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# Patient Advocate Foundation

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## Financial Statements

Years Ended June 30, 2015 and 2014

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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, 2015 and 2014, 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, 2015 and 2014, 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 7, 2015**

**Patient Advocate Foundation**  
**Statements of Financial Position**  
**June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Current assets		
General operating cash and cash equivalents	\$ 3,425,252	\$ 4,121,397
Restricted cash and cash equivalents	72,022,026	41,733,713
Unconditional promises to give	1,603,086	183,529
Service contract receivable	447,282	426,523
Employee travel advances	300	476
Other receivable	5,590	-
Inventories	57,869	47,958
Prepaid expenses	355,231	476,623
Investments and cash equivalents	1,933,371	1,909,422
Total current assets	<u>79,850,007</u>	<u>48,899,641</u>
Property and equipment - net	4,522,313	2,403,781
Other assets		
Refundable deposits	53,331	53,331
	<u>\$ 84,425,651</u>	<u>\$ 51,356,753</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Current portion of obligation under capital lease	\$ 68,770	\$ 64,869
Current portion of long-term debt	217,918	-
Accounts payable and accrued expenses	907,630	1,276,956
Due to related party	84,191	104,390
Deferred revenue	3,246,672	3,304,936
Accrued vacation leave	225,230	229,833
Total current liabilities	<u>4,750,411</u>	<u>4,980,984</u>
Long-term liabilities		
Long-term debt	1,062,082	-
Obligation under capital lease - less current portion	72,654	150,235
Other liabilities	101,764	90,855
	<u>1,236,500</u>	<u>241,090</u>
Total liabilities	<u>5,986,911</u>	<u>5,222,074</u>
Unrestricted	3,680,105	2,582,399
Unrestricted - board designated	1,933,371	1,909,422
Total unrestricted net assets	<u>5,613,476</u>	<u>4,491,821</u>
Temporarily restricted	72,825,264	41,642,858
Total net assets	<u>78,438,740</u>	<u>46,134,679</u>
	<u>\$ 84,425,651</u>	<u>\$ 51,356,753</u>

See accompanying notes.

**Patient Advocate Foundation**  
**Statements of Activities**  
**Years Ended June 30, 2015 and 2014**

	2015					2014				
	Unrestricted -		Total	Temporarily	Total	Unrestricted -		Total	Temporarily	Total
	Unrestricted	Board Designated				Unrestricted	Designated			
Revenues, gains and other support										
Contributions:										
Grants	\$ 3,603,734	\$ -	\$ 3,603,734	\$ 59,530,424	\$ 63,134,158	\$ 3,838,793	\$ -	\$ 3,838,793	\$ 44,166,677	\$ 48,005,470
Private and public donations	145,021	-	145,021	-	145,021	58,163	-	58,163	-	58,163
Donated services and materials	71,727	-	71,727	-	71,727	63,220	-	63,220	-	63,220
Program Administration	11,599,860	-	11,599,860	-	11,599,860	10,810,595	-	10,810,595	-	10,810,595
Patient Congress	77,500	-	77,500	-	77,500	255,315	-	255,315	-	255,315
Promise of Hope	251,504	-	251,504	-	251,504	255,502	-	255,502	-	255,502
Miscellaneous income	422,272	-	422,272	-	422,272	419,560	-	419,560	-	419,560
Investment income (loss)	373,693	23,949	397,642	-	397,642	183,911	63,132	247,043	-	247,043
Net assets released from restrictions										
Satisfaction of program restrictions										
Financial Aid Awards	28,348,018	-	28,348,018	(28,348,018)	-	33,336,115	-	33,336,115	(33,336,115)	-
Total revenues, gains and other support	44,893,329	23,949	44,917,278	31,182,406	76,099,684	49,221,174	63,132	49,284,306	10,830,562	60,114,868
Expenses and losses										
Program services:										
Patient/educational services	5,972,514	-	5,972,514	-	5,972,514	6,104,503	-	6,104,503	-	6,104,503
Financial Aid Programs	32,204,574	-	32,204,574	-	32,204,574	36,879,762	-	36,879,762	-	36,879,762
Service contracts	2,857,891	-	2,857,891	-	2,857,891	2,592,607	-	2,592,607	-	2,592,607
Supporting services:										
Management and general	1,509,599	-	1,509,599	-	1,509,599	1,499,698	-	1,499,698	-	1,499,698
Fundraising	1,251,045	-	1,251,045	-	1,251,045	1,094,097	-	1,094,097	-	1,094,097
Total expenses	43,795,623	-	43,795,623	-	43,795,623	48,170,665	-	48,170,665	-	48,170,665
Loss on abandonment of fixed assets	-	-	-	-	-	2,700	-	2,700	-	2,700
Total expenses and losses	43,795,623	-	43,795,623	-	43,795,623	48,173,365	-	48,173,365	-	48,173,365
Change in net assets	1,097,706	23,949	1,121,655	31,182,406	32,304,061	1,047,809	63,132	1,110,941	10,830,562	11,941,503
Net assets - beginning of year	2,582,399	1,909,422	4,491,821	41,642,858	46,134,679	1,534,590	1,846,290	3,380,880	30,812,296	34,193,176
Net assets - end of year	\$ 3,680,105	\$ 1,933,371	\$ 5,613,476	\$ 72,825,264	\$ 78,438,740	\$ 2,582,399	\$ 1,909,422	\$ 4,491,821	\$ 41,642,858	\$ 46,134,679

