

Financial Statements
Years Ended
June 30, 2012 and 2011



Solving Insurance and Healthcare Access Problems | *since 1996*



DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

Patient Advocate Foundation

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Report of Independent Auditors

Board of Directors
Patient Advocate Foundation

We have audited the accompanying statements of financial position of the ***Patient Advocate Foundation*** (a nonprofit organization) as of June 30, 2012 and 2011, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the ***Patient Advocate 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 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 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 the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit 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 Advocate Foundation*** as of June 30, 2012 and 2011, and the changes 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 October 15, 2012, 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 considered in assessing the results of our audits.

Dixon Hughes Goodman LLP

Newport News, Virginia
October 15, 2012

Patient Advocate Foundation

Statements of Financial Position

June 30,	2012	2011
Assets		
Current assets		
General operating cash and cash equivalents	\$ 1,415,140	\$ 3,187,235
Restricted CPR cash and cash equivalents	26,031,769	38,331,347
Unconditional promises to give	149,943	102,925
Interest receivable	48,790	56,501
Related party receivable	4,078	2,131
Service contract receivable	446,074	501,299
Employee travel advances	920	21,728
Inventories	94,500	86,957
Prepaid expenses	171,200	235,869
Investments and cash equivalents	1,920,717	1,943,750
Total current assets	30,283,131	44,469,742
Property and equipment - net	1,400,184	1,542,011
Other assets		
Refundable deposits	103,631	108,540
	\$ 31,786,946	\$ 46,120,293
Liabilities and Net Assets		
Current liabilities		
Current portion of obligation under capital lease	\$ 54,951	\$ 68,477
Accounts payable and accrued expenses	453,431	631,953
Deferred revenue	1,261,366	2,322,968
Accrued vacation leave	357,156	406,593
Total current liabilities	2,126,904	3,429,991
Long-term liabilities		
Obligation under capital lease - less current portion	-	54,950
Total liabilities	2,126,904	3,484,941
Unrestricted	1,707,558	2,360,255
Temporarily restricted	26,031,769	38,331,347
Permanently restricted	1,920,715	1,943,750
Total net assets	29,660,042	42,635,352
	\$ 31,786,946	\$ 46,120,293

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

Patient Advocate Foundation

Statements of Activities

Years Ended June 30,	2012				2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support								
Contributions								
Grants	\$ 4,610,445	\$ 27,124,500	\$ -	\$ 31,734,945	\$ 6,849,584	\$ 27,183,586	\$ -	\$ 34,033,170
Private and public donations	96,676	-	-	96,676	82,268	-	-	82,268
Donated services and materials	105,943	-	-	105,943	166,699	-	-	166,699
Program Administration	10,389,380	-	-	10,389,380	8,884,423	-	-	8,884,423
Patient Congress	285,689	-	-	285,689	225,920	-	-	225,920
Prescription Access Point	-	-	-	-	750,000	-	-	750,000
Promise of Hope	290,048	-	-	290,048	285,606	-	-	285,606
Miscellaneous income	338,084	-	-	338,084	453,652	-	-	453,652
Investment income (loss)	295,330	-	(23,035)	272,295	285,788	-	(30,627)	255,161
Net assets released from restrictions								
Satisfaction of program restrictions:								
Financial Aid Awards	39,424,078	(39,424,078)	-	-	19,087,061	(19,087,061)	-	-
Total revenues, gains and other support	55,835,673	(12,299,578)	(23,035)	43,513,060	37,071,001	8,096,525	(30,627)	45,136,899
Expenses								
Program services:								
Patient services	6,719,227	-	-	6,719,227	8,832,046	-	-	8,832,046
Co-Pay Relief	43,800,408	-	-	43,800,408	21,711,008	-	-	21,711,008
Service contracts	2,900,039	-	-	2,900,039	2,354,439	-	-	2,354,439
Supporting services:								
Management and general	1,922,231	-	-	1,922,231	1,873,430	-	-	1,873,430
Fundraising	1,146,465	-	-	1,146,465	1,215,215	-	-	1,215,215
Total expenses	56,488,370	-	-	56,488,370	35,986,138	-	-	35,986,138
Change in net assets	(652,697)	(12,299,578)	(23,035)	(12,975,310)	1,084,863	8,096,525	(30,627)	9,150,761
Net assets - beginning of year	2,360,255	38,331,347	1,943,750	42,635,352	1,275,392	30,234,822	1,974,377	33,484,591
Net assets - end of year	\$ 1,707,558	\$ 26,031,769	\$ 1,920,715	\$ 29,660,042	\$ 2,360,255	\$ 38,331,347	\$ 1,943,750	\$ 42,635,352

