

*Financial Statements*  
*Years Ended*  
*June 30, 2014 and 2013*



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Solving Insurance and Healthcare Access Problems | *since 1996*



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Certified Public Accountants and Advisors

***Patient Advocate Foundation***

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## ***Independent Auditors' Report***

Board of Directors

### ***Patient Advocate Foundation***

We have audited the accompanying financial statements of ***Patient Advocate Foundation*** (a nonprofit organization), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of ***Patient Advocate Foundation*** as of June 30, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matter***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on pages 19 and 20 are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Dixon Hughes Goodman LLP*

Newport News, Virginia  
October 9, 2014

*Patient Advocate Foundation*

*Statements of Financial Position*

<b>June 30,</b>	<b>2014</b>	<b>2013</b>
<b>Assets</b>		
<b>Current assets</b>		
General operating cash and cash equivalents	\$ 4,121,397	\$ 3,143,521
Restricted cash and cash equivalents	41,733,713	30,812,296
Unconditional promises to give	183,529	453,417
Related party receivable	-	391
Service contract receivable	426,523	402,722
Employee travel advances	476	672
Inventories	47,958	104,461
Prepaid expenses	476,623	226,540
Investments and cash equivalents	1,909,422	1,846,290
<b>Total current assets</b>	<b>48,899,641</b>	<b>36,990,310</b>
<b>Property and equipment - net</b>	<b>2,403,781</b>	<b>1,225,238</b>
<b>Other assets</b>		
Refundable deposits	53,331	103,631
	<b>\$ 51,356,753</b>	<b>\$ 38,319,179</b>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities</b>		
Current portion of obligation under capital lease	\$ 64,869	\$ 37,866
Accounts payable and accrued expenses	1,276,956	681,349
Due to related party	104,390	-
Deferred revenue	3,304,936	2,882,010
Accrued vacation leave	229,833	380,199
<b>Total current liabilities</b>	<b>4,980,984</b>	<b>3,981,424</b>
<b>Long-term liabilities</b>		
Obligation under capital lease - less current portion	150,235	144,579
Other liabilities	90,855	-
	<b>241,090</b>	<b>144,579</b>
<b>Total liabilities</b>	<b>5,222,074</b>	<b>4,126,003</b>
Unrestricted	2,582,399	1,534,590
Unrestricted - board designated	1,909,422	1,846,290
<b>Total unrestricted net assets</b>	<b>4,491,821</b>	<b>3,380,880</b>
Temporarily restricted	41,642,858	30,812,296
<b>Total net assets</b>	<b>46,134,679</b>	<b>34,193,176</b>
	<b>\$ 51,356,753</b>	<b>\$ 38,319,179</b>

