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FINANCIAL REPORT

June 30, 2019 and 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Patient Advocate Foundation
Hampton, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Patient Advocate Foundation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 auditor's 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, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note 2 to the financial statements, Patient Advocate Foundation adopted FASB ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* in 2019. Our opinion is not modified with respect to this matter.

Other Matters

Adjustments to Prior Period Financial Statements

The financial statements of Patient Advocate Foundation as of June 30, 2018 were audited by other auditors whose report dated October 24, 2019, expressed an unmodified opinion on those financial statements. As discussed in Note 2 to the financial statements, the Foundation has adjusted its 2018 financial statements to retrospectively apply the adoption of FASB ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* in 2019. The other auditors reported on the financial statements before the retrospective adjustment.

As part of our audit of the 2019 financial statements, we also audited the adjustments to the 2018 financial statements to retrospectively apply the change in the accounting as described in Note 2. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to Patient Advocate Foundation's 2018 financial statements other than with respect to these adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2018 financial statements as a whole.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Newport News, Virginia
November 6, 2019

PATIENT ADVOCATE FOUNDATION

STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
General operating cash and cash equivalents (Note 4)	\$ 28,077,632	\$ 24,050,994
Restricted cash and cash equivalents (Note 2)	250,800,565	261,254,275
Unconditional promises to give (Note 2)	17,254,062	30,424,481
Service contract receivable	538,498	514,231
Due from National Patient Advocate Foundation	18,437	7,373
Investments and cash equivalents (Note 4)	2,078,900	1,999,015
Inventories	42,269	58,570
Prepaid expenses	412,217	405,146
Total current assets	299,222,580	318,714,085
PROPERTY AND EQUIPMENT, net (Note 6)	4,321,760	4,218,172
OTHER ASSETS		
Refundable deposits	50,331	50,331
	<u>\$ 303,594,671</u>	<u>\$ 322,982,588</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 3,763,880	\$ 8,650,706
Due to National Patient Advocate Foundation	10,290	29,385
Postretirement benefits liability, current portion	34,233	-
Deferred revenue (Note 2)	16,670,044	18,203,925
Accrued vacation leave	462,147	318,690
Total current liabilities	20,940,594	27,202,706
LONG-TERM LIABILITIES		
Postretirement benefits liability, less current portion (Note 11)	3,137,549	2,422,014
Incurred but not recorded liabilities (Note 7)	126,804	92,974
Total long-term liabilities	3,264,353	2,514,988
Total liabilities	24,204,947	29,717,694
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Undesignated	13,272,753	9,557,450
Board designated (Notes 8 and 15)	2,078,900	1,999,015
Total net assets without donor restrictions	15,351,653	11,556,465
NET ASSETS WITH DONOR RESTRICTIONS		
Restricted by purpose (Notes 8 and 9)	264,038,071	281,708,429
Total net assets	279,389,724	293,264,894
Total liabilities and net assets	<u>\$ 303,594,671</u>	<u>\$ 322,982,588</u>

The Notes to Financial Statements are an integral part of these statements.

PATIENT ADVOCATE FOUNDATION

STATEMENTS OF ACTIVITIES
Years Ended June 30, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUES						
Contributions:						
Grants	\$ 3,759,260	\$ 217,776,219	\$ 221,535,479	\$ 3,138,681	\$ 352,845,740	\$ 355,984,421
Private and public donations	165,787	-	165,787	158,632	-	158,632
Donated services and materials	35,314	-	35,314	40,374	-	40,374
Program administration	16,996,013	-	16,996,013	19,172,394	-	19,172,394
Patient Congress	80,000	-	80,000	10,000	-	10,000
Promise of Hope	141,650	-	141,650	149,858	-	149,858
Patient Action Council	75,000	-	75,000	150,000	-	150,000
Investment return (Note 5)	5,559,850	-	5,559,850	2,919,767	-	2,919,767
Net assets released from restrictions:						
Satisfaction of program restrictions (Note 9)	235,446,577	(235,446,577)	-	271,049,655	(271,049,655)	-
Total revenues, gains and other support	<u>262,259,451</u>	<u>(17,670,358)</u>	<u>244,589,093</u>	<u>296,789,361</u>	<u>81,796,085</u>	<u>378,585,446</u>
OPERATING EXPENSES						
Program services:						
Patient/educational services	5,867,102	-	5,867,102	4,931,805	-	4,931,805
Financial aid programs	242,788,385	-	242,788,385	278,416,531	-	278,416,531
Service contracts	5,234,955	-	5,234,955	5,268,447	-	5,268,447
Supporting services:						
Management and general	2,746,021	-	2,746,021	2,700,616	-	2,700,616
Fundraising	1,138,723	-	1,138,723	1,079,528	-	1,079,528
Total expenses	<u>257,775,186</u>	<u>-</u>	<u>257,775,186</u>	<u>292,396,927</u>	<u>-</u>	<u>292,396,927</u>
Change in net assets from operations	4,484,265	(17,670,358)	(13,186,093)	4,392,434	81,796,085	86,188,519
OTHER NONOPERATING CHANGES						
Postretirement benefit charges other than periodic cost	(689,077)	-	(689,077)	(255,504)	-	(255,504)
Change in net assets	3,795,188	(17,670,358)	(13,875,170)	4,136,930	81,796,085	85,933,015
Net assets, beginning of year	<u>11,556,465</u>	<u>281,708,429</u>	<u>293,264,894</u>	<u>7,419,535</u>	<u>199,912,344</u>	<u>207,331,879</u>
Net assets, end of year	<u><u>\$ 15,351,653</u></u>	<u><u>\$ 264,038,071</u></u>	<u><u>\$ 279,389,724</u></u>	<u><u>\$ 11,556,465</u></u>	<u><u>\$ 281,708,429</u></u>	<u><u>\$ 293,264,894</u></u>

The Notes to Financial Statements are an integral part of these statements.

