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FINANCIAL REPORT

June 30, 2021 and 2020

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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 statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, functional expenses 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.

Auditor's 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 audits 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, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

CERTIFIED PUBLIC ACCOUNTANTS

Newport News, Virginia
October 22, 2021

PATIENT ADVOCATE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
June 30, 2021 and 2020

	2021	2020
ASSETS		
CURRENT ASSETS		
General operating cash and cash equivalents	\$ 28,356,319	\$ 34,643,003
Restricted cash and cash equivalents	287,485,725	172,931,062
Unconditional promises to give	17,613,158	14,086,492
Accounts receivable (Note 6)	1,745,868	1,611,627
Interest receivable	116,954	266,096
Due from National Patient Advocate Foundation (Note 16)	37,462	41,713
Investments (Notes 7 and 8)	62,194,524	127,186,163
Inventories	72,356	55,002
Prepaid expenses	390,886	471,457
	398,013,252	351,292,615
PROPERTY AND EQUIPMENT, net (Note 9)	3,861,164	3,919,924
OTHER ASSETS	50,331	50,331
	\$ 401,924,747	\$ 355,262,870
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 8,777,237	\$ 13,105,119
Due to National Patient Advocate Foundation (Note 16)	35,162	52,641
Postretirement benefits liability, current portion (Note 14)	63,621	48,930
Deferred revenue (Note 6)	21,918,604	19,151,391
Accrued vacation leave	574,462	569,698
	31,369,086	32,927,779
LONG-TERM LIABILITIES		
Postretirement benefits liability, less current portion (Note 14)	2,709,676	4,148,581
Incurred but not recorded liabilities (Note 10)	152,603	135,687
	2,862,279	4,284,268
Total long-term liabilities	2,862,279	4,284,268
Total liabilities	34,231,365	37,212,047

(Continued)

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

PATIENT ADVOCATE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
June 30, 2021 and 2020

	2021	2020
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Undesignated	\$ 18,853,500	\$ 16,262,233
Board designated (Notes 11 and 18)	2,194,524	2,186,163
Total net assets without donor restrictions	21,048,024	18,448,396
NET ASSETS WITH DONOR RESTRICTIONS		
Restricted by purpose (Note 11)	346,645,358	299,602,427
Total net assets	367,693,382	318,050,823
Total liabilities and net assets	\$ 401,924,747	\$ 355,262,870

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

PATIENT ADVOCATE FOUNDATION

STATEMENTS OF ACTIVITIES
Years Ended June 30, 2021 and 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUES						
Contributions:						
Grants	\$ 2,759,204	\$ 294,452,083	\$ 297,211,287	\$ 3,838,516	\$ 274,299,154	\$ 278,137,670
Private and public donations	208,539	-	208,539	258,937	-	258,937
Donated services and materials	9,511	-	9,511	36,924	-	36,924
Program administration	20,252,430	-	20,252,430	18,618,857	-	18,618,857
Patient Congress	65,000	-	65,000	70,000	-	70,000
Promise of Hope	-	-	-	123,770	-	123,770
Patient Action Council	75,000	-	75,000	125,000	-	125,000
Investment return, net	691,840	-	691,840	3,882,221	-	3,882,221
Net assets released from restrictions:						
Satisfaction of program restrictions (Note 12)	247,409,152	(247,409,152)	-	238,734,798	(238,734,798)	-
Total revenues, gains and other support	<u>271,470,676</u>	<u>47,042,931</u>	<u>318,513,607</u>	<u>265,689,023</u>	<u>35,564,356</u>	<u>301,253,379</u>
OPERATING EXPENSES						
Program services:						
Patient/educational services	5,615,958	-	5,615,958	5,575,996	-	5,575,996
Financial aid programs	254,199,499	-	254,199,499	246,082,505	-	246,082,505
Service contracts	6,289,317	-	6,289,317	6,044,175	-	6,044,175
Supporting services:						
Management and general	2,820,387	-	2,820,387	2,860,826	-	2,860,826
Fundraising	1,036,566	-	1,036,566	1,085,844	-	1,085,844
Total expenses	<u>269,961,727</u>	<u>-</u>	<u>269,961,727</u>	<u>261,649,346</u>	<u>-</u>	<u>261,649,346</u>
Change in net assets from operations	1,508,949	47,042,931	48,551,880	4,039,677	35,564,356	39,604,033
OTHER NONOPERATING CHANGES						
Postretirement benefit changes other than periodic cost (Note 14)	1,090,679	-	1,090,679	(942,934)	-	(942,934)
Change in net assets	2,599,628	47,042,931	49,642,559	3,096,743	35,564,356	38,661,099
Net assets, beginning of year	18,448,396	299,602,427	318,050,823	15,351,653	264,038,071	279,389,724
Net assets, end of year	<u>\$ 21,048,024</u>	<u>\$ 346,645,358</u>	<u>\$ 367,693,382</u>	<u>\$ 18,448,396</u>	<u>\$ 299,602,427</u>	<u>\$ 318,050,823</u>