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

Patient Advocate Foundation

Statement of Functional Expenses

Year Ended June 30, 2012	Program Services				Supporting Services			
	Patient/ Educational Services	Co-Pay Relief	Service Contracts	Total Program Expenses	Management and General	Fundraising	Total Supporting Services	Total Functional Expenses
Salaries and related expenses								
Salaries	\$ 3,857,957	\$ 2,603,853	\$ 1,952,868	\$ 8,414,678	\$ 1,120,081	\$ 634,486	\$ 1,754,567	\$ 10,169,245
Payroll taxes	280,852	148,804	117,971	547,627	76,413	46,250	122,663	670,290
Employee insurance	347,989	184,376	146,171	678,536	94,682	57,305	151,987	830,523
Employee retirement	74,250	39,340	31,189	144,779	20,201	12,227	32,428	177,207
Total salaries and related expenses	4,561,048	2,976,373	2,248,199	9,785,620	1,311,377	750,268	2,061,645	11,847,265
Accounting fees	-	-	-	-	68,477	-	68,477	68,477
Bad debts	-	-	-	-	-	-	-	-
Bank fees and interest	17,696	52,260	10,412	80,368	4,123	1,056	5,179	85,547
CCL Financial Aid Awards	69,550	-	-	69,550	-	-	-	69,550
Conferences, conventions and meetings	62,828	-	-	62,828	55,934	120,669	176,603	239,431
Consultants	64,581	23,845	-	88,426	24,997	41,766	66,763	155,189
CPAF Financial Aid Awards	-	-	-	-	-	-	-	-
CPR Financial Aid Awards	-	39,493,628	-	39,493,628	-	-	-	39,493,628
Depreciation	147,093	77,935	61,786	286,814	40,020	24,223	64,243	351,057
Donations	-	-	-	-	300	-	300	300
Equipment rental and maintenance	121,842	124,299	67,675	313,816	10,836	5,592	16,428	330,244
Insurance	6,695	5,275	4,167	16,137	57,047	392	57,439	73,576
Legal fees	3,943	1,612	-	5,555	80,204	4,250	84,454	90,009
Loss on abandonment of fixed assets	-	-	-	-	37,989	-	37,989	37,989
Marketing	63,633	33,715	26,729	124,077	17,312	10,479	27,791	151,868
Occupancy	321,917	203,875	168,427	694,219	43,175	16,172	59,347	753,566
Postage and shipping	58,123	111,893	81,877	251,893	6,721	4,473	11,194	263,087
Printing and publications	95,544	52,631	23,364	171,539	51,652	25,925	77,577	249,116
Professional fees - NPAF	398,985	220,775	-	619,760	27,780	14,960	42,740	662,500
Property taxes	-	-	-	-	306	-	306	306
Recruiting	12,377	6,558	5,199	24,134	3,368	2,038	5,406	29,540
Scholarships	24,000	-	-	24,000	-	-	-	24,000
Staff meeting and incentives	21,037	11,281	8,686	41,004	10,077	3,472	13,549	54,553
Supplies	44,834	41,181	39,126	125,141	12,721	8,770	21,491	146,632
Telephone	392,827	350,793	151,380	895,000	54,316	21,163	75,479	970,479
Travel	230,674	12,479	3,012	246,165	3,499	90,797	94,296	340,461
Total functional expenses	\$ 6,719,227	\$ 43,800,408	\$ 2,900,039	\$ 53,419,674	\$ 1,922,231	\$ 1,146,465	\$ 3,068,696	\$ 56,488,370