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

**Patient Advocate Foundation**

**Statements of Activities**

Years Ended June 30,	2014					2013				
	Unrestricted -		Total	Temporarily	Total	Unrestricted -		Total	Temporarily	Total
	Unrestricted	Board Designated				Unrestricted	Board Designated			
<b>Revenues, gains and other support</b>										
Contributions:										
Grants	\$ 3,838,793	\$ -	\$ 3,838,793	\$ 44,166,677	\$ 48,005,470	\$ 4,578,357	\$ -	\$ 4,578,357	\$ 34,177,188	\$ 38,755,545
Private and public donations	58,163	-	58,163	-	58,163	74,109	-	74,109	-	74,109
Donated services and materials	63,220	-	63,220	-	63,220	75,832	-	75,832	-	75,832
Program Administration	10,810,595	-	10,810,595	-	10,810,595	8,670,194	-	8,670,194	-	8,670,194
Patient Congress	255,315	-	255,315	-	255,315	199,860	-	199,860	-	199,860
Promise of Hope	255,502	-	255,502	-	255,502	309,801	-	309,801	-	309,801
Miscellaneous income	419,560	-	419,560	-	419,560	210,958	-	210,958	-	210,958
Investment income (loss)	183,911	63,132	247,043	-	247,043	196,564	(74,425)	122,139	-	122,139
Net assets released from restrictions										
Satisfaction of program restrictions										
Financial Aid Awards	33,336,115	-	33,336,115	(33,336,115)	-	29,396,661	-	29,396,661	(29,396,661)	-
<b>Total revenues, gains and other support</b>	<b>49,221,174</b>	<b>63,132</b>	<b>49,284,306</b>	<b>10,830,562</b>	<b>60,114,868</b>	<b>43,712,336</b>	<b>(74,425)</b>	<b>43,637,911</b>	<b>4,780,527</b>	<b>48,418,438</b>
<b>Expenses and losses</b>										
Program services:										
Patient/educational services	6,104,503	-	6,104,503	-	6,104,503	5,671,565	-	5,671,565	-	5,671,565
Financial Aid Programs	36,879,762	-	36,879,762	-	36,879,762	32,614,888	-	32,614,888	-	32,614,888
Service contracts	2,592,607	-	2,592,607	-	2,592,607	2,630,444	-	2,630,444	-	2,630,444
Supporting services:										
Management and general	1,499,698	-	1,499,698	-	1,499,698	1,662,222	-	1,662,222	-	1,662,222
Fundraising	1,094,097	-	1,094,097	-	1,094,097	964,185	-	964,185	-	964,185
<b>Total expenses</b>	<b>48,170,665</b>	<b>-</b>	<b>48,170,665</b>	<b>-</b>	<b>48,170,665</b>	<b>43,543,304</b>	<b>-</b>	<b>43,543,304</b>	<b>-</b>	<b>43,543,304</b>
Loss on abandonment of fixed assets	2,700	-	2,700	-	2,700	342,000	-	342,000	-	342,000
<b>Total expenses and losses</b>	<b>48,173,365</b>	<b>-</b>	<b>48,173,365</b>	<b>-</b>	<b>48,173,365</b>	<b>43,885,304</b>	<b>-</b>	<b>43,885,304</b>	<b>-</b>	<b>43,885,304</b>
<b>Change in net assets</b>	<b>1,047,809</b>	<b>63,132</b>	<b>1,110,941</b>	<b>10,830,562</b>	<b>11,941,503</b>	<b>(172,968)</b>	<b>(74,425)</b>	<b>(247,393)</b>	<b>4,780,527</b>	<b>4,533,134</b>
<b>Net assets - beginning of year</b>	<b>1,534,590</b>	<b>1,846,290</b>	<b>3,380,880</b>	<b>30,812,296</b>	<b>34,193,176</b>	<b>1,707,558</b>	<b>1,920,715</b>	<b>3,628,273</b>	<b>26,031,769</b>	<b>29,660,042</b>
<b>Net assets - end of year</b>	<b>\$ 2,582,399</b>	<b>\$ 1,909,422</b>	<b>\$ 4,491,821</b>	<b>\$ 41,642,858</b>	<b>\$ 46,134,679</b>	<b>\$ 1,534,590</b>	<b>\$ 1,846,290</b>	<b>\$ 3,380,880</b>	<b>\$ 30,812,296</b>	<b>\$ 34,193,176</b>