PATIENT ADVOCATE FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2019

	Program Services				Supporting Services			
	Patient/ Educational Services	Financial Aid Programs	Service Contracts	Total Program Expenses	Management and General	Fundraising	Total Supporting Services	Total Functional Expenses
Salaries and related expenses:								
Employee insurance	\$ 240,467	\$ 398,905	\$ 373,458	\$ 1,012,830	\$ 104,430	\$ 33,400	\$ 137,830	\$ 1,150,660
Employee retirement	87,062	38,820	30,677	156,559	144,833	34,093	178,926	335,485
Payroll taxes	257,044	241,784	215,515	714,343	50,004	48,590	98,594	812,937
Salaries	3,626,413	3,499,328	2,917,910	10,043,651	957,097	746,448	1,703,545	11,747,196
 Total salaries and related expenses	 4,210,986	 4,178,837	 3,537,560	 11,927,383	 1,256,364	 862,531	 2,118,895	 14,046,278
Accounting fees	-	28,000	-	28,000	118,601	-	118,601	146,601
Bank fees and interest	11,828	108,226	6,368	126,422	831	3,545	4,376	130,798
Conferences, conventions and meetings	548,721	-	-	548,721	39,814	65,135	104,949	653,670
Consultants	133,147	224,842	180,704	538,693	-	-	-	538,693
Depreciation	71,092	1,035,381	461,069	1,567,542	12,588	6,016	18,604	1,586,146
Donations	-	-	-	-	-	500	500	500
Equipment rental and maintenance	149,727	272,037	261,112	682,876	24,954	21,229	46,183	729,059
Financial aid programs	-	235,446,577	-	235,446,577	-	-	-	235,446,577
Insurance	3,411	5,203	4,694	13,308	85,021	453	85,474	98,782
Legal fees	-	-	-	-	263,431	-	263,431	263,431
Loss on fixed assets disposal	454	691	624	1,769	81	60	141	1,910
Marketing	22,646	6,450	-	29,096	10,804	3,197	14,001	43,097
Occupancy	174,997	266,957	240,851	682,805	31,414	23,230	54,644	737,449
Postage and shipping	19,687	164,774	74,542	259,003	8,619	3,725	12,344	271,347
Printing and publications	47,413	19,361	89	66,863	11,796	4,039	15,835	82,698
Processing services	56,864	526,125	80,878	663,867	-	-	-	663,867
Professional fees, NPAF	-	-	-	-	780,000	-	780,000	780,000
Property taxes	-	-	-	-	32,948	-	32,948	32,948
Recruiting	-	-	-	-	16,321	-	16,321	16,321
Scholarships	60,000	-	-	60,000	-	-	-	60,000
Staff meeting and incentives	10,209	9,503	10,340	30,052	6,595	5,148	11,743	41,795
Supplies	63,679	49,757	41,154	154,590	26,714	20,019	46,733	201,323
Telephone	216,544	444,086	328,847	989,477	10,497	13,052	23,549	1,013,026
Travel	65,697	1,578	6,123	73,398	8,628	106,844	115,472	188,870
 Total functional expenses	 <u>\$ 5,867,102</u>	 <u>\$ 242,788,385</u>	 <u>\$ 5,234,955</u>	 <u>\$ 253,890,442</u>	 <u>\$ 2,746,021</u>	 <u>\$ 1,138,723</u>	 <u>\$ 3,884,744</u>	 <u>\$ 257,775,186</u>

The Notes to Financial Statements are an integral part of this statement.

PATIENT ADVOCATE FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2018

	Program Services				Supporting Services			Total
	Patient/ Educational Services	Financial Aid Programs	Service Contracts	Total Program Expenses	Management and General	Fundraising	Total Supporting Services	Total Functional Expenses
Salaries and related expenses:								
Employee insurance	\$ 239,264	\$ 291,233	\$ 287,861	\$ 818,358	\$ 91,385	\$ 60,276	\$ 151,661	\$ 970,019
Employee retirement	77,662	54,549	36,565	168,776	94,936	22,241	117,177	285,953
Payroll taxes	183,041	200,406	212,955	596,402	57,254	50,892	108,146	704,548
Salaries	2,639,653	3,320,675	3,054,509	9,014,837	862,319	712,301	1,574,620	10,589,457
Total salaries and related expenses	3,139,620	3,866,863	3,591,890	10,598,373	1,105,894	845,710	1,951,604	12,549,977
Accounting fees	-	16,000	-	16,000	128,657	-	128,657	144,657
Bank fees and interest	10,686	93,833	2,517	107,036	297	1,051	1,348	108,384
Conferences, conventions and meetings	511,582	-	670	512,252	33,278	51,798	85,076	597,328
Consultants	50,697	459,030	242,220	751,947	80,947	-	80,947	832,894
Depreciation	74,986	1,081,205	376,613	1,532,804	19,998	11,356	31,354	1,564,158
Donations	-	-	-	-	10,300	-	10,300	10,300
Equipment rental and maintenance	416,773	202,872	213,204	832,849	119,081	16,422	135,503	968,352
Financial aid programs	-	271,049,655	-	271,049,655	-	-	-	271,049,655
Gain on fixed assets disposal	-	-	-	-	(109,490)	-	(109,490)	(109,490)
Insurance	2,338	4,230	4,829	11,397	86,468	416	86,884	98,281
Legal fees	2,000	142,332	-	144,332	215,311	-	215,311	359,643
Marketing	52,798	-	-	52,798	4,425	2,905	7,330	60,128
Occupancy	135,779	245,667	280,475	661,921	33,082	24,164	57,246	719,167
Postage and shipping	19,577	179,282	99,727	298,586	5,720	901	6,621	305,207
Printing and publications	12,441	29,752	-	42,193	27,660	1,013	28,673	70,866
Processing Services	125,981	443,985	-	569,966	-	-	-	569,966
Professional fees, NPAF	-	-	-	-	780,000	-	780,000	780,000
Property taxes	-	-	-	-	38,942	-	38,942	38,942
Recruiting	1,535	2,805	3,225	7,565	51,442	273	51,715	59,280
Scholarships	42,000	-	-	42,000	-	-	-	42,000
Staff meeting and incentives	6,118	18,395	21,628	46,141	5,406	3,513	8,919	55,060
Supplies	49,506	54,096	53,938	157,540	25,726	9,905	35,631	193,171
Telephone	217,487	524,751	368,450	1,110,688	19,078	13,935	33,013	1,143,701
Travel	59,901	1,778	9,061	70,740	18,394	96,166	114,560	185,300
Total functional expenses	<u>\$ 4,931,805</u>	<u>\$ 278,416,531</u>	<u>\$ 5,268,447</u>	<u>\$ 288,616,783</u>	<u>\$ 2,700,616</u>	<u>\$ 1,079,528</u>	<u>\$ 3,780,144</u>	<u>\$ 292,396,927</u>