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

PATIENT ADVOCATE FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2021

	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:								
Employee insurance	\$ 261,701	\$ 316,084	\$ 341,822	\$ 919,607	\$ 67,866	\$ 25,941	\$ 93,807	\$ 1,013,414
Employee retirement (Note 13)	87,510	57,682	50,866	196,058	146,382	40,034	186,416	382,474
Payroll taxes	260,928	267,167	281,214	809,309	57,806	44,751	102,557	911,866
Salaries	3,493,302	3,658,291	3,860,583	11,012,176	1,040,032	791,745	1,831,777	12,843,953
Total salaries and related expenses	4,103,441	4,299,224	4,534,485	12,937,150	1,312,086	902,471	2,214,557	15,151,707
Accounting fees	-	24,000	-	24,000	136,980	-	136,980	160,980
Bank fees and interest	-	111,665	-	111,665	32,787	8,971	41,758	153,423
Conferences, conventions and meetings	-	46,474	-	46,474	1,443	1,028	2,471	48,945
Consultants	43,909	250,987	193,713	488,609	-	-	-	488,609
Depreciation	280,721	477,739	450,079	1,208,539	53,116	30,901	84,017	1,292,556
Donations	-	-	-	-	7,500	-	7,500	7,500
Equipment rental and maintenance	306,189	265,111	241,820	813,120	94,597	15,298	109,895	923,015
Financial aid programs	-	247,409,152	-	247,409,152	-	-	-	247,409,152
Grant expenses	264,040	-	-	264,040	-	-	-	264,040
Insurance	3,116	4,197	3,924	11,237	87,671	368	88,039	99,276
Legal fees	-	-	-	-	200,003	-	200,003	200,003
Loss on fixed assets disposal	540	728	680	1,948	209	64	273	2,221
Marketing	10,536	-	-	10,536	2,545	6,114	8,659	19,195
Occupancy	193,967	261,261	244,305	699,533	31,122	22,909	54,031	753,564
Postage and shipping	15,124	154,304	88,701	258,129	382	327	709	258,838
Printing and publications	48,753	22,143	19,769	90,665	2,214	2,697	4,911	95,576
Processing services	18,737	550,154	215,941	784,832	-	-	-	784,832
Professional fees, NPAF (Note 16)	-	-	-	-	780,000	-	780,000	780,000
Property taxes	-	-	-	-	23,500	-	23,500	23,500
Recruiting	-	-	-	-	3,231	-	3,231	3,231
Scholarships	58,042	-	-	58,042	-	-	-	58,042
Staff meeting and incentives	4,191	4,435	4,507	13,133	2,461	586	3,047	16,180
Supplies	42,935	26,684	18,767	88,386	13,129	17,124	30,253	118,639
Telephone	217,296	290,544	271,974	779,814	34,817	26,512	61,329	841,143
Travel	4,421	697	652	5,770	594	1,196	1,790	7,560
Total functional expenses	<u>\$ 5,615,958</u>	<u>\$ 254,199,499</u>	<u>\$ 6,289,317</u>	<u>\$ 266,104,774</u>	<u>\$ 2,820,387</u>	<u>\$ 1,036,566</u>	<u>\$ 3,856,953</u>	<u>\$ 269,961,727</u>