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

Patient Advocate Foundation

Statement of Functional Expenses

Year Ended June 30, 2011	Program Services				Supporting Services			
	Patient/ Educational Services	Co-Pay Relief	Service Contracts	Total Program Expenses	Management and General	Fundraising	Total Supporting Services	Total Functional Expenses
Salaries and related expenses								
Salaries	\$ 4,630,843	\$ 1,834,061	\$ 1,437,853	\$ 7,902,757	\$ 1,258,148	\$ 764,516	\$ 2,022,664	\$ 9,925,421
Payroll taxes	345,565	139,874	101,088	586,527	85,244	53,575	138,819	725,346
Employee insurance	365,288	193,664	185,251	744,203	53,739	18,708	72,447	816,650
Employee retirement	58,539	30,752	29,746	119,037	8,406	3,026	11,432	130,469
Total salaries and related expenses	5,400,235	2,198,351	1,753,938	9,352,524	1,405,537	839,825	2,245,362	11,597,886
Accounting fees	-	4,702	-	4,702	40,632	-	40,632	45,334
Bad debts	-	-	-	-	25,000	-	25,000	25,000
Bank fees and interest	47,142	25,220	17,384	89,746	6,081	3,248	9,329	99,075
CCL Financial Aid Awards	656,163	-	-	656,163	-	-	-	656,163
Conferences, conventions and meetings	199,621	-	-	199,621	40,372	147,537	187,909	387,530
Consultants	43,286	2,913	-	46,199	9,284	6,596	15,880	62,079
CPAF Financial Aid Awards	11,363	-	-	11,363	-	-	-	11,363
CPR Financial Aid Awards	-	18,419,537	-	18,419,537	-	-	-	18,419,537
Depreciation	187,455	80,219	23,452	291,126	17,161	6,245	23,406	314,532
Donations	-	-	-	-	1,279	-	1,279	1,279
Equipment rental and maintenance	176,543	66,262	23,096	265,901	6,193	3,911	10,104	276,005
Insurance	9,964	5,216	3,921	19,101	38,783	490	39,273	58,374
Legal fees	32,244	3,010	-	35,254	24,322	905	25,227	60,481
Loss on abandonment of fixed assets	-	-	-	-	5,652	-	5,652	5,652
Marketing	234,969	51,523	35,641	322,133	11,796	10,803	22,599	344,732
Occupancy	386,443	195,000	134,933	716,376	45,452	19,334	64,786	781,162
Postage and shipping	108,037	84,252	59,434	251,723	9,925	8,362	18,287	270,010
Printing and publications	139,447	65,902	14,996	220,345	34,143	29,025	63,168	283,513
Professional fees - NPAF	502,605	261,085	-	763,690	32,000	24,310	56,310	820,000
Property taxes	16,305	8,543	8,264	33,112	2,334	841	3,175	36,287
Recruiting	4,643	2,439	2,359	9,441	667	240	907	10,348
Scholarships	31,500	-	-	31,500	-	-	-	31,500
Staff meeting and incentives	27,472	13,973	13,251	54,696	60,512	1,865	62,377	117,073
Supplies	44,960	49,333	49,461	143,754	13,037	13,877	26,914	170,668
Telephone	325,438	160,457	210,535	696,430	36,294	17,180	53,474	749,904
Travel	246,211	13,071	3,774	263,056	6,974	80,621	87,595	350,651
Total functional expenses	\$ 8,832,046	\$ 21,711,008	\$ 2,354,439	\$ 32,897,493	\$ 1,873,430	\$ 1,215,215	\$ 3,088,645	\$ 35,986,138

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

Patient Advocate Foundation

Statements of Cash Flows

Years Ended June 30,	2012	2011
Cash flows from operating activities		
Change in net assets	\$(12,975,310)	\$ 9,150,761
Adjustments to reconcile to net cash from operating activities:		
Depreciation	351,057	314,532
Loss on disposal on abandonment property and equipment	37,989	5,652
Unrealized and realized (gain) loss on investments	23,033	77,046
Change in:		
Unconditional promises to give	(47,018)	17,686
Interest receivable	7,711	14,155
Related party receivable	(1,947)	(2,131)
Service contract receivable	55,225	(260,670)
Employee travel advances	20,808	(20,640)
Inventories	(7,543)	(17,598)
Prepaid expenses	64,669	24,180
Refundable deposits	4,909	5,834
Accounts payable and accrued expenses	(178,522)	137,009
Deferred revenue	(1,061,602)	(84,888)
Accrued vacation leave	(49,437)	27,642
Net cash from operating activities	(13,755,978)	9,388,570
Cash flows from investing activities		
Acquisition of property and equipment	(251,971)	(683,964)
Net purchase and proceeds from investments	-	(46,419)
Net cash from investing activities	(251,971)	(730,383)
Cash flows from financing activities		
Repayment of obligation under captial lease	(68,477)	(63,379)
Net change in cash and cash equivalents	(14,071,673)	8,594,808
Cash and cash equivalents - beginning of year	41,518,582	32,923,774
Cash and cash equivalents - end of year	\$ 27,446,909	\$ 41,518,582
Balance sheet presentation of cash and cash equivalents		
General operating cash and cash equivalents	\$ 1,415,140	\$ 3,187,235
Restricted CPR cash and cash equivalents	26,031,769	38,331,347
	\$ 27,446,909	\$ 41,518,582
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 7,178	\$ 12,276