The Notes to Financial Statements are an integral part of this statement.

PATIENT ADVOCATE FOUNDATION

STATEMENTS OF CASH FLOWS Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (13,875,170)	\$ 85,933,015
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	1,586,146	1,564,158
Net realized and unrealized (gain) loss on investments	(45,371)	27,621
(Gain) loss on disposal of fixed assets	1,910	(109,490)
Net (increase) decrease in:		
Unconditional promises to give	13,170,419	(29,973,668)
Service contract receivable	(24,267)	142,051
Due to/from National Patient Advocate Foundation	(30,159)	226
Inventories	16,301	(31,321)
Prepaid expenses	(7,071)	186,451
Accounts payable and accrued expenses	(4,886,826)	4,430,032
Deferred revenue	(1,533,881)	1,754,987
Accrued vacation leave	143,457	168,421
Postretirement benefit liability	749,768	266,841
Other liabilities	33,830	17,863
	<u>(4,700,914)</u>	<u>64,377,187</u>
Net cash provided (used) by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(1,691,644)	(764,183)
Proceeds from sale of property and equipment	-	133,744
Proceeds from sale of investments	434,000	185,000
Purchases of investments	(468,514)	(215,000)
	<u>(1,726,158)</u>	<u>(660,439)</u>
Net cash used in investing activities		
Net increase (decrease) in cash and cash equivalents	(6,427,072)	63,716,748
CASH AND CASH EQUIVALENTS		
Beginning of year	285,305,269	221,588,521
	<u>\$ 278,878,197</u>	<u>\$ 285,305,269</u>
End of year		
BALANCE SHEET PRESENTATION OF CASH AND CASH EQUIVALENTS		
General operating cash and cash equivalents	\$ 28,077,632	\$ 24,050,994
Restricted cash and cash equivalents	250,800,565	261,254,275
	<u>\$ 278,878,197</u>	<u>\$ 285,305,269</u>

The Notes to Financial Statements are an integral part of these statements.

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

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, cooperative agreements, and service agreements with nonprofit organizations.

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:

- ***Net assets without donor restrictions*** are currently available at the discretion of the Board of Directors for use in the Foundation's operations. Included in the amounts without donor restrictions 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.
- ***Net assets with donor restrictions*** are those that are stipulated by donors for specific purposes. When a donor restriction is satisfied by utilizing the funding for its intended purpose, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restriction.

All contributions are considered without donor restriction 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.

Revenue recognition:

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). This ASU establishes principles for reporting useful information to users of the financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers; particularly, that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods and services.

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

2. Summary of Significant Accounting Policies (Continued)

The Foundation has two main revenue streams: contribution revenue and program service revenue.

Contribution revenue are indicated as net assets with donor restrictions and net assets without donor restrictions depending on the nature of restrictions.

- **Unconditional promises to give** are recognized by the Foundation in the year the promise is made. Conditional pledges are recognized as revenue when the conditions are substantially met. 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. All promises to give are due within one year.

Program service revenue is recognized when the specified services are provided. Program administration fees for Financial Aid Programs are considered to be an exchange based on the benefits received. Accordingly, program administration fees are recognized as services are provided to qualified patients in connection with the Financial Aid Programs.

- The Foundation has entered into various contracts with strategic partners. Revenue is recognized on these contracts as performance obligations are met. The deferred revenue amount on these contracts represents amounts received less the total amount of performance obligations satisfied. Additionally, there is income from program fees for workshops and other trainings deferred to the period when earned.

Cash and cash equivalents

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

Restricted cash

Restricted cash consists of funds allocated for patient awards and financial aid.

Contributed services and property

Certain contributed services and property are recorded as support and revenues 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 net realizable value.

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

2. Summary of Significant Accounting Policies (Continued)

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 contributions without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as contributions with donor restrictions. 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 net assets with donor restrictions to net assets without donor restrictions at that time. Property and equipment is depreciated on the straight-line method over the following estimated useful lives:

Computers, software and other assets	3 - 5 years
Furniture and fixtures	7 years
Office equipment	5 years
Leasehold improvements	39 years

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 net assets without donor restrictions if the restrictions expire (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Methods used for allocation of expenses among programs and supporting services

The Foundation allocates its expenses on a functional basis among its various programs and supporting services in the statements of activities. Therefore, certain expenses have been allocated to programs and supporting services benefited based on full time employee equivalents. Salaries are allocated by natural department. Depending upon the staff member job description and duties, their time is allocated over programs, administrative and/or fundraising.