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

PATIENT ADVOCATE FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2020

	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:								
Employee insurance	\$ 308,313	\$ 429,001	\$ 411,514	\$ 1,148,828	\$ 165,295	\$ 30,075	\$ 195,370	\$ 1,344,198
Employee retirement (Note 13)	99,550	54,484	51,781	205,815	135,524	23,719	159,243	365,058
Payroll taxes	246,581	263,874	249,570	760,025	56,063	48,629	104,692	864,717
Salaries	3,486,416	3,693,818	3,538,661	10,718,895	953,832	753,447	1,707,279	12,426,174
Total salaries and related expenses	4,140,860	4,441,177	4,251,526	12,833,563	1,310,714	855,870	2,166,584	15,000,147
Accounting fees	-	28,100	-	28,100	150,741	-	150,741	178,841
Bank fees and interest	-	89,733	-	89,733	20,165	6,051	26,216	115,949
Conferences, conventions and meetings	384,058	-	-	384,058	24,706	94,867	119,573	503,631
Consultants	36,868	161,727	160,268	358,863	26,250	409	26,659	385,522
Depreciation	87,449	1,005,906	567,640	1,660,995	5,164	533	5,697	1,666,692
Donations	-	-	-	-	10,500	-	10,500	10,500
Equipment rental and maintenance	188,608	195,035	214,509	598,152	56,621	9,364	65,985	664,137
Financial aid programs	-	238,734,798	-	238,734,798	-	-	-	238,734,798
Insurance	2,656	4,138	3,746	10,540	82,794	282	83,076	93,616
Legal fees	-	-	-	-	212,089	-	212,089	212,089
Loss on fixed assets disposal	173	270	244	687	34	18	52	739
Marketing	15,833	3,000	-	18,833	7,155	7,200	14,355	33,188
Occupancy	171,808	267,708	242,325	681,841	36,947	18,267	55,214	737,055
Postage and shipping	19,096	172,790	83,631	275,517	10,381	1,131	11,512	287,029
Printing and publications	17,267	40,077	5,701	63,045	5,012	5,696	10,708	73,753
Processing services	14,205	534,110	159,990	708,305	-	-	-	708,305
Professional fees, NPAF (Note 16)	-	-	-	-	780,000	-	780,000	780,000
Property taxes	-	-	-	-	28,938	-	28,938	28,938
Recruiting	-	-	-	-	18,509	-	18,509	18,509
Scholarships	75,000	-	-	75,000	-	-	-	75,000
Staff meeting and incentives	11,944	9,093	8,428	29,465	3,879	3,680	7,559	37,024
Supplies	64,252	37,763	29,118	131,133	17,397	12,117	29,514	160,647
Telephone	232,316	350,498	316,822	899,636	41,057	20,593	61,650	961,286
Travel	113,603	6,582	227	120,412	11,773	49,766	61,539	181,951
Total functional expenses	<u>\$ 5,575,996</u>	<u>\$ 246,082,505</u>	<u>\$ 6,044,175</u>	<u>\$ 257,702,676</u>	<u>\$ 2,860,826</u>	<u>\$ 1,085,844</u>	<u>\$ 3,946,670</u>	<u>\$ 261,649,346</u>

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

PATIENT ADVOCATE FOUNDATION

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 49,642,559	\$ 38,661,099
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,292,556	1,666,692
Net realized and unrealized (gain) loss on investments	26,688	(65,895)
Loss on disposal of fixed assets	2,221	739
Net (increase) decrease in:		
Unconditional promises to give	(3,526,666)	3,167,570
Accounts receivable	(134,241)	(1,073,129)
Interest receivable	149,142	(266,096)
Due to/from National Patient Advocate Foundation	(13,228)	19,075
Inventories	(17,354)	(12,733)
Prepaid expenses	80,571	(59,240)
Accounts payable and accrued expenses	(4,327,882)	9,341,239
Deferred revenue	2,767,213	2,481,347
Accrued vacation leave	4,764	107,551
Postretirement benefit liability	(1,424,214)	1,025,729
Incurred but not recorded liabilities	16,916	8,883
	<u>44,539,045</u>	<u>55,002,831</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(1,236,017)	(1,265,595)
Proceeds from sale of investments	124,964,951	310,000
Purchases of investments	(60,000,000)	(125,351,368)
	<u>63,728,934</u>	<u>(126,306,963)</u>
Net cash provided (used) by investing activities		
	<u>63,728,934</u>	<u>(126,306,963)</u>
Net increase (decrease) in cash and cash equivalents	108,267,979	(71,304,132)
CASH AND CASH EQUIVALENTS		
Beginning of year	207,574,065	278,878,197
	<u>207,574,065</u>	<u>278,878,197</u>
End of year	<u>\$ 315,842,044</u>	<u>\$ 207,574,065</u>
BALANCE SHEET PRESENTATION OF CASH AND CASH EQUIVALENTS		
General operating cash and cash equivalents	\$ 28,356,319	\$ 34,643,003
Restricted cash and cash equivalents	287,485,725	172,931,062
	<u>287,485,725</u>	<u>172,931,062</u>
	<u>\$ 315,842,044</u>	<u>\$ 207,574,065</u>

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

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

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.