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

Patient Advocate Foundation

Notes to Financial Statements

June 30, 2012 and 2011

1. Organization and Nature of Business

Patient Advocate Foundation (Foundation) is a national nonprofit organization that seeks to safeguard patients through effective mediation assuring access to care, maintenance of employment and preservation of their financial stability relative to their diagnosis of life threatening or debilitating diseases. The Foundation assists patients throughout the United States and is supported primarily through grant contributions and service agreements.

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.

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 is satisfied by utilizing the funding for its intended purpose, 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 and assumptions.

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 nonfinancial 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 educational material, are valued at the lower of cost (first-in, first-out method) 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 is depreciated on the straight-line method over the following estimate useful lives:

	<u>Years</u>
Furniture and fixtures	7
Office equipment	5
Computers, software and other assets	3 - 5
Leasehold improvements	39

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 fundraising. Definitions of these functions are as follows:

- ***Program Services*** - The Foundation has three distinct program services areas:

Direct Patient and Educational Services

The Foundation provides sustained, one on one, case management services to patients throughout the country who are experiencing access to care issues. The professional case management staff works with patient's insurers, employers and/or creditors in an effort to resolve access to care, debt crisis and job retention issues that are a result of a life threatening and/or debilitating illness. The Foundation's professional case management staff directly assisted 31,333 individuals in FY2011/2012. On average, case managers made 17.51 contacts on behalf of each patient to relevant stakeholders in order to bring resolution to the patient's access issue.

The Foundation has an established publications committee that is responsible for publishing new patient education materials that are widely used with Foundation patients as well provided to other organization and facilities for use with patients. The Foundation has authored a total of 28 patient educational publications. In FY2011/2012, the Foundation completed two full length publications: A Clear View to Medicare...Making the Most of Your Benefits and The National Uninsured Resource Directory. As well, a comprehensive six module overview of the PAF case management program was developed by the PAF Training Coordinator to be used with training internal PAF staff members. In June 2012, PAF completed a review of our corporate website, that served to make the website more user friendly and accurate. The links to the publications now all reflect the most current version of each, and are organized in a way that matches the focus areas of our mission. This project also significantly enhanced the resources for our Spanish speaking audience, as our Spanish areas of the website are now more prominent with a full navigation structure for the pages within Spanish, and complete listing within the site map. There is also a newly created publications order form for those publications specifically available in Spanish. We also added the functionality of Spanish Web chat offering patients the ability to interact with one of our bilingual case managers to address the questions of our Spanish patients.

The Foundation's direct patient services staff provided follow up educational materials to all patients served by the Foundation. The Foundation's case management staff selects appropriate educational materials from over 400 publications available in the Foundation's resource center. These publications include those authored by the Foundation as well as materials published by government agencies, various nonprofit healthcare organizations, academic institutions, healthcare providers and facilities as well as for profit healthcare companies. The Foundation distributed 86,029 pieces of educational material in customized patient education packets to those patients served in FY2011/2012.

During FY2011/2012, the Foundation's direct patient services team also conducted educational outreach at the local, regional and national levels with the goal of educating healthcare professionals, nonprofit organizations and the general public about the services offered by the Foundation. This outreach was, in some cases, targeted to a specific population that is known to be considered disparate in healthcare access and disease outcomes data. These targeted outreach populations include the African American population, Hispanic/Latino populations and the hematologic cancer patient population. In FY2011/2012, the Foundation distributed over 49,862 educational publications through outreach events.

Through patient advocate foundations scholarship for survivors, 10 scholarships are awarded to students whose studies were interrupted or delayed by a diagnosis of a life threatening, chronic or debilitating disease. The students must be enrolled full-time, maintain a GPA of 3.0 or better and complete 20 hours of community service during the academic year.