See accompanying notes.

**Patient Advocate Foundation**  
**Statements of Cash Flows**  
**Years Ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Change in net assets	\$ 32,304,061	\$ 11,941,503
Adjustments to reconcile to net cash from operating activities:		
Depreciation	354,675	330,418
Loss on abandonment of property and equipment	-	2,700
Unrealized loss on investments	5,328	11,347
Change in:		
Unconditional promises to give	(1,436,548)	269,888
Related party receivable	-	391
Service contract receivable	(20,759)	(23,801)
Employee travel advances	176	196
Inventories	(9,911)	56,503
Prepaid expenses	121,392	(250,083)
Refundable deposits	-	50,300
Accounts payable and accrued expenses	(369,326)	595,607
Deferred revenue	(58,264)	422,926
Due to related party	(20,199)	104,390
Other liabilities	10,909	90,855
Accrued vacation leave	(4,603)	(150,366)
Net cash from operating activities	<u>30,876,931</u>	<u>13,452,774</u>
Cash flows from investing activities		
Acquisition of property and equipment	<u>(2,485,493)</u>	<u>(1,520,822)</u>
Cash flows from financing activities		
Proceeds from long-term debt	1,062,082	-
Repayment of obligation under capital lease	<u>(73,680)</u>	<u>(32,659)</u>
Net change in cash and cash equivalents	29,379,840	11,899,293
Cash and cash equivalents - beginning of year	<u>45,855,110</u>	<u>33,955,817</u>
Cash and cash equivalents - end of year	<u>\$ 75,234,950</u>	<u>\$ 45,855,110</u>
Balance sheet presentation of cash and cash equivalents		
General operating cash and cash equivalents	\$ 3,425,252	\$ 4,121,397
Restricted cash and cash equivalents	<u>72,022,026</u>	<u>41,733,713</u>
	<u>\$ 75,447,278</u>	<u>\$ 45,855,110</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 41,199	\$ 11,784
Supplemental disclosure of non cash investing and financing activities		
Property and equipment acquired through capital lease	\$ -	\$ 90,490

See accompanying notes.

## **Notes to Financial Statements**

### **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, 2015 and 2014, 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 22,468 individuals in FY2014/2015. On average, case managers made 20.57 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 \$40 million dollars in medical debt for patients served by PAF in the FY2014/2015. 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 LiveSTRONG/Movember Radiation Small Grant Program for Prostate Cancer patients, the Heart Valve Financial Aid Fund for patients who are being treated for heart valve conditions, and the newly launched Transportation Financial Aid Fund for Metastatic Melanoma & Metastatic Lung Cancer patients, PAF successfully provided one-time small grants to 597 patients, providing over \$562,400 in financial relief in FY2014/2015. The small grants range in value from \$300-\$1000 per patient and are designed to defray the costs of transportation costs and out-of-pocket expenses associated with treatments.