Program service revenue

The Foundation has identified two categories of program service revenue subject to the principles of Accounting Standards Codification (ASC) Topic 606: service agreements and administrative fees.

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

2. Summary of Significant Accounting Policies (Continued)

Program service revenue (Continued)

Service agreements

The Foundation has entered into various contracts with strategic non-profit partners to serve as a third-party administrator. The majority of the service agreement revenue is related to the execution of the responsibilities associated with the administration of the non-profit partner's patient assistance programs. The Foundation recognizes revenue over time and is based upon a percentage rate applied to the total dollar amount of claims processed each month. The rate remains steady until specific tiered dollar thresholds are met, at which time the rate will decrease. At the beginning of each annual period, the rate resets to its original percentage. The tiered dollar thresholds along with the corresponding rates are outlined in the agreement between the Foundation and the partner and are taken into consideration when the Foundation prepares its annual budget. Payment is due upon receipt of the monthly invoices. Accounts receivable consists of amounts expected to be collected from balances outstanding at year-end.

Administrative fees

The Foundation earns administrative fees based on funds provided to qualified patients for Co-Pay Relief Funds and Financial Aid Programs contributed for specific diseases. The services the Foundation provides to the donors for these disease-specific programs is considered to be reciprocal in nature. The performance obligation is satisfied when patient reimbursement claims are processed which releases donor restricted net assets for the individual programs. The rate is based on management's estimate of the future direct, indirect, and capital expenditure costs of administering the programs. The Foundation reassesses the rate at year-end to ensure no adjustments are needed to the rate used throughout the year to recognize revenue based on total financial assistance provided and total direct, indirect, and capital expenditure costs incurred.

Contract liabilities

Contract liabilities are included in deferred revenue on the accompanying statements of financial position and consist primarily of upfront payments received from partners for program revenue for which performance obligations are not yet satisfied. Deferred revenue is recognized as revenue when the associated performance obligation has been satisfied.

Contributions and grants

In accordance with ASC Topic 958-605, the Foundation evaluates whether a transfer of assets is (1) an exchange transaction in which a resource provider is receiving commensurate value in return for the resources transferred or (2) a contribution. If the transfer of assets is determined to be an exchange transaction, the Foundation applies guidance under ASC Topic 606. If the transfer of assets is determined to be a contribution, the Foundation determines if the contribution is conditional based upon whether the agreement includes both of the following: (1) one or more barriers that must be overcome before the Foundation is entitled to the assets transferred and promised and (2) a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets.

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

2. Summary of Significant Accounting Policies (Continued)

Contributions and grants (Continued)

Contributions and grants, including donations of cash, in-kind contributions, and unconditional promises to give (pledges), are recognized as revenue when an unconditional promise to give has been made and are recorded as with donor restrictions or without donor restrictions, depending on the donor intent. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. Conditional contributions are recognized when the conditions on which they depend are substantially met. Contributions that were initially a conditional contribution are reported as an increase in net assets without donor restrictions if the donor-imposed conditions and restrictions are met in the same reporting period. Contributions are recorded at fair value, and in the case of pledges, are recorded at the present value of their estimated future cash flows.

All pledges are due within one year. Allowances are recorded for their estimated uncollectible contributions based on management's judgement, past collection experience and other relevant factors. At June 30, 2021 and 2020, management considered all contribution receivable balances to be fully collectible.

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 and cash equivalents

Restricted cash and cash equivalents consists of funds earmarked for patient awards and financial aid by donors.

Contributed services and materials

Certain contributed services and materials 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, 2021 and 2020

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 include certificate of deposits, money market funds, and marketable debt securities with readily determinable fair values, and are reported at their fair values in the statements of financial position. Changes in fair value of investments are determined based on cost and are recorded in the statements of activities in the period in which they occur. Investment returns, net of fees, 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 returns, net of fees, are recognized. Dividends and interest are recognized as earned.

Functional expenses

The Foundation's expenses are related to the performance of three functions: program services, management and general, and fundraising. 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 based on resources spent. Depending upon the staff member job description and duties, their time is allocated over programs, administrative and/or fundraising.