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:

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

2. Summary of Significant Accounting Policies (Continued)

Program Services - The Foundation has multiple program services areas.

Case Management Services

For over 23 years, the Foundation has provided case management intervention on behalf of critically or chronically ill patients nationally. Enabling them to connect with, and maintain access to, prescribed healthcare services and medications, overcome insurance barriers, locate resources to support cost-of-living expenses while in treatment, evaluate and maintain health insurance coverage and better manage, or reduce, the out-of-pocket medical and cost of living debt they face. The Foundation provides one-on-one professional case management services, working alongside patients, their loved ones, or medical professionals and often taking the lead to resolve complex healthcare access and affordability challenges encountered in the healthcare system. Case Management services are provided at no cost to patients and their families. During 2019, the Foundation's case management staff directly intervened on behalf of 24,594 individuals. These patients are collectively living with 613 unique diseases and requested assistance with an average of two issues that were creating obstacles to care. On average, case managers made 16 contacts on behalf of each case to relevant stakeholders to bring resolution to the patient's access issues. This translates to nearly 415,000 unique contacts on behalf of patients and families receiving case management intervention services. PAF provided these services through a compliment of 24 unique programs. During 2018, the case management team intervened on behalf of 24,103 patients. These patients were collectively living with 490 unique diseases and requested assistance with an average of two issues related to obstacles to care. This translates to nearly 500,000 unique contacts, providing services through a compliment of 20 unique programs.

Patient Education and Empowerment

PAF extends the impact of one-to-one case management services through the patient education and empowerment tools by providing actionable advice and guidance to healthcare consumers. Our goal is to improve patient's everyday experience with insurance and to empower the patient's healthcare engagement. Our educational portfolio covers a broad range of topics in a variety of formats to meet the needs and preferences of multiple audiences, including patients, caregivers, and professionals.

During 2019, the Foundation's Patient Education and Empowerment team published 17 new or revised publications, 11 new web articles, and recorded and released on-demand 9 disease-specific webcast presentations. We also launched 4 new projects and completed enhancements to 4 existing projects and launched a newly designed, easier to navigate, mobile-friendly organizational website. During 2018, the team developed 15 new or revised educational publications, launched 3 online educational tools and created 10 Patient Empowerment webinars.

Health Equity Initiative, Community Outreach & Patient Engagement

The Foundation's commitment to achieving health equity is embedded in addressing the social determinants of health. Broad local and national efforts address policy, social factors, and health services impacting persons with breast and lung cancer. Specific activities focus on tackling social/financial support needs and mitigating barriers that impact access to health services. Through the work of the SelfMade Health Network, a member of the Centers for Disease Control and Prevention's (CDC) Consortium of National Networks Addressing Cancer and Tobacco Disparities among Special Populations, our health equity footprint is expanded to address other social determinants such as the physical environment, healthy behaviors, working conditions (through clean indoor air policies), education and health literacy.

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

2. Summary of Significant Accounting Policies (Continued)

Through a myriad of local and national partnerships, PAF's Health Equity Initiative engages with stakeholders to better understand the lived experiences of persons with breast and lung cancer and assess if resources within PAF's portfolio of services and support can bring about positive solutions. To accomplish this goal, PAF uses a community engagement model to convene community meetings, conduct focus groups and other conversations to better understand the needs of communities. Through its partnership with national organizations such as National Black Nurses Association (NBNA) and Living Beyond Breast Cancer, Young Survivors Coalition and others, PAF is able to engage with health care providers, patients and caregivers to bring awareness of local and national resources, including those provided by PAF to assist the populations they serve. Through 3 national and 9 local outreach events, PAF reached more than 2,880 patients, caregivers, community health workers, lay health navigators and nurses during 2019. In 2018, the outreach activities reached more than 2,000 individuals or healthcare providers through 3 national and 10 local events.

This fiscal year marked many "firsts" for the Foundation's Health Equity work. In July 2018, a new partnership with the National Black Nurses Association-St. Louis Chapter was launched. The partnership involved educating newly diagnosed breast cancer patients about PAF services and resources as a part of their Breast Cancer Buddy Program. The initial pilot reached 40 limited resourced, newly diagnosed breast cancer patients. The program is slated to expand in 2020 to include men with cancer and other community organizations. Additionally, PAF joined NBNA-St. Louis Chapter in their first community health and wellness outreach event. Participants took advantage of health screenings, information about available community and national resources, and participated in hands on exercise demonstrations. St. Louis is one of 10 cities where the breast cancer mortality disparity between African American and Caucasian women was 50% or greater and is a strategic focus city for the Foundation's health equity efforts. In September 2018, PAF's Executive Vice President for Health Equity and Community Engagement was the keynote speaker at the 2018 Iowa Cancer Summit. The presentation provided attendees a live demonstration of how to access and navigate local and national resources using PAF's National Financial Resource Directory and other PAF educational tools. As a part of the Foundation's West Virginia (WV) Lung Cancer Project, a partnership with West Virginia University Cancer Institute and Mountains of Hope Cancer Coalition, PAF developed the agenda for the second annual WV Lung Cancer Conference through the lens of achieving health equity. The conference featured nationally recognized health equity leader, Dr. Camara Jones and included WV's first policy panel to respond to the lung cancer burden across WV, facilitated by Harvard Law School, a fellow grantee. In February 2019, in partnership with Sister's Working it Out, a Chicago based community breast cancer education and advocacy organization, PAF convened the inaugural "Southside Community Conversation to Fight Breast Cancer." This event was designed to educate attendees on the disparate breast cancer mortality burden across the communities that comprise Chicago's Southland and to better understand, through the eyes of the community, their perception of the contributing factors to the cancer disparities; gaps in services and resources; and explore possible solutions. The event was attended by more than 40 community members representing other breast cancer survivor organizations, other advocacy groups, neighborhood block clubs, breast cancer survivors, faith based leaders, and health care professionals. The proceedings from this conversation are the bedrock of the Foundation's future activities in Chicago and will guide follow-up community outreach and engagement activities, including but not limited to, the production of a local breast cancer resource directory; convening of a local think tank to strategically outline an action plan to address identified gaps; and engage with other stakeholders to educate women across Chicago's Southland about available resources and how to access them.