## Patient Advocate Foundation

### Statements of Cash Flows

Years Ended June 30,	2014	2013
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 11,941,503	\$ 4,533,134
Adjustments to reconcile to net cash from operating activities:		
Depreciation	330,418	329,918
Loss on abandonment of property and equipment	2,700	342,000
Unrealized loss on investments	11,347	74,425
Change in:		
Unconditional promises to give	269,888	(303,474)
Interest receivable	-	48,790
Related party receivable	391	3,687
Service contract receivable	(23,801)	43,352
Employee travel advances	196	248
Inventories	56,503	(9,961)
Prepaid expenses	(250,083)	(55,340)
Refundable deposits	50,300	-
Accounts payable and accrued expenses	595,607	227,918
Deferred revenue	422,926	1,620,644
Due to related party	104,390	-
Other liabilities	90,855	-
Accrued vacation leave	(150,366)	23,043
<b>Net cash from operating activities</b>	<b>13,452,774</b>	<b>6,878,384</b>
<b>Cash flows from investing activities</b>		
Acquisition of property and equipment	(1,520,822)	(314,525)
<b>Cash flows from financing activities</b>		
Repayment of obligation under capital lease	(32,659)	(54,951)
<b>Net change in cash and cash equivalents</b>	<b>11,899,293</b>	<b>6,508,908</b>
<b>Cash and cash equivalents - beginning of year</b>	<b>33,955,817</b>	<b>27,446,909</b>
<b>Cash and cash equivalents - end of year</b>	<b>\$ 45,855,110</b>	<b>\$ 33,955,817</b>
<b>Balance sheet presentation of cash and cash equivalents</b>		
General operating cash and cash equivalents	\$ 4,121,397	\$ 3,143,521
Restricted cash and cash equivalents	41,733,713	30,812,296
	<b>\$ 45,855,110</b>	<b>\$ 33,955,817</b>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for interest	\$ 11,784	\$ 1,752
<b>Supplemental disclosure of non cash investing and financing activities</b>		
Property and equipment acquired through capital lease	\$ 90,490	\$ 182,445

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

# *Patient Advocate Foundation*

## *Notes to Financial Statements*

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**June 30, 2014 and 2013**

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### **1. Organization and Nature of Business**

*Patient Advocate Foundation* (Foundation or PAF) 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. Included in the unrestricted amounts are board designated net assets. Board designated net assets consist of the total investment funds. The board will determine how the investment funds will be utilized.
- ***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. At June 30, 2014 and 2013, the Foundation had no permanently restricted net assets.

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 the 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 program administration funding for the Financial Aid Programs as deferred revenue. Revenue is recognized for program administration funding using the straight line method and based upon the contract term. If the term is not stated in the contract, the funding is recognized based upon anticipated term for allocating awards to qualified patients.

## **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 23,241 individuals in FY2013/2014. On average, case managers made 21.89 contacts on behalf of each patient to relevant stakeholders in order to bring resolution to the patient's access issue. In addition to navigating patients to required care, facilitating their enrollment into available insurance plans, when appropriate, and managing cost of living issues faced by our chronically and critically ill patients, our case managers were successful in resolving over \$47 million dollars in medical debt for patients served by PAF in the FY2013/2014. The debt relief obtained for our patients is captured and reported in the following categories:

- **Amount Recovered:** the amount PAF recovered from third party payers such as commercial insurance plans and Medicaid or Medicare programs
- **Charitable Contributions:** the amount PAF secured on behalf of patients through utilization of national and/or local charitable resources such as hospital charity care programs, non-profit financial aid programs and/or local faith or disease based programs
- **Cost of Living:** the amount recovered by PAF case managers to directly offset living expenses such as: rent/mortgage assistance, eviction/foreclosure assistance, utility assistance, food/nutritional assistance, or car payment/repair expenses among others.
- **Patient Amount:** the amount directly returned to patients as a result of PAF negotiating reimbursement for out of pocket medical expenses
- **Provider Amount:** the amount directly returned to providers as a result of PAF negotiating reimbursement for medical debt that had previously been written off or logged by the facility as "uncollected"
- **Write off Amount:** the amount of patient debt relief obtained by PAF through negotiations with facilities and/or medical providers

In 2013, PAF launched the Financial Aid Fund division through which we provide financial assistance to qualified patients for non-medication related expenses faced during treatment. Through the administration of three distinct financial aid funds including the Komen Treatment Assistance Fund for Breast Cancer patients, LiveSTRONG/Movember Radiation Small Grant Program for Prostate Cancer patients, and the Heart Valve Financial Aid Fund for patients who are being treated for heart valve conditions, PAF successfully provided one-time small grants to 2,756 patients in FY2013/2014. The small grants range in value from \$300-\$1000 per patient and are designed to defray the costs of lymphedema care/supplies, durable medical equipment, transportation costs getting to/from treatment, prosthesis/wigs, childcare and/or eldercare necessitated by treatment and radiation treatment.