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.

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

2. Summary of Significant Accounting Policies (Continued)

Advertising

Advertising costs are charged to operations when incurred. Advertising costs were \$19,195 and \$33,188 for 2021 and 2020, respectively.

Subsequent events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through October 22, 2021, the date the financial statements were available to be issued.

3. Programs (Unaudited)

The Foundation has multiple programs.

Case management services

For a quarter of a century, the Foundation has provided case management interventions 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. PAF provides one-on-one professional case management services, working alongside patients, their loved ones, and their care teams, 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 2021, the Foundation's case management staff directly worked with or on behalf of 21,336 individuals. These patients represented 630 unique diseases and requested assistance with issues that were creating obstacles to care. On average, case managers made 13.8 contacts on behalf of each case to relevant stakeholders to bring resolution to the patient's issues. This work translates to approximately 294,386 unique contacts on behalf of patients and families receiving case management services. PAF also provided nearly 8,500 patient education publications to the patients served by case management. PAF provides these services through a compliment of 31 unique programs.

During 2020, the Foundation's case management staff directly intervened on behalf of 21,380 individuals. These patients are collectively living with 735 unique diseases and requested assistance with an average of two issues that were creating obstacles to care. On average, case managers made 15.7 contacts on behalf of each case to relevant stakeholders to bring resolution to the patient's access issues. This translates to over 335,000 unique contacts on behalf of patients and families receiving case management intervention services. PAF provided these services through a compliment of 27 unique programs.

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

3. Programs (Unaudited) (Continued)

Patient education and empowerment

PAF extends the impact of its one-to-one case management services through the development and delivery of patient education and empowerment tools focused on providing actionable advice and guidance to healthcare consumers to improve their everyday experience with insurance and to encourage patient's engagement in the healthcare system. Each year, PAF creates, maintains, and distributes a wide array of patient education materials and online tools, in printed and electronic form. PAF's educational portfolio covers a broad range of topics and is available in a variety of formats to meet the needs and preferences of multiple audiences, including patients, caregivers, and professionals including those who interact directly with the Foundation requesting assistance as well as the public visiting our website and connecting with PAF. PAF's patient education materials are routinely utilized by other organizations and facilities who share them with their patients. The Foundation maintains an extensive library of PAF authored patient educational publications, on-demand webinars, learn from the expert training series, and interactive resource tools, all of which are available free of charge to patients.

During 2021, the Foundation's Patient Education and Empowerment team published 38 new, translated, or revised publications, produced one video and 36 educational webinars. PAF supported 4 multi-year educational projects including Health Insurance Literacy, Migraine Matters and Matters of the Heart. PAF also received 3 industry awards for its patient education materials.

During 2020, the Foundation's Patient Education and Empowerment team published 43 new or revised publications and recorded and released 9 webcast presentations. PAF also launched 4 multi-year educational projects including Health Insurance Literacy, Migraine Matters and Matters of the Heart.

Health equity initiative, community outreach and patient engagement

The Foundation promotes health equity by addressing social needs gaps and social determinants of health at the individual, community, and national level. Broad local and national outreach events address populations with low socio-economic characteristics and focus on communities with high disease morbidity and premature mortality from the leading causes of death. Specific activities focus on tackling social/financial support needs and mitigating barriers that impact access to health services.

In September 2020, PAF entered year three of its five-year cooperative agreement from the Centers for Disease Control (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 focuses on providing technical assistance to state cancer control and tobacco use prevention programs to enhance their capacity to implement evidence-based strategies to reduce tobacco and cancer related disparities among populations with low socioeconomic status (SES) characteristics.

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

3. Programs (Unaudited) (Continued)

Health equity initiative, community outreach and patient engagement (Continued)

PAF's commitment to addressing health equity as a strategic imperative positioned PAF to integrate a philosophy of achieving health equity across all operational units within PAF. Critical to these efforts was the launch of PAF's Health Equity Affinity Group (HEAG). The HEAG is comprised of 14 individuals across the Foundation including executive and non-executive staff dedicated to unveiling their personal experiences with societal "isms" and healthcare experiences to help inform PAF's Blueprint for Achieving Health Equity. The Blueprint for achieving Health Equity will be designed as a guiding document to reflect specific objectives, activities, and performance measures to assess progress across the Foundation in addressing health equity. The Blueprint is slated to be released during the 2021-2022 fiscal year. The content of the Blueprint will be developed based on input from the HEAG and the Strategic Executive team with specific objectives and activities proposed by the HEAG for three strategic focused areas identified by the HEAG: Education and Learning; Culture and Value; and Communications and Messaging. Additionally, the Blueprint will reflect the Organizational Equity Performance Goals finalized by the Strategic Executive Team.