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 34 patient educational publications, all of which are available free of charge to patients. In FY2014/2015, the charge of the committee was to create the Founder's Library for staff use in honor of Nancy Davenport-Ennis. With a starting inventory of 42 publications and educational DVDs, this library seeks to encourage a lifelong habit of reading and the pursuit of knowledge honoring the legacy of our Founder. Library materials are free for staff to check out and utilize.

The committee also revised and updated content, A Clear View to Medicare – Making the Most of Your Benefits, now available in print and online and released two new publications. The Coverage Access Guide, that seeks to support a patient through all stages of insurance from beginning to end. Beginning with tips for enrollment and plan selection, this guide covers topics relevant to every insured patient. The guide concludes with articles that help understand federal Disability enrollment and various pathways to Medicare and Medicaid insurance for those with age or disability eligibility. A companion new mobile phone app for Apple phones and tablets, Coverage Access Guide: A Consumer's Guide to Insurance was launched, which provides mobile articles that support a patient through all stages of insurance from beginning to end. This app is populated with content similar to the printed Coverage Access Guide, but is enhanced with additional mobile-only content. The mobile app includes in-depth articles on vocabulary, embedded videos and animated segments, actionable links to outside resources, and has the ability to be updated to cover breaking-news healthcare topics if needed. The second new publication, the Metastatic Breast Cancer Guide, a connected disease-specific insert that is distributed alongside the Coverage Access Guide to provide patients more in-depth and custom guidance based on the specifics of their condition. Topics include genomic and genetic testing, disease-specific vocabulary and treatment terminology, personalized medicine, compassionate allowance for disability eligibility; workplace challenges while sick, living wills, palliative care and others. This guide is also available in print and electronic versions in Spanish.

In addition to the PAF regularly conducted specialized webinars, PAF launched a new branded interactive webinar series called Patient Empowerment Series. Presented live as well as available on-demand, these monthly sessions cover topics that help patients prevent and resolve challenges that often present during one's healthcare journey. Geared towards the patient and caregiver, these sessions are also appropriate for professional advocates, case workers, community social workers, nonprofit staff and other patient service groups.

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 31,261 pieces of educational material in customized patient education packets to those patients served in FY2014/2015.

During FY2014/2015, 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 FY2014/2015, the Foundation distributed over 8,300 educational publications through outreach events.

The Scholarship for Survivors program was established to honor individuals that have experienced the impact of a chronic illness or life threatening disease on one's secondary education. These students have, despite their disease/condition, excelled academically, served the community, and desire to pursue a secondary education. Since the program's inception, PAF has awarded 59 scholarships totaling over \$435,000; of the 59 students, 41 have achieved fully degreed graduation and 12 are still pursuing their course of study. In FY2014/2015, PAF awarded 12 scholarships to students through this program.

### **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 FY2014/2015, PAF's Co-Pay Relief Program assisted patients who were being treated for breast cancer, cervical cancer, chronic pain, cutaneous T-cell lymphoma, electrolyte imbalance, hepatitis C, hepatitis B, 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, ovarian cancer 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 FY2014/2015, the Foundation administered co-payment assistance to 19,601 qualified patients through the 19 assistance funds available through the Co-Pay Relief Program. Of the qualified patients, 16,595 patients were seeking assistance for the first time and 3,006 patients had received assistance from CPR in prior years. The program staff fielded 115,083 telephone calls and processed 52,968 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 145,000 individuals allocating more than \$227 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 FY2014/2015 and was paid administration fees on a monthly basis through this service contract. The Foundation administered services to 21,502 patients in FY2014/2015 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.