Additionally, the Foundation has an established publications committee that is responsible for providing a wide array of patient education materials designed with the mission of providing additional guidance for patients contacting our Foundation. These publications are frequently requested by other organizations and facilities for use with their patients as well. The Foundation currently has authored 32 patient educational publications, all of which are available free of charge to patients. In FY2013/2014, the charge of the committee was to complete a comprehensive review of the current library of publications, reviewing the content for accuracy as well as modifying the format for improved readability when viewing the publication in either electronic or print format. There are eleven publications in various stages of content review and editing that are slated for release in FY2014/2015. Due to frequent changes that occurred during the initial rollout of the Federal Marketplace and State based Exchanges, the 2013 Health Care Reform and You: *A User's Guide to Health Insurance Marketplaces* underwent two content updates during FY2013/2014. The initial revisions were completed in the online version in August 2013, followed by a second revision of both the print and online versions in October, 2013. As well, there were successful updates made to the software that supports our *My Resource Search* mobile app, which is designed to enhance the users' mobile experience when accessing PAF's online search tools, National Uninsured and Underinsured Resource Directory and National Financial Resource Directory. The printed publications that accompany the resource directories were also translated into Spanish, and made available on the corporate website.

The Foundation's case management staff provided follow up educational materials to all patients served by the Foundation by selecting 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 67,323 pieces of educational material in customized patient education packets to those patients served in FY2013/2014.

During FY2013/2014, the Foundation's case management and co-pay relief teams 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 and included the African American population and Hispanic/Latino populations. In FY2013/2014, the Foundation distributed over 11,304 educational publications through outreach events.

Through Patient Advocate Foundation's Scholarship for Survivors, 12 scholarships were awarded to students whose studies were interrupted or delayed by a diagnosis of a life threatening, chronic or debilitating disease. Each scholarship recipient 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, Patient Advocate Foundation's Co-Pay Relief Program (CPR) provides financial assistance with co-payments, co-insurance and deductibles required by a patient's insurer for pharmaceutical treatments and/or prescription medications prescribed to treat and/or manage the patient's disease. The program offers personal service to all patients through the use of call counselors; personally guiding patients through the enrollment and benefit process.

In FY2013/2014, PAF's Co-Pay Relief Program assisted patients who were being treated for breast cancer, chemotherapy induced neutropenia, chronic pain, cutaneous T-cell lymphoma, castrate resistant prostate cancer, colon cancer, electrolyte imbalance, hepatitis C, inherited or acquired lipodystrophy, metastatic colorectal cancer, metastatic gastric cancer, metastatic prostate cancer, multiple myeloma, myelodysplastic syndrome, non-muscle invasive bladder cancer, non-small cell lung cancers (NSCLC), non-small cell lung cancers, biomarker specific, osteoporosis, and renal cell carcinoma.

Currently, the Foundation's Co-Pay Relief Program offers two dedicated, secured websites for medical providers and pharmacy representatives to enroll electronically for the Co-Pay Relief Program on behalf of the patients they are working with. As well, CPR offers a dedicated, secure web based application for patients and/or their family members to enroll electronically for the Co-Pay Relief Program directly from the Co-Pay Relief Program website.

In FY2013/2014, the Foundation administered co-payment assistance to 20,835 qualified patients through the 20 assistance funds available through the Co-Pay Relief Program. Of the qualified patients, 17,428 patients were seeking assistance for the first time and 3,407 patients had received assistance from CPR in prior years. The program staff fielded 121,460 telephone calls and processed 64,019 claims in support of qualified patients out of pocket expenses for required co-payments, co-insurance and deductibles. Since its inception in 2004, the Foundation has provided co-payment assistance to over 126,000 individuals allocating more than \$200 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 FY2013/2014 and was paid administration fees on a monthly basis through this service contract. The Foundation administered services to 20,717 patients in FY2013/2014 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, 2014 and 2013. Fiscal years ending on or after June 30, 2011, remain subject to examination by federal and state tax authorities.

## Advertising

Advertising costs are charged to operations when incurred. Advertising costs for 2014 and 2013 were \$20,319 and \$22,133, respectively.

## Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through October 9, 2014, 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, 2014 and 2013, the Foundation had \$45,894,926 and \$32,831,608, respectively, of deposits in excess of the FDIC coverage. At June 30, 2014 and 2013, the Foundation had \$57,674 and \$146,154 respectively, in money market funds and \$1,851,748 and \$1,700,136, 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>2014</u>	Cost	Fair Value	Unrealized Gain (Loss)
Treasury securities	\$	738,803	\$ 734,818	\$ (3,985)
Federal agency bonds		329,253	324,983	(4,270)
Certificates of deposit		784,996	791,947	6,951
Money market funds		57,674	57,674	-
	\$	1,910,726	\$ 1,909,422	\$ (1,304)

<u>2013</u>	Cost	Fair Value	Unrealized Gain (Loss)
Treasury securities	\$ 702,713	\$ 704,954	\$ 2,241
Federal agency bonds	329,254	323,844	(5,410)
Certificates of deposit	659,996	671,338	11,342
Money market funds	146,154	146,154	-
	<u>\$ 1,838,117</u>	<u>\$ 1,846,290</u>	<u>\$ 8,173</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"> <li>• Quoted prices for similar assets or liabilities in active markets;</li> <li>• Quoted prices for identical or similar assets or liabilities in inactive markets;</li> <li>• Inputs other than quoted prices that are observable for the asset or liability;</li> <li>• Inputs that are derived principally from or corroborated by observable market data by correlation or other means.</li> </ul> <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, 2014 and 2013.

*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:

<b>Assets at Fair Value as of June 30, 2014</b>				
	Level 1	Level 2	Level 3	Total
Treasury securities	\$ -	\$ 734,818	\$ -	\$ 734,818
Federal agency bonds	-	324,983	-	324,983
Certificates of deposit	791,947	-	-	791,947
Money market funds	-	57,674	-	57,674
	<u>\$ 791,947</u>	<u>\$ 1,117,475</u>	<u>\$ -</u>	<u>\$ 1,909,422</u>

<b>Assets at Fair Value as of June 30, 2013</b>				
	Level 1	Level 2	Level 3	Total
Treasury securities	\$ -	\$ 704,954	\$ -	\$ 704,954
Federal agency bonds	-	323,844	-	323,844
Certificates of deposit	671,338	-	-	671,338
Money market funds	-	146,154	-	146,154
	<u>\$ 671,338</u>	<u>\$ 1,174,952</u>	<u>\$ -</u>	<u>\$ 1,846,290</u>

## 5. Property and Equipment

Property and equipment consist of the following:

	2014	2013
Furniture and fixtures	\$ 375,409	\$ 379,409
Office equipment	593,695	560,638
Computers, software and other assets	1,588,574	1,239,917
Leasehold improvements	78,896	78,896
Projects in progress (see Note 12)	1,333,315	203,368
	<u>3,969,889</u>	<u>2,462,228</u>
Less - accumulated depreciation	(1,566,108)	(1,236,990)
	<u>\$ 2,403,781</u>	<u>\$ 1,225,238</u>

Depreciation expense for 2014 and 2013 was \$330,418 and \$329,918, respectively.

## 6. Self-Insurance

Beginning March 2014, PAF made a policy decision to partially self-fund the health insurance program offered to their employees. The plan provides claims coverage up to a maximum of \$90,000 per contract and approximately \$857,429 for the aggregate of 131 contracts. PAF purchases commercial insurance for claims in excess of the self-funded retention on both an individual contract and aggregate basis. Costs of the program are accounted for in employee insurance and are reported on the statement of functional expenses.

PAF has recorded an unpaid claims liability for claims incurred but not recorded (IBNR). The liability is based upon actuarial estimate provided by the third party administrator. At June 30, 2014, the IBNR liability was \$90,855 and is reported on the statement of financial position in other liabilities.

## 7. Capital Leases

In June 2013, the Foundation entered into a lease classified as a capital lease of \$182,445. 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 2014, amortization under the aforementioned lease was \$41,438.

In October 2013, the Foundation entered into another lease classified as a capital lease of \$90,490. 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 2014, amortization under the aforementioned lease was \$16,392.