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

2. Summary of Significant Accounting Policies (Continued)

The Foundation was successful in securing a new five-year cooperative agreement from the CDC's Office of Smoking on Health and the Division of Cancer Prevention and Control (DCPC) to continue administration of the SelfMade Health Network (SMHN). The SMHN is focused on implementing evidence-based strategies to reduce tobacco and cancer related disparities among populations with low socioeconomic status (SES) characteristics. Under the previous award, the Network successfully implemented pilot interventions and provided technical assistance in Tennessee, Kentucky, Virginia, South Carolina, West Virginia, and Texas, and with the collaboration of the American Lung Association, designed and implemented the SMHN Tobacco Cessation Marketplace Project, which was piloted in 10 states to implement brief tobacco cessation counseling into the Affordable Care Act (ACA) Marketplace annual insurance enrollment process. For its work in educating young women about gynecologic cancers and the human papillomavirus (HPV) vaccination, SMHN was one of the first networks to have a success story published by the CDC DCPC.

Under the new cooperative agreement, SMHN will implement evidence-based strategies to 1) improve the capacity of CDC-funded state tobacco and comprehensive cancer control programs in collection and use of data specific to populations with low SES characteristics; 2) strengthen relationships between organizations serving low SES populations, CDC-funded state programs, and other funded networks; 3) increase the delivery of evidence-based interventions to reach and impact populations with low SES characteristics; 4) increase quit attempts among populations with low SES characteristics; 5) increase breast cancer screening among African American women with low SES characteristics; 6) decrease incidence of advanced stage breast and lung cancer among populations with low SES characteristics; and 7) increase cancer related vaccinations.

In 2019, PAF completed work on two grants from the Robert Wood Johnson Foundation (RWJF), including "Skilled Communications Workshops, a Dissemination Grant for the Roadmap to Creating Consumer Clarity in Health Care Decision Making," and "Raising Awareness of the Importance of and Facilitating Cost-of-Care Discussions in Health Care". These are the second and third grants RWJF has awarded PAF.

The "Roadmap to Consumer Clarity Dissemination project" is a compliment to and extension of the work that was done under PAF's first RWJF grant in 2016, "Creating a Roadmap to Consumer Clarity in Health Care Decision Making. This initial grant developed a comprehensive model for implementing personalized care across a wide-range of clinical settings. The dissemination grant provided a means to take a key component of that model, skilled communications, and apply it to community settings. PAF, in collaboration with National Patient Advocate Foundation (NPAF), worked with three community partners to achieve the grant's objectives; the Mountain Area Health Education Center (MAHEC) in Asheville, North Carolina, the University of Illinois Chicago (UIC) and the National Medical Association (NMA) in Philadelphia. The primary community being engaged for the MAHEC workshop was the Appalachian population, for UIC it was African American and Latino cancer patients, and for the NMA, African American physicians.

Each program was developed in close coordination with the community partner and addressed the specific needs of the region and its population. The programs were designed to be highly interactive, include significant participation from a wide range of stakeholders, including patients and advocates, and stress skills that can be used in actual health care decision making at key points during the illness experiences. The intention is to use these workshops as models for continuing to develop collaborative efforts with other community partners to advance the personalized care for both patients and their health care teams.

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

2. Summary of Significant Accounting Policies (Continued)

The financial burden of facing a serious illness or disability can have a significant, often devastating impact on patients and caregivers. This impact can be measured both in terms of direct costs for treatment and care and decisions that people make about their lives when they incur medical debt. It is increasingly important that patients discuss the costs of their care with their health care providers and incorporate considerations of financial burden in the decision-making process. Open, honest conversations are more important and relevant to assessing treatment options and helping patients choose and remain on their treatment plans.

In 2017, the RWJF funded eight diverse investigators to do exploratory research on barriers and opportunities that exist for facilitating cost of care discussions and integrating them into the clinical workflow. This funding supported PAF's project, "Raising Awareness of the Importance of and Facilitating Cost-of-Care Discussions in Health Care". As a follow up to these activities, RWJF funded several organizations, including PAF to develop innovative means of disseminating these findings and raising awareness of the importance of cost of care discussions in health care. PAF, in collaboration with NPAF, developed a website for this purpose, sponsored a series of webinars on cost of care related topics and dedicated its Policy Consortium to cost of care related issues.

Scholarship for Survivors Program

During the Foundation's daily interactions with patients, the Foundation staff often interface with patients who either themselves or a loved one has experienced the impact of a chronic illness or life-threatening disease on one's post-secondary education. In 2000, the Scholarship for Survivors program was established to honor these individuals by offering educational scholarships to individuals who have suffered (or are suffering) a life-threatening disease or chronic condition. These students have, despite their disease/condition, excelled academically, served the community, and desire to pursue a secondary education.