**Patient Advocate Foundation**  
**Notes to Financial Statements**

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***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, 2015 and 2014. Fiscal years ending on or after June 30, 2012, remain subject to examination by federal and state tax authorities.

***Advertising***

Advertising costs are charged to operations when incurred. Advertising costs for 2015 and 2014 were \$13,435 and \$20,319, respectively.

***Subsequent Events***

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through October 7, 2015, 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, 2015 and 2014, the Foundation had \$75,173,861 and \$45,894,926, respectively, of deposits in excess of the FDIC coverage. At June 30, 2015 and 2014, the Foundation had \$171,995 and \$57,674 respectively, in money market funds and \$1,761,376 and \$1,851,748, 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>2015</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Treasury securities	\$	738,488	\$ 736,418	\$ (2,070)
Federal agency bonds		329,253	323,700	(5,553)
Certificates of deposit		700,000	701,258	1,258
Money market funds		171,995	171,995	-
	<b>\$</b>	<b>1,939,736</b>	<b>\$ 1,933,371</b>	<b>\$ (6,365)</b>
	<u>2014</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Treasury securities	\$	738,803	\$ 734,818	\$ (2,070)
Federal agency bonds		329,253	324,983	(5,553)
Certificates of deposit		784,996	791,947	1,258
Money market funds		57,674	57,674	-
	<b>\$</b>	<b>1,910,726</b>	<b>\$ 1,909,422</b>	<b>\$ (6,365)</b>

## Patient Advocate Foundation Notes to Financial Statements

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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	Inputs to the valuation methodology include: <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> 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.
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, 2015 and 2014.

*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.

**Patient Advocate Foundation**  
**Notes to Financial Statements**

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, 2015</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Treasury securities	\$ -	\$ 736,418	\$ -	\$ 736,418
Federal agency bonds	-	323,700	-	323,700
Certificates of deposit	701,258	-	-	701,258
Money market funds	-	171,995	-	171,995
	<b>\$ 701,258</b>	<b>\$ 1,232,113</b>	<b>\$ -</b>	<b>\$ 1,933,371</b>

<b>Assets at Fair Value as of June 30, 2014</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
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
	<b>\$ 791,947</b>	<b>\$ 1,117,475</b>	<b>\$ -</b>	<b>\$ 1,909,422</b>

**5. Property and Equipment**

Property and equipment consist of the following:

	<b>2015</b>	<b>2014</b>
Furniture and fixtures	\$ 375,409	\$ 379,409
Office equipment	613,320	560,638
Computers, software and other assets	4,198,856	1,239,917
Leasehold improvements	78,896	78,896
Projects in progress (see Note 14)	1,176,616	203,368
	<b>6,443,097</b>	<b>3,969,889</b>
Less - accumulated depreciation	<b>(1,920,784)</b>	<b>(1,566,108)</b>
	<b>\$ 4,522,313</b>	<b>\$ 2,403,781</b>

Depreciation expense for 2015 and 2014 was \$354,675 and \$330,418, 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 schedules 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, 2015 and 2014, the IBNR liability was \$101,764 and \$90,855, respectively, 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 2015 and 2014, amortization under the aforementioned lease was \$36,489 and \$41,438, respectively.

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 2015 and 2014, amortization under the aforementioned lease was \$18,098 and \$16,392, respectively.

At June 30, 2015 and 2014, total assets of \$272,935 and are capitalized on the statements of financial position related to these capital leases. Accumulated amortization under the leases on these assets at June 30, 2015 and 2014, were \$112,417 and 57,830, respectively.