At June 30, 2014 and 2013, total assets of \$272,934 and \$182,445, respectively, are capitalized on the statements of financial position related to these capital leases. Accumulated amortization under the leases on these assets at June 30, 2014 and 2013, were \$57,830 and \$-0-, respectively.

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

2015	\$	78,837
2016		84,240
2017		70,557
2018		4,283
		<u>237,917</u>
Less - amount representing interest		<u>(22,813)</u>
Capital lease obligations		215,104
Less - current portion		<u>(64,869)</u>
Present value of minimum lease payments	\$	<u>150,235</u>

## 8. Restrictions on Net Assets

For 2014 and 2013, the Foundation had both temporarily restricted and board designated net assets.

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

	<u>2014</u>	<u>2013</u>
Co-Pay Relief Program funding (CPR)	\$ 41,362,693	\$ 30,300,666
Cancer Premium Assistance funding (CPAF)	3,865	6,630
LIVESTRONG/Movember Radiation Small Grant Fund	44,000	505,000
Komen Treatment Assistance Fund	123,300	-
HeartValve Treatment Assistance Fund	109,000	-
Financial Aid Programs	<u>\$ 41,642,858</u>	<u>\$ 30,812,296</u>



Unrestricted - board designated net assets consist of endowment fund investments to be used to promote and further support its charitable purposes, the income from which is expendable to support the general operations of the Foundation. At June 30, 2014 and 2013, unrestricted - board designated net assets were \$1,909,422 and \$1,846,290, respectively.

**9. Pension Plan**

Effective November 1, 2008, the Foundation established a 401(k) plan and terminated the 403(b) plan. Employee retirement plan expense was \$230,423 and \$175,351 for 2014 and 2013, respectively.

**10. Donated Services and Property**

During 2014 and 2013, donated materials were valued at \$18,617 and \$29,689 respectively, primarily in support of the Foundation's annual Promise of Hope Affair.

In 2014 and 2013, the Foundation received pro bono legal services on behalf of patients being serviced by the Foundation through the National Legal Resources Network valued at \$14,000 and \$12,000, respectively. As well, during 2014 and 2013, \$30,603 and \$34,143, respectively, in other professional services were donated and recognized as related income and expense for donated services.

**11. Related Party Transactions**

During 2014 and 2013, the Foundation paid consulting fees of \$790,000 and \$485,000 respectively, to National Patient Advocate Foundation (NPAF). NPAF and the Foundation have the same individual as their CEO. 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, 2014, there was \$104,390 that was owed by the Foundation to NPAF and included on the statement of financial position.

**12. Commitments**

The Foundation leases a 36,500 square feet office space, under a ten-year lease agreement for \$52,970 per month, which expires in December 2023.

The Foundation leases additional office space in Texas for \$3,100 per month under a five-year lease agreement which expires in 2019.

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

Total lease payments for 2014 and 2013 were \$696,197 and \$823,125 respectively.

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

2015	\$	689,502
2016		689,272
2017		726,523
2018		695,494
2019		708,550
Thereafter		<u>2,796,498</u>
	\$	<u>6,305,839</u>

### 13. Projects in Progress

Included in Projects in Progress is approximately \$1.3 million in progress payments towards a new database replacement project. In the fall of 2013, PAF embarked on the development of a new database initiative in an effort to provide better service to patients and more robust reporting capabilities for management. The first completed phase of the project will be utilized by the CoPay and Case Management divisions of the Foundation. The anticipated completion date for the database replacement project is late fall of 2014. The final cost of the project is estimated at \$2.3 million.