Co-Pay Relief Program

Launched in 2004, the Patient Advocate Foundation Co-Pay Relief Program (CPR) currently provides direct financial support to insured patients, including privately insured, employer sponsored and Medicare part D beneficiaries, who financially and medically qualify to fulfill their out of pocket co-payment responsibilities, thus, insuring access to needed therapies. The program offers personal service to all patients through the use of call counselors; personally guiding patients through the enrollment and benefit process.

The Foundation's Co-Pay Relief Program currently assists patients who are being treated for autoimmune disorders, breast cancer, chemotherapy induced anemia or neutropenia, colon cancer, cutaneous T-cell lymphoma, electrolyte imbalance, hepatitis C, hormone suppression therapy, malignant brain tumors, multiple myeloma, myelodysplastic syndrome, non-muscle invasive bladder cancer, non-small cell lung cancer (NSCLC), osteoporosis, pain, prostate cancer, rheumatoid arthritis and sarcoma.

Currently the Foundation's Co-Pay Relief Program offers a dedicated, secured website for medical providers to enroll electronically for the Co-Pay Relief Program on behalf of their patients. As well, CPR offers a dedicated, secure web based application for patients to enroll electronically for the Co-Pay Relief Program directly from the Co-Pay Relief Program website.

In FY2011/2012, the Foundation provided co-payment assistance to 36,989 qualified patients through the Co-Pay Relief Program. Since its inception in 2004, the Foundation has provided co-payment assistance to over 87,000 individuals allocating more than \$170 million dollars in co-payment awards.

Service Contract

In FY2008/2009, the Foundation entered into a transparent service administration contract with a national nonprofit organization. The Foundation has been contracted to provide full service, transparent administration services to qualified patients that enter their co-pay assistance program. The Foundation continued to provide this contractual service during FY2011/2012 and was paid administration fees on a monthly basis through this service contract. The Foundation administered services to 19,078 patients in FY2011/2012 through this contract.

- **Management and General** - All management and general costs not identifiable with a program or fundraising activity, but indispensable to conduct 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.
- **Fundraising** - Activities performed by the Foundation to generate funds to operate.

Income Taxes

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal revenue code; accordingly, the accompanying financial statements do not reflect a provision or liability for federal and state income taxes. The Foundation has determined that it does not have any material unrecognized tax benefits or obligations as of June 30, 2012 and 2011. Fiscal years ending on or after June 30, 2009, remain subject to examination by federal and state tax authorities.

Advertising

Advertising costs are charged to operations when incurred. Advertising costs for 2012 and 2011 were \$14,023 and \$160,255, respectively.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through October 15, 2012, the date the financial statements were available to be issued.

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 \$250,000. At June 30, 2012 and 2011, the Foundation had approximately \$18,850,441 and \$38,993,000, respectively, of deposits in excess of the FDIC coverage. At June 30, 2012 and 2011, the Foundation had \$43,323 and \$229,738 respectively, in money market funds and \$1,875,392 and \$1,714,012, 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 \$250,000 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:

	<u>2012</u>		Unrealized	
	Cost	Fair Value	Gain	
Treasury securities	\$ 793,119	\$ 810,166	\$	17,047
Federal agency bonds	329,254	326,998		(2,256)
Certificates of deposit	719,996	738,230		18,234
Money market funds	45,323	45,323		-
	<u>\$ 1,887,692</u>	<u>\$ 1,920,717</u>	<u>\$</u>	<u>33,025</u>

	<u>2011</u>		Unrealized	
	Cost	Fair Value	Gain	
Treasury securities	\$ 709,053	\$ 733,135	\$	24,082
Federal agency bonds	234,679	240,175		5,496
Certificates of deposit	719,996	740,702		20,706
Money market funds	229,738	229,738		-
	<u>\$ 1,893,466</u>	<u>\$ 1,943,750</u>	<u>\$</u>	<u>50,284</u>

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See below for discussion of fair value measurements.

Fair Value Measurements

Financial Accounting Standards Board (FASB), Accounting Standard Codification (ASC) 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1	Inputs to the valuation methodology are unadjusted quoted market prices for identical assets in active markets that the Foundation has the ability to access.
Level 2	<p>Inputs to the valuation methodology include:</p> <ul style="list-style-type: none"> • Quoted prices for similar assets or liabilities in active markets; • Quoted prices for identical or similar assets or liabilities in inactive markets; • Inputs other than quoted prices that are observable for the asset or liability; • Inputs that are derived principally from or corroborated by observable market data by correlation or other means. <p>If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.</p>
Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement 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 need 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. There have been no changes in the methodologies used at June 30, 2012 and 2011.