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

2016	\$ 84,240
2017	61,746
2018	4,283
	<u>150,269</u>
Less - amount representing interest	<u>(8,845)</u>
Capital lease obligations	141,424
Less - current portion	<u>(68,770)</u>
Present value of minimum lease payments	<u>\$ 72,654</u>

**8. Long-term Debt**

During 2015, the Foundation entered into a loan agreement with BB&T to borrow \$1,280,000 related to the purchase of a new computer system. The interest bearing note payable in fixed monthly payments of \$23,404 maturing July 2020 at 3.65% fixed interest rate. This loan contains certain financial covenants, which the Foundation was in compliance with as of June 30, 2015. The amount outstanding under this loan was \$1,280,000 and \$-0- at June 30, 2015 and June 30, 2014, respectively. The amount of interest expense incurred under this loan was \$30,552 and \$-0- for 2015 and 2014, respectively. Future payments of long-term debt are as follows:

2016	\$ 217,918
2017	246,180
2018	255,318
2019	264,794
2020	295,790
	<u>\$ 1,280,000</u>



**Patient Advocate Foundation  
Notes to Financial Statements**

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**9. Restrictions on Net Assets**

For 2015 and 2014, 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>2015</u>	<u>2014</u>
Co-Pay Relief Program funding (CPR)	\$ 72,590,064	\$ 41,362,693
Cancer Premium Assistance funding (CPAF)	-	3,865
LIVESTRONG/Movember Radiation Small Grant Fund	51,000	44,000
Komen Treatment Assistance Fund	-	123,300
Transportation Financial Aid Fund	76,200	-
HeartValve Treatment Assistance Fund	108,000	109,000
Financial Aid Programs	<u>\$ 72,825,264</u>	<u>\$ 41,642,858</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, 2015 and 2014, unrestricted - board designated net assets were \$1,933,371 and \$1,909,422, respectively.

**10. Pension Plan**

Effective November 1, 2008, the Foundation established a 401(k) plan and terminated the 403(b) plan. Employee retirement plan expense was \$192,824 and \$233,494 for 2015 and 2014, respectively.

**11. Donated Services and Property**

During 2015 and 2014, donated materials were valued at \$40,281 and \$18,617 respectively, primarily in support of the Foundation's annual Promise of Hope Affair.

In 2015 and 2014, the Foundation received pro bono legal services on behalf of patients being serviced by the Foundation through the National Legal Resources Network valued at \$5,000 and \$14,000, respectively. During 2015 and 2014, \$26,446 and \$30,603, respectively, in other professional services were donated and recognized as related income and expense for donated services.

**12. Related Party Transactions**

During 2015 and 2014, the Foundation paid consulting fees of approximately \$880,000 and \$790,000, respectively, to National Patient Advocate Foundation (NPAF). NPAF and the Foundation have the same individual as their Chief Executive Officer. 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, 2015 and 2014, there was \$84,191 and \$104,390, respectively, that was owed by the Foundation to NPAF and included on the statements of financial position.

### **13. Commitments**

The Foundation leases a 36,500 square foot 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 2015 and 2014 were \$728,962 and \$696,197 respectively.

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

2016	\$	689,272
2017		726,523
2018		695,494
2019		708,550
2020		681,886
Thereafter		<u>2,114,612</u>
	\$	<u>5,616,337</u>

### **14. Projects in Progress**

Included in projects in progress at June 30, 2015, is approximately \$1.2 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 Relief Program (CPR), programs managed under service contracts and Case Management divisions of the Foundation. The anticipated completion date for the database replacement project is late fall of 2015. Phase 1 CPR went in service June 1, 2015, in the amount of \$2.6 million. The final cost of the project is estimated at \$4.9 million.

### **15. 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.

**Patient Advocate Foundation  
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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 2015 is as follows:

	<u>Unrestricted</u>	<u>Unrestricted - Board Designated</u>	<u>Temporarily Restricted</u>	<u>Total Net Endowment Fund Assets</u>
Board designated endowment funds	\$ -	\$ 1,933,371	\$ -	\$ 1,933,371

Endowment fund net asset composition and type of fund for 2014 is as follows:

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

**Patient Advocate Foundation**  
**Notes to Financial Statements**

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Changes in endowment fund net assets in 2015 were as follows:

