major Program and on
Internal Control Over Compliance in Accordance
with OMB Circular A-133***

Certified Public Accountants
Specialized Services
Business Solutions

Board of Directors
Patient Advocate Foundation

Compliance

We have audited the compliance of ***Patient Advocate Foundation*** with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The ***Patient Advocate Foundation's*** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of the ***Patient Advocate Foundation's*** management. Our responsibility is to express an opinion on the ***Patient Advocate Foundation's*** compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the ***Patient Advocate Foundation's*** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the ***Patient Advocate Foundation's*** compliance with those requirements.

In our opinion, the ***Patient Advocate Foundation*** complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

Management of the ***Patient Advocate Foundation*** is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the ***Patient Advocate Foundation's*** internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be a material weakness.

This report is intended solely for the information and use of the ***Patient Advocate Foundation's*** management and Board of Directors and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than those specified parties.

Goodman & Company T.T.P.

Newport News, Virginia
July 21, 2006

Patient Advocate Foundation

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006 and 2005

1. Summary of Auditors' Results

- a. An unqualified opinion was issued on the financial statements.
- b. There were no reportable conditions in internal control disclosed by the audit.
- c. The audit did not disclose any noncompliance that would be material to the financial statements.
- d. There were no reportable conditions in internal control over major programs to disclose.
- e. An unqualified opinion was issued on compliance for major programs.
- f. The audit did not disclose any audit finding required to be reported.
- g. The major programs are:
 - i) Strategy to Provide Information to Patients of Hematologic cancer (CFDA No. 93.283)
 - ii) Early Detection of Survivorship of Cancer in Underserved Populations (CFDA No. 93.283)
- h. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- i. The auditee did not qualify as a low-risk auditee.

2. Findings Relating to the Financial Statements which are Required to be Reported in Accordance with Generally Accepted Governmental Auditing Standards

- a. None

3. Findings and Questioned Costs For Federal Awards

- a. None

4. Status of Prior Year Findings

- a. There were no findings for the prior year.