### 14. Board Designated Endowments (UPMIFA)

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 2014 is as follows:

	Unrestricted	Unrestricted - Board Designated	Temporarily Restricted	Total Net Endowment Fund Assets
Board designated endowment funds	\$ -	\$ 1,909,422	\$ -	\$ 1,909,422

Endowment fund net asset composition and type of fund for 2013 is as follows:

	Unrestricted	Unrestricted - Board Designated	Temporarily Restricted	Total Net Endowment Fund Assets
Board designated endowment funds	\$ -	\$ 1,846,290	\$ -	\$ 1,846,290

Changes in endowment fund net assets in 2014 were as follows:

	Unrestricted	Unrestricted - Board Designated	Temporarily Restricted	Total Net Endowment Fund Assets
Endowment fund net assets - beginning of year	\$ -	\$ 1,846,290	\$ -	\$ 1,846,290
Investment gain	-	63,132	-	63,132
Endowment fund net assets - end of year	\$ -	\$ 1,909,422	\$ -	\$ 1,909,422

Changes in endowment fund net assets in 2013 were as follows:

	Unrestricted	Unrestricted - Board Designated	Temporarily Restricted	Total Net Endowment Fund Assets
Endowment fund net assets - beginning of year	\$ -	\$ 1,920,715	\$ -	\$ 1,920,715
Investment loss	-	(74,425)	-	(74,425)
Endowment fund net assets - end of year	\$ -	\$ 1,846,290	\$ -	\$ 1,846,290

\* \* \* \* \*

*Supplementary Information*

*Patient Advocate Foundation*

*June 30, 2014 and 2013*

**Patient Advocate Foundation**

**Schedule of Functional Expenses**

	Program Services				Supporting Services			Total Functional Expenses
	Patient/ Educational Services	Financial Aid Programs	Service Contracts	Total Program Expenses	Management and General	Fundraising	Total Supporting Services	
<b>Year Ended June 30, 2014</b>								
Salaries and related expenses:								
Salaries	\$ 3,491,267	\$ 1,871,693	\$ 1,635,094	\$ 6,998,053	\$ 691,418	\$ 669,472	\$ 1,360,890	\$ 8,358,943
Payroll taxes	277,246	151,126	131,446	559,819	55,107	54,777	109,884	669,703
Employee insurance	380,929	207,643	180,603	769,175	75,715	75,262	150,978	920,152
Employee retirement	95,392	51,998	45,226	192,616	18,961	18,847	37,808	230,423
<b>Total salaries and related expenses</b>	<b>4,244,833</b>	<b>2,282,460</b>	<b>1,992,369</b>	<b>8,519,662</b>	<b>841,201</b>	<b>818,358</b>	<b>1,659,559</b>	<b>10,179,222</b>
Accounting fees	-	8,131	-	8,131	104,620	-	104,620	112,751
Bank fees and interest	17,037	65,730	9,030	91,797	4,670	1,586	6,256	98,053
Conferences, conventions and meetings	90,455	-	-	90,455	55,338	99,585	154,924	245,379
Consultants	26,889	3,700	-	30,590	707	428	1,135	31,725
Financial Aid Programs	-	33,334,931	-	33,334,931	-	-	-	33,334,931
Donations	-	-	-	-	100	-	100	100
Depreciation	136,788	74,563	64,853	276,203	27,189	27,026	54,215	330,418
Equipment rental and maintenance	133,598	188,653	91,634	413,885	12,710	8,546	21,256	435,141
Insurance	6,934	4,452	3,861	15,246	56,921	817	57,738	72,984
Legal fees	2,080	2,996	-	5,076	96,697	2,247	98,944	104,020
Marketing	62,894	33,124	27,032	123,049	16,953	10,425	27,378	150,427
Occupancy	289,872	192,989	167,780	650,640	37,426	18,077	55,503	706,143
Postage and shipping	38,660	62,388	54,253	155,302	4,041	3,036	7,077	162,379
Printing and publications	48,473	32,003	13,349	93,825	80,886	17,349	98,235	192,060
Professional fees - NPAF	469,260	265,914	-	735,174	37,999	16,827	54,826	790,000
Property taxes	-	-	-	-	23,544	-	23,544	23,544
Recruiting	8,377	4,536	3,666	16,578	27,296	1,213	28,508	45,087
Scholarships	33,000	1,239	-	34,239	-	-	-	34,239
Staff meeting and incentives	25,517	17,457	13,071	56,045	7,787	5,577	13,363	69,409
Supplies	50,967	30,179	24,371	105,517	6,440	3,830	10,270	115,786
Telephone	270,163	262,916	125,724	658,803	31,519	13,227	44,746	703,549
Travel	148,706	11,402	1,613	161,721	25,654	45,943	71,598	233,319
<b>Total functional expenses</b>	<b>\$ 6,104,503</b>	<b>\$ 36,879,762</b>	<b>\$ 2,592,607</b>	<b>\$ 45,576,871</b>	<b>\$ 1,499,698</b>	<b>\$ 1,094,097</b>	<b>\$ 2,593,794</b>	<b>\$ 48,170,665</b>