The community engagement model used by PAF continues to yield positive results, this was most evident during the pandemic. The Foundation's community partnerships were an invaluable asset that allowed PAF to quickly pivot from in-person events to online activities facilitating the necessary communication pipelines to ensure that community members were aware of the core services provided by PAF and expanded COVID-19 specific resources. To continue outreach and engagement efforts, PAF partnered with five (5) of the Better Together Partners serving Chicago Southland Communities (Roseland, South Shore, South Chicago, and West Englewood) to continue to reach African American and Latina women with breast cancer, their caregivers and those seeking mammography screening. PAF was able to realign budgets originally intended for space rental to digital platforms to host educational forums using Facebook Live, Zoom, and YouTube for content hosting and distribution. PAF also leveraged health equity (HE) distribution channels for PAF COVID-19 Emergency Food Assistance Program. Food insecurity impacting patient ability to access care had previously been identified in the proceedings from the 2019 PAF Chicago Community Conversation on Cancer. These needs were further exacerbated by the pandemic. As a result of a myriad of collaborative Health Equity dissemination efforts, more than 440 immunocompromised individuals who were impacted by COVID-19 and live in Chicago were linked to critical food resources.

Additional virtual outreach events reached more than 1500 women with breast cancer or metastatic breast cancer across Chicago, Memphis, and other communities through engagement with Living Beyond Breast Cancer.

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

3. Programs (Unaudited) (Continued)

Health equity initiative, community outreach and patient engagement (Continued)

PAF HE staff provided thought leadership across a variety of forums during this fiscal year from chairing a national workgroup focused on elevating cancer equity; to various webinar presentations on racial disparities and the social determinants of health; to interviews on COVID-19 and underserved communities; to articles elevating the impact of unaddressed social determinants of health on populations of color. The Executive Vice President (EVP) of Health Equity and Community Engagement co-chaired with Dr. Robert Winn, Director, Virginia Commonwealth University Massey Cancer Center, the inaugural Elevating Cancer Equity Workgroup (a partnership among National Comprehensive Cancer Network, National Minority Quality Forum, and American Cancer Society-Cancer Action Network). The workgroup was tasked with developing policy and practices recommendations to reduce racial disparities in cancer care. PAF EVP Health Equity and Community Engagement participated in seven webinars highlighting the recommendations from the workgroup reaching over 2370 health professional and healthcare advocates. Additionally, HE staff contributed to various interviews that address COVID-19 and racial and ethnic minority populations, including “COVID-19 Vaccinations in Underrepresented Communities” published online in February 2021 by the American Society for Microbiology. PAF HE staff were featured in the summer editions of *Cancer Health Magazine-The Cancer Health 25: Black Lives Matter*, and in *Cancer Today* (a publication of American Association of Cancer Research).

In 2020, through two national and seven local outreach events, PAF health equity programming reached more than 2,540 patients, caregivers, health navigators and nurses. Building on its work in Chicago in 2019, PAF was invited to convene a forum in the Southside of Chicago, bringing together organizations to respond to the unique needs of their community. This forum included 10 grassroots organizations serving African American and Latina women diagnosed with or at risk for breast cancer from communities across the south side experiencing disparities in breast cancer mortality. Through this convening, three priority areas were identified: (1) Caregiver’s support; (2) Access to care (insurance); and (3) Quality of Care to address an urgent need that was identified during a Chicago Community Conversation on Cancer for the development of a catalogue in English and Spanish of all the breast cancer support/services that could be easily accessible for women across Chicago. Through a local contractor, PAF conducted an environmental scan of such resources that were later embedded into PAF’s National Financial Resource Directory. The directory reflects a search option specific to “Chicago” that helps users connect to local resources, as well as the broader array of national resources already in the directory.