Donors giving during silent and live auctions at the Foundation's 18th Annual A Promise of Hope Affair, as well as a Foundation staff led community fundraising initiative, helped make it possible to continue expanding the number of students supported through the Scholarship for Survivors program from twenty in the 2018-2019 academic year to twenty-five for the 2019-2020 academic year. To date, the Foundation has awarded 113 scholarships totaling over \$640,000.

Financial Support Programs

Launched in 2004, the 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 application specialists; personally, guiding patients through the enrollment and benefit process.

In 2019, PAF's Co-Pay Relief Program assisted patients through thirty two (32) disease specific funds including Asthma, Bladder Cancer, Breast Cancer, Cancer Genetic and Genomic Testing Cervical Cancer, Chronic Pain, Electrolyte Imbalance, Hepatitis B, Hepatitis C, HIV, AIDS and Prevention, Homozygous Familial Hypercholesterolemia, Inherited or Acquired Lipodystrophy, Metastatic Breast Cancer, Metastatic Colorectal Cancer, Metastatic Gastric Cancer, Metastatic Prostate Cancer, Multiple Myeloma, Multiple Sclerosis, Myelodysplastic Syndrome, Non-small Cell Lung Cancers (NSCLC), Osteoporosis, Ovarian Cancer, Periodic Paralysis, Peripheral Vascular Disease, Prostate Cancer, Pulmonary Fibrosis, Pulmonary Hypertension, Renal Cell Carcinoma, Rheumatoid Arthritis, Skin Cancer, Ulcerative Colitis and Uterine Cancers.

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

2. Summary of Significant Accounting Policies (Continued)

Currently, the Foundation's Co-Pay Relief Program 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. Also, CPR 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.

In 2019, the Foundation administered co-payment assistance to 75,580 qualified patients through the 32 assistance funds available through the Co-Pay Relief Program. The program staff fielded 230,263 telephone calls and processed claims totaling over \$241,000,000 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 400,000 individuals allocating more than \$1.2 billion in co-payment awards. In 2018, 89,963 qualified patients received assistance through 25 funds. PAF staff fielded 255,389 calls and processed claims totaling over approximately \$269,799,000.

During 2019 and 2018, the Foundation also administered seven (7) financial aid funds, providing financial assistance to qualified patients for out of pocket and cost of living expenses faced by patients as a result of their diagnosis and treatment. In 2019, the Foundation successfully provided one-time small grants to 1,646 patients, totaling \$1,011,400 in financial relief to qualified patients. In 2018, 2,128 patients received financial relief from these grants, totaling over \$1,250,250. The small grants range from \$300 - \$5,000 per patient and are designed to defray the costs of transportation and cost of living expenses the patients face. The financial aid fund programs include:

- LEISHLine Financial Aid Fund: Serving patients diagnosed with Acute Respiratory Distress Syndrome, Toxic Shock Syndrome and/or Sepsis
- Metastatic Breast Cancer Financial Aid Fund: Serving patients diagnosed with Stage III or Stage IV Breast Cancer
- Merkel Cell Carcinoma Financial Aid Fund: Serving patients diagnosed with a rare form of skin cancer known as Merkel Cell Carcinoma
- Multiple Myeloma Transportation Financial Aid Fund: Serving patients diagnosed with Multiple Myeloma
- Transportation Financial Aid Fund: Serving patients diagnosed with Metastatic Melanoma or Metastatic Lung Cancer
- Heart Valve Financial Aid Fund: Serving patients diagnosed with a valvular condition
- DONNA Financial Aid Fund: Serving patients diagnosed with Breast Cancer that have received case management services through the DONNA CareLine
- Mahan Financial Aid Fund: Serving patients diagnosed with Acute Myeloid Leukemia

Non-Profit Service Agreements

In 2009, the Foundation entered into a transparent service administration agreement with a national nonprofit organization. The Foundation has been engaged 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 2019 and was paid administration fees monthly through this service agreement. The Foundation administered services to 34,521 and 27,610 patients in 2019 and 2018, respectively, through this service agreement.

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

2. Summary of Significant Accounting Policies (Continued)

Income taxes

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and the Commonwealth of Virginia Statutes; accordingly, the accompanying financial statements do not reflect a provision or liability for federal and state income taxes.

Advertising

Advertising costs are charged to operations when incurred. Advertising costs for 2019 and 2018 were \$26,506 and \$7,328, respectively.

Recent accounting pronouncements

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The 2018 financial statements have been adjusted to reflect the retrospective application of the new accounting guidance. Total net assets was not impacted as a result.

Subsequent events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through November 6, 2019, the date the financial statements were available to be issued.

3. Concentration of Credit Risk

Financial instruments which potentially subject the Foundation to concentration 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 or the Securities Investor Protection Corporation (SIPC) up to \$500,000. At times, The Foundation places deposits in financial institutions that may be in excess of insured amounts. At June 30, 2019 and 2018, deposits of approximately \$270,000,000 and \$280,000,000, respectively, was in excess of insured amount. The Foundation has not experienced any financial loss as a result of such deposits.

During the years ended June 30, 2019 and 2018, four donors accounted for approximately 96% and 82% of donations received for the Co-Pay Relief Program, respectively.

4. Liquidity and Availability of Resources

As part of its liquidity management, the Foundation has a policy to structure its financial assets to be available as its general expenses, liabilities, and other obligations come due. The Foundation considers general expenditures to be all expenditures related to its ongoing activities of providing services to its clients as well as the conduct of services undertaken to support those activities' general expenditures.