*Patient Advocate Foundation*

*Schedule of Functional Expenses*

	Program Services				Supporting Services			Total Functional Expenses
	Patient/ Educational Services	Financial Aid Programs	Service Contracts	Total Program Expenses	Management and General	Fundraising	Total Supporting Services	
<b>Year Ended June 30, 2013</b>								
Salaries and related expenses:								
Salaries	\$ 3,312,729	\$ 1,771,697	\$ 1,656,598	\$ 6,741,024	\$ 849,485	\$ 568,290	\$ 1,417,775	\$ 8,158,799
Payroll taxes	245,379	123,988	121,663	491,030	62,102	42,636	104,738	595,768
Employee insurance	302,519	152,860	149,993	605,372	76,563	52,565	129,128	734,500
Employee retirement	72,222	36,493	35,809	144,524	18,278	12,549	30,827	175,351
<b>Total salaries and related expenses</b>	<b>3,932,849</b>	<b>2,085,038</b>	<b>1,964,063</b>	<b>7,981,950</b>	<b>1,006,428</b>	<b>676,040</b>	<b>1,682,468</b>	<b>9,664,418</b>
Accounting fees	-	7,192	-	7,192	103,154	-	103,154	110,346
Bank fees and interest	11,797	61,528	5,221	78,546	3,962	1,689	5,651	84,197
Conferences, conventions and meetings	84,143	-	-	84,143	50,932	104,470	155,402	239,545
Consultants	31,856	661	-	32,517	68,993	4,952	73,945	106,462
Financial Aid Programs	-	29,396,661	-	29,396,661	-	-	-	29,396,661
Depreciation	135,883	68,661	67,373	271,917	34,390	23,611	58,001	329,918
Equipment rental and maintenance	150,953	118,171	119,430	388,554	15,146	11,846	26,992	415,546
Insurance	7,104	3,589	3,522	14,215	56,291	1,234	57,525	71,740
Legal fees	-	4,065	-	4,065	102,834	-	102,834	106,899
Marketing	9,541	4,821	4,731	19,093	2,415	1,658	4,073	23,166
Occupancy	327,695	228,515	207,441	763,651	40,715	24,303	65,018	828,669
Postage and shipping	42,868	78,188	45,987	167,043	4,130	1,584	5,714	172,757
Printing and publications	61,598	17,367	7,134	86,099	34,201	16,810	51,011	137,110
Professional fees - NPAF	282,590	165,450	-	448,040	27,460	9,500	36,960	485,000
Property taxes	-	-	-	-	20,234	-	20,234	20,234
Recruiting	2,529	1,515	1,322	5,366	45,217	124	45,341	50,707
Scholarships	28,500	-	-	28,500	-	-	-	28,500
Staff meeting and incentives	14,644	7,399	7,261	29,304	4,743	2,558	7,301	36,605
Supplies	55,166	35,511	25,965	116,642	9,093	3,267	12,360	129,002
Telephone	298,151	321,484	170,081	789,716	26,227	12,677	38,904	828,620
Travel	193,698	9,072	913	203,683	5,657	67,862	73,519	277,202
<b>Total functional expenses</b>	<b>\$ 5,671,565</b>	<b>\$ 32,614,888</b>	<b>\$ 2,630,444</b>	<b>\$ 40,916,897</b>	<b>\$ 1,662,222</b>	<b>\$ 964,185</b>	<b>\$ 2,626,407</b>	<b>\$ 43,543,304</b>