Treasury securities and federal agency bonds: valued at prices obtained from an independent pricing service when such prices are available.

Certificates of deposit: long-term certificates of deposit purchased within five years to maturity are valued at amortized cost, which approximates market value.

Money market funds: valued at quoted market price for similar assets and other observable inputs such as interest rates offered on similar investments.

The preceding methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value:

Assets at Fair Value as of June 30, 2012				
	Level 1	Level 2	Level 3	Total
Treasury securities	\$ -	\$ 810,166	\$ -	\$ 810,166
Federal agency bonds	-	326,998	-	326,998
Certificates of deposit	738,230	-	-	738,230
Money market funds	-	45,323	-	45,323
	<u>\$ 738,230</u>	<u>\$ 1,182,487</u>	<u>\$ -</u>	<u>1,920,717</u>

Assets at Fair Value as of June 30, 2011				
	Level 1	Level 2	Level 3	Total
Treasury securities	\$ -	\$ 733,135	\$ -	\$ 733,135
Federal agency bonds	-	240,175	-	240,175
Certificates of deposit	740,702	-	-	740,702
Money market funds	-	229,738	-	229,738
	<u>\$ 740,702</u>	<u>\$ 1,203,048</u>	<u>\$ -</u>	<u>\$ 1,943,750</u>

5. Property and Equipment

Property and equipment consist of the following:

	2012	2011
Furniture and fixtures	\$ 379,409	\$ 391,043
Office equipment	451,791	385,231
Computers, software and other assets	1,084,943	1,162,739
Leasehold improvements	78,896	78,896
Projects in progress	342,000	359,400
	<u>2,337,039</u>	<u>2,377,309</u>
Less - accumulated depreciation	(908,702)	(835,298)
	<u>\$ 1,428,337</u>	<u>\$ 1,542,011</u>

Depreciation expense for 2012 and 2011 was \$322,904 and \$314,532, respectively.

6. Capital Leases

During 2008, the Foundation entered into a lease classified as a capital lease of \$312,686. The economic substance of the lease is that the Foundation is financing the acquisition of the asset through the lease, and accordingly, it is recorded in the Foundation's assets and liabilities. During 2012 and 2011, amortization under the aforementioned lease was \$62,537 each year.

The following is a schedule by years of future minimum payments required under the lease together with their present value:

2013	\$ 56,741
	<u>56,741</u>
Less - amount representing interest	<u>(1,790)</u>
Present value of minimum lease payments	<u>\$ 54,951</u>

7. Restrictions on Net Assets

For 2012 and 2011, the Foundation had both temporarily and permanently restricted net assets.

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

	<u>2012</u>	<u>2011</u>
Cancer Premium Assistance funding (CPAF)	\$ -	\$ 32,137
Co-Pay Relief Program funding (CPR)	26,031,769	38,299,210
	<u>\$ 26,031,769</u>	<u>\$ 38,331,347</u>

The Co-Pay Relief Program was launched 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 Office of Inspector General opinion. The program has been approved to operate forty-three (43) separate disease specific silos. As funding becomes available, the Foundation will evaluate the provision of financial assistance for additional disease silos. Program funds are available on a first come, first serve basis for patients who have been approved into the program after meeting specific eligibility guidelines including the following: (1) household income of 500% or less of federal poverty guidelines, (2) verified diagnosis that is covered under the program, (3) existence of insurance coverage that has a pharmaceutical benefit. The program funding is only available to eligible individuals who have been approved for support through the program and is never available for general operating purposes.

In April 2011, in collaboration with the American Cancer Society, the Foundation established the Cancer Premium Assistance Fund, administered through the Co-Pay Relief Program in order to provide cancer patients who medically and financially qualify with assistance for their insurance premiums when they cannot afford them in an effort to maintain their insurance benefits. This program offers premium assistance to cancer patients who are commercially insured and/or are pursuing a high risk pool or COBRA benefit. Patients who are approved for support receive a maximum award amount of \$2,000, ensuring that premium support is provided, ideally, for a 4-6 month period. All patients served through this program are referred to the Foundation through the American Cancer Society's National Cancer Information Health Insurance Assistance Team.

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. At June 30, 2012 and 2011, permanently restricted net assets were \$1,920,715 and \$1,974,377, respectively.