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

4. Liquidity and Availability of Resource (Continued)

The following schedule explains the Foundation's financial ability to meet cash needs for general expenses within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, assets held for others, or because the governing board has set aside funds for a specific purpose. These board designations could be withdrawn if the board approved that action.

	<u>2019</u>	<u>2018</u>
General operating cash and cash equivalents	\$ 28,077,632	\$ 24,050,994
Unconditional promises to give	17,254,062	30,424,481
Service contract receivable	538,498	514,231
Investments and cash equivalents	<u>2,078,900</u>	<u>1,999,015</u>
	<u>\$ 47,949,092</u>	<u>\$ 56,988,721</u>

5. Investments

Investments are stated at fair value and consist of the following:

<u>2019</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Treasury securities	\$ 426,575	\$ 424,129	\$ (2,446)
Federal agency bonds	744,612	755,285	10,673
Certificates of deposit	815,000	818,107	3,107
Money market funds	<u>81,379</u>	<u>81,379</u>	<u>-</u>
	<u>\$ 2,067,566</u>	<u>\$ 2,078,900</u>	<u>\$ 11,334</u>
<u>2018</u>			
Treasury securities	\$ 668,359	\$ 653,065	\$ (15,294)
Federal agency bonds	260,559	253,368	(7,191)
Certificates of deposit	739,000	726,613	(12,387)
Money market funds	<u>365,969</u>	<u>365,969</u>	<u>-</u>
	<u>\$ 2,033,887</u>	<u>\$ 1,999,015</u>	<u>\$ (34,872)</u>

The investment return includes interest, gains and losses related to the endowment, as well as interest earned on restricted cash and cash equivalents. The following schedule summarizes the investment return in the statements of activities for the years ending June 30:

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 5,514,479	\$ 2,947,388
Net unrealized/realized gains (losses)	<u>45,371</u>	<u>(27,621)</u>
	<u>\$ 5,559,850</u>	<u>\$ 2,919,767</u>

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

5. Investments (Continued)

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. The 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:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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, 2019 and 2018.

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 prices for similar assets and other observable inputs such as interest rates offered on similar investments.

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

5. Investments (Continued)

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

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

	Assets at Fair Value as of June 30, 2019			
	Level 1	Level 2	Level 3	Total
Treasury securities	\$ -	\$ 424,129	\$ -	\$ 424,129
Federal agency bonds	-	755,285	-	755,285
Certificates of deposit	-	818,107	-	818,107
Money market funds	81,379	-	-	81,379
	<u>\$ 81,379</u>	<u>\$ 1,997,521</u>	<u>\$ -</u>	<u>\$ 2,078,900</u>

	Assets at Fair Value as of June 30, 2018			
	Level 1	Level 2	Level 3	Total
Treasury securities	\$ -	\$ 653,065	\$ -	\$ 653,065
Federal agency bonds	-	253,368	-	253,368
Certificates of deposit	-	726,613	-	726,613
Money market funds	365,969	-	-	365,969
	<u>\$ 365,969</u>	<u>\$ 1,633,046</u>	<u>\$ -</u>	<u>\$ 1,999,015</u>

6. Property and Equipment

Property and equipment consist of the following:

	2019	2018
Computers, software and other assets	\$ 8,341,751	\$ 8,049,749
Projects in progress	1,425,676	344,670
Furniture and fixtures	416,140	369,711
Office equipment	229,323	665,159
Leasehold improvements	<u>90,993</u>	<u>84,697</u>
	10,503,883	9,513,986
Accumulated depreciation	<u>(6,182,123)</u>	<u>(5,295,814)</u>
	<u>\$ 4,321,760</u>	<u>\$ 4,218,172</u>

Depreciation expense for 2019 and 2018 was \$1,586,146 and \$1,564,158, respectively.

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

7. Self-Insurance

Beginning March 2014, PAF made a policy decision to partially self-fund the health insurance program offered to their employees. During 2019 and 2018, the plan provides claims coverage up to a maximum of \$90,000 per contract and approximately \$1,348,042 and \$1,113,321, respectively, for the aggregate of 143 and 121 contracts, respectively. 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 estimates provided by the third party administrator. At June 30, 2019 and 2018, the IBNR liability was \$126,804 and \$92,974, respectively, and is reported on the statements of financial position in other liabilities.

8. Restrictions on Net Assets

For 2019 and 2018, the Foundation had both net assets with donor restrictions and board designated net assets.

Net assets with donor restrictions are restricted by specific purpose as presented below:

	<u>2019</u>	<u>2018</u>
Co-Pay Relief Program funding (CPR)	\$ 263,551,531	\$ 281,386,952
Financial Aid Programs	<u>486,540</u>	<u>321,477</u>
Total net assets with donor restrictions	<u>\$ 264,038,071</u>	<u>\$ 281,708,429</u>

Board designated net assets without donor restrictions consist of endowment fund investments to be used to promote and further support charitable purposes, the income from which is expendable to support the general operations of the Foundation. At June 30, 2019 and 2018, board designated net assets were \$2,078,900 and \$1,999,015, respectively.

9. Net Assets Released from Donor Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors as follows for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Purpose restrictions accomplished:		
CPR	\$ 234,502,177	\$ 269,799,405
Financial Aid Programs	<u>944,400</u>	<u>1,250,250</u>
Total restrictions released	<u>\$ 235,446,577</u>	<u>\$ 271,049,655</u>

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

10. Pension Plan

The Foundation has a 401(k) plan that both full and part time employees are eligible to participate which is effective upon their date of hire. The Foundation matches employee contributions for the first 3% of eligible compensation at 100% and an additional 2% of eligible compensation at 50%. The employer match was \$335,485 and \$285,953 for 2019 and 2018, respectively.