	<u>Unrestricted</u>	<u>Unrestricted - Board Designated</u>	<u>Temporarily Restricted</u>	<u>Total Net Endowment Fund Assets</u>
Endowment fund net assets - beginning of year	\$ -	\$ 1,909,422	\$ -	\$ 1,909,422
Investment gain	-	23,949	-	23,949
Endowment fund net assets - end of year	<u>\$ -</u>	<u>\$ 1,933,371</u>	<u>\$ -</u>	<u>\$ 1,933,371</u>

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

	<u>Unrestricted</u>	<u>Unrestricted - Board Designated</u>	<u>Temporarily Restricted</u>	<u>Total Net Endowment Fund Assets</u>
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	<u>\$ -</u>	<u>\$ 1,909,422</u>	<u>\$ -</u>	<u>\$ 1,909,422</u>

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***Supplementary Information***

**Patient Advocate Foundation**  
**Schedule of Functional Expenses**  
**Year Ended June 30, 2015**

	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	
Salaries and related expenses:								
Salaries	\$ 3,525,628	\$ 1,950,268	\$ 1,699,663	\$ 7,175,559	\$ 718,722	\$ 794,754	\$ 1,513,475	\$ 8,689,034
Payroll taxes	273,845	151,483	132,018	557,346	55,825	61,731	117,556	674,901
Employee insurance	366,452	202,710	176,662	745,825	74,704	82,606	157,310	903,135
Employee retirement	94,742	52,408	45,674	192,824	19,314	21,357	40,671	233,494
Total salaries and related expenses	4,260,668	2,356,869	2,054,016	8,671,553	868,564	960,448	1,829,012	10,500,564
Accounting fees	-	9,594	-	9,594	123,439	-	123,439	133,033
Bank fees and interest	20,842	80,410	11,047	112,299	5,713	1,940	7,653	119,952
Conferences, conventions and meetings	122,718	-	-	122,718	75,076	135,104	210,180	332,898
Consultants	17,810	2,451	-	20,261	468	319	788	21,049
Financial Aid Programs	-	28,348,018	-	28,348,018	-	-	-	28,348,018
Depreciation	126,831	90,037	79,614	296,481	29,185	29,009	58,194	354,675
Donations	-	-	-	-	1,250	-	1,250	1,250
Equipment rental and maintenance	108,660	339,790	174,872	623,322	10,337	6,950	17,288	640,609
Insurance	5,412	3,475	3,014	11,900	44,429	638	45,067	56,967
Legal fees	2,259	3,253	-	5,513	121,339	2,314	123,653	129,166
Marketing	25,134	13,237	10,802	49,173	6,775	4,166	10,941	60,114
Occupancy	270,851	221,680	193,166	685,697	35,250	27,467	62,717	748,414
Postage and shipping	43,609	70,375	61,198	175,182	4,558	3,424	7,983	183,165
Printing and publications	19,489	12,867	5,367	37,724	32,522	6,975	39,497	77,221
Professional fees - NPAF	522,720	296,208	-	818,928	42,328	18,744	61,072	880,000
Property taxes	-	-	-	-	29,251	-	29,251	29,251
Recruiting	3,944	2,135	1,726	7,805	12,851	571	13,422	21,227
Scholarships	33,000	-	-	33,000	-	-	-	33,000
Staff meeting and incentives	19,921	16,304	14,207	50,432	2,593	2,020	4,613	55,045
Supplies	46,395	37,972	33,088	117,455	6,038	4,706	10,744	128,199
Telephone	225,118	292,068	214,664	731,851	35,014	14,693	49,707	781,558
Travel	97,134	7,831	1,108	106,073	22,620	31,555	54,175	160,247
Total functional expenses	\$ 5,972,514	\$ 32,204,574	\$ 2,857,891	\$ 41,034,979	\$ 1,509,599	\$ 1,251,045	\$ 2,760,644	\$ 43,795,623

**Patient Advocate Foundation**  
**Schedule of Functional Expenses**  
**Year Ended June 30, 2014**

	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	
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
Depreciation	136,788	74,563	64,853	276,203	27,189	27,026	54,215	330,418
Donations	-	-	-	-	100	-	100	100
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>