8. Pension Plan

Effective November 1, 2008, the Foundation established a 401(k) plan and terminated the 403(b) plan. Employee retirement plan expense was \$177,414 and \$130,468 for 2012 and 2011, respectively.

9. Donated Services and Property

During 2012 and 2011, donated materials were valued at \$37,345 and \$73,821 respectively, primarily in support of the Foundation's annual Promise of Hope Affair.

In 2012 and 2011, the Foundation received pro bono legal services on behalf of patients being serviced by the Foundation through the National Legal Resources Network valued at \$13,000 and \$22,000, respectively. As well, during 2012 and 2011, \$55,598 and \$70,878, respectively, in other professional services were donated and recognized as related income and expense for donated services.

10. Related Party Transactions

During 2012 and 2011, the Foundation paid consulting fees of \$662,500 and \$820,000 respectively, to National Patient Advocate Foundation (NPAF). 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 501(c)(4) policy making entity. At June 30, 2012 and 2011, there was \$2,166 and \$ 2,131, respectively due to the Foundation from NPAF.

11. Commitments

The Foundation leases a 36,500 square feet office space, under a new ten-year lease agreement for \$51,901 per month, which expires in December 2019.

The Foundation leases additional office space in Texas for \$3,000 per month under a three-year lease agreement which expires in March 2014.

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

Total lease payments for 2012 and 2011 were \$743,128 and \$752,592 respectively.

Minimum future lease payments under the noncancelable operating leases are as follows:

2013	\$	714,120
2014		724,785
2015		707,883
2016		728,385
2017		749,241
Thereafter		<u>1,363,431</u>
	\$	<u>4,987,845</u>

12. Board Designated Endowments (UPMIFA) After Implementation of FSP FAS 117-1

The Foundation's endowment fund was established to support its mission and exempt purpose by supporting its Direct Patient Services including case management and legal counseling/intervention and/or mediation necessary to assure access to health care for uninsured, underinsured and insured patients in addition to support in addressing debt crisis and/or job retention resulting from the diagnosis of a chronic or life threatening disease. The endowment fund builds long-term stability for the future of the Foundation by providing an additional source of income to meet an increasing demand for its programs and services.

The Foundation established the endowment fund in 2001. The funds were designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Directors of the Foundation has interpreted the state law under the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation's endowment fund classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the board designated endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate board designated endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the board designated endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation and (7) the Foundation's investment policies.

Investment Return Objectives, Risk Parameters and Strategies. The Foundation has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to the Foundation Direct Patient Services supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix that is intended to result in a consistent inflation-protected rate of return. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy. The Foundation's Board of Directors governs the use of the endowment fund and identifies the mission related programs and services for which the funds will be used.

Endowment fund net asset composition and type of fund for 2012 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Fund Assets
Board designated endowment funds	\$ -	\$ -	\$ 1,920,715	\$ 1,920,715

Endowment fund net asset composition and type of fund for 2011 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Fund Assets
Board designated endowment funds	\$ -	\$ -	\$ 1,943,750	\$ 1,943,750

Changes in endowment fund net assets in 2012 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Fund Assets
Endowment fund net assets - beginning of year	\$ -	\$ -	\$ 1,943,750	\$ 1,943,750
Investment loss	-	-	(23,035)	(23,035)
Endowment fund net assets - end of year	\$ -	\$ -	\$ 1,920,715	\$ 1,920,715

Changes in endowment fund net assets in 2011 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Fund Assets
Endowment fund net assets - beginning of year	\$ -	\$ -	\$ 1,974,377	\$ 1,974,377
Investment loss	-	-	(30,627)	(30,627)
Endowment fund net assets - end of year	\$ -	\$ -	\$ 1,943,750	\$ 1,943,750

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Patient Advocate Foundation

Compliance Reports

June 30, 2012



DIXON HUGHES GOODMAN^{LLP}
Certified Public Accountants and Advisors

***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***

Board of Directors
Patient Advocate Foundation

We have audited the financial statements of ***Patient Advocate Foundation*** as of and for the year ended June 30, 2012, and have issued our report thereon dated October 15, 2012. We conducted our audit 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 audit, we considered ***Patient Advocate Foundation's*** internal control over financial reporting as basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ***Patient Advocate Foundation's*** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of ***Patient Advocate Foundation's*** internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ***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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of *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.

Dixon Hughes Goodman LLP

Newport News, Virginia
October 15, 2012