11. Post-Retirement Benefits Obligation

Beginning on January 1, 2016, PAF began offering a Health Reimbursement account (HRA) for eligible, non-active retirees in order to fulfill the organizational imperative of encouraging access to affordable healthcare for PAF retirees. Upon retirement, eligible employees will receive reimbursements of 100% of the first \$9,900 annually that can be utilized to pay for eligible healthcare premium expenses, including Medicare parts B and D, Medicare supplemental plans and long-term care insurance premiums for the eligible retiree. To be eligible for participation in the retiree HRA benefit, PAF employees must have worked actively and continuously as a full time employee for PAF for a minimum of 15 years or greater at time of retirement, be Medicare eligible at retirement either through meeting age requirements or disability requirements and have retired from PAF on or after January 1, 2014.

Expected net benefit payments for fiscal years ending June 30:

<u>Year Ending June 30</u>	
2020	\$ 34,233
2021	48,496
2022	62,580
2023	75,807
2024	83,963
2025 to 2029	<u>767,615</u>
	<u>\$ 1,072,694</u>

Weighted average assumptions for determining benefit obligations and net periodic benefit cost for fiscal years ending June 30:

	<u>2019</u>	<u>2018</u>
Discount rate, benefit obligations	3.58%	4.17%
Discount rate, net periodic benefit cost	4.17%	3.95%
Healthcare trend rate*		
Current rate	N/A	N/A
Ultimate rate	N/A	N/A
Year ultimate rate reached	N/A	N/A

* Healthcare trend rates are not applicable to the Foundation as the benefit payment is fixed for this plan.

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

11. Post-Retirement Benefits Obligation (Continued)

<u>Components of net periodic benefit cost</u>	<u>2019</u>	<u>2018</u>
Service cost	\$ 247,898	\$ 234,015
Interest cost	106,153	88,730
Amortization of:		
Prior service cost (credit)	<u>86,094</u>	<u>86,094</u>
Net periodic benefit cost	<u>\$ 440,145</u>	<u>\$ 408,839</u>

Accumulated postretirement benefit obligations

Change in accumulated postretirement benefit obligations (APBO) for fiscal years ending June 30:

	<u>2019</u>	<u>2018</u>
APBO, beginning of year	\$ 2,451,399	\$ 2,184,558
Service cost	247,898	234,015
Interest cost	106,153	88,730
Estimated benefits paid	(29,531)	(29,546)
Actuarial (gain)/loss	<u>395,863</u>	<u>(26,358)</u>
APBO, end of year	<u>\$ 3,171,782</u>	<u>\$ 2,451,399</u>

Funded status for fiscal years ending June 30:

	<u>2019</u>	<u>2018</u>
APBO, end of year	\$ (3,171,782)	\$ (2,451,399)
Fair value of Plan assets, end of year	<u>-</u>	<u>-</u>
Net amount recognized in statements of financial position	(3,171,782)	(2,451,399)
Current portion	<u>34,233</u>	<u>29,385</u>
Long term portion	<u>\$ (3,137,549)</u>	<u>\$ (2,422,014)</u>

12. Donated Services and Property

During 2019 and 2018, donated materials were valued at \$30,334 and \$38,374, respectively, primarily in support of the Foundation's annual Promise of Hope Affair.

During 2019 and 2018, \$4,980 and \$2,000, respectively, in professional services were donated and recognized as related income and expense for donated services.

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

13. Related Party Transactions

During both 2019 and 2018, the Foundation paid consulting fees of \$780,000 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, 2019 and 2018, there was \$18,437 and \$7,373, respectively, due from NPAF to the Foundation which is included on the statements of financial position. At June 30, 2019, there was \$10,290 due to NPAF from the Foundation which is included on the statements of financial position.

14. Operating Leases

The Foundation leases a 36,500 square feet office space, under a ten-year lease agreement, which expires in September 2023. The initial rent payment was \$52,970 per month and the agreement includes annual rent increases every other October.

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

Total lease payments for 2019 and 2018 were \$759,771 and \$811,512, respectively.

Minimum future lease payments under the non-cancelable operating leases are as follows:

<u>Year Ending</u> <u>June 30,</u>	
2020	\$ 685,561
2021	698,421
2022	702,708
2023	715,843
2024	<u>182,812</u>
	<u>\$ 2,985,345</u>

15. Board Designated Endowments

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.

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

15. Board Designated Endowments (Continued)

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 Commonwealth of Virginia adopted the Uniform Prudent Management of Institutional Funds Act (UPMSFA) in 2008. The Board of Directors of the Foundation has interpreted state law 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 board designated endowment fund is classified as unrestricted net assets. 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 were exclusively board designated endowment funds without donor restrictions and were \$2,078,900 and \$1,999,015 at June 30, 2019 and 2018, respectively.

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

15. Board Designated Endowments (Continued)

Changes in board designated endowment fund net assets in 2019 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	\$ -	\$ 1,999,015	\$ -	\$ 1,999,015
Return on investment in endowment	<u>-</u>	<u>79,885</u>	<u>-</u>	<u>79,885</u>
Endowment fund net assets - end of year	<u>\$ -</u>	<u>\$ 2,078,900</u>	<u>\$ -</u>	<u>\$ 2,078,900</u>

Changes in board designated endowment fund net assets in 2018 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	\$ -	\$ 1,996,636	\$ -	\$ 1,996,636
Return on investment in endowment	<u>-</u>	<u>2,379</u>	<u>-</u>	<u>2,379</u>
Endowment fund net assets - end of year	<u>\$ -</u>	<u>\$ 1,999,015</u>	<u>\$ -</u>	<u>\$ 1,999,015</u>