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

3. Programs (Unaudited) (Continued)

Health services research

The aim of the Health Services Research portfolio of work is to improve the patient experience by studying the patient journey, unmet needs, and the impact that systems and social support interventions have on patient health and wellbeing. Major research, evaluation, and patient experience initiatives in 2020-2021 included partnership on six Health Services Research projects with academic and scientific partners including: University of North Carolina, Emory University, University of Alabama, MD Anderson, Fred Hutchinson Cancer Research Center, and the ECOG-ACRIN Cancer Research Group. These projects utilized survey methodology to capture patient experiences and perspectives, and/or Case Management as an intervention to address financial and social need. PAF's Research Evaluation and Patient Experience team was also involved in a patient-centered project to support the field in designing more patient-centered decision support tools and three patient engagement projects where PAF serves/d as thought leaders and content experts, as well as facilitation of outreach and collection of the patient experience on a number of topics including a Patient Centered Outcomes Research Institute (PCORI) funded project: "Paving a Pathway to Engage Underserved Populations in Research." Collectively, this body of work serves to further PAF's mission by advancing the field's knowledge of the patient experience around access and affordability, thus providing insight into how to best meet patients' financial and social needs in a way that is patient-centered and advances the tenants of health equity.

Scholarship for survivors program

It is not uncommon for Foundation staff to interact with patients and families who are struggling to afford post-secondary education due to the financial burden associated with a chronic illness or life-threatening disease. The Scholarship for Survivors program was established over twenty years ago to assist such individuals by offering educational scholarships to qualified applicants who have suffered (or are suffering) from 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.

Through community online fundraising initiatives, generous donors to PAF helped expand the number of students supported through the Scholarship for Survivors program from thirty in the 2020-2021 academic year to thirty-one for the 2021-2022 academic year. To date, the Foundation has awarded 135 scholarships totaling over \$823,000.

Financial support programs

For 17 years, Patient Advocate Foundation's Co-Pay Relief Program (CPR) has provided financial assistance for co-payments, co-insurance and deductibles required by a patient's insurer for medications prescribed to treat and/or manage the patient's disease.

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

3. Programs (Unaudited) (Continued)

Financial support programs (Continued)

In 2021, PAF's Co-Pay Relief Program expanded its impact through the addition of seven (7) new funds, assisting patients through forty-two (42) disease specific funds including Acromegaly, Asthma, Bladder Cancer, Breast Cancer, Cancer Genetic and Genomic Testing, Cervical Cancer, Chronic Pain, COVID-19, Cystic Fibrosis, Electrolyte Imbalance, Gaucher Disease, Hemophilia, Hepatitis B, Hepatitis C, Hepatocellular Carcinoma, HIV, AIDS and Prevention, Homozygous Familial Hypercholesterolemia, Inherited or Acquired Lipodystrophy, Lupus, Melanoma, Metastatic Breast Cancer, Metastatic Colorectal Cancer, Metastatic Gastric Cancer, Metastatic Melanoma, Metastatic Prostate Cancer, Multiple Myeloma, Multiple Sclerosis, Myelodysplastic Syndrome, Non-small Cell Lung Cancers (NSCLC), Osteoporosis, Ovarian Cancer, Pancreatic Cancer, Peripheral Vascular Disease, Periodic Paralysis, Prostate Cancer, Pulmonary Fibrosis, Pulmonary Hypertension, Renal Cell Carcinoma, Rheumatoid Arthritis, Skin Cancer, Spinal Muscular Atrophy and Ulcerative Colitis.

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. As well, 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. The Foundation also offers telephonic support services to patients who prefer to receive personal assistance from a program specialist.

In 2021, the Foundation administered co-payment assistance to 61,678 qualified patients through 42 assistance funds available through the Co-Pay Relief Program. The program staff fielded 187,301 telephone calls and processed claims totaling over \$243,584,555 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 533,000 individuals allocating more than \$1.6 billion in co-payment awards. In 2020, 72,906 qualified patients received assistance through 28 funds. PAF staff fielded 255,600 calls and processed claims totaling more than \$233,000,000.

The Foundation also administered a suite of sixteen (16) small grant programs in 2021, referred to as Financial Aid Funds, each providing financial assistance to qualified patients for out of pocket and cost of living expenses patients struggle to manage when dealing with a chronic or critical disease. In 2021, program staff fielded 19,092 telephone calls and successfully provided one-time small grants to 11,422 patients, totaling \$5,624,600 in financial relief. In 2020, 15,558 patients received financial relief from ten (10) financial funds, totaling more than \$7,800,000.

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

3. Programs (Unaudited) (Continued)

Financial support programs (Continued)

These grants ranged from \$300 - \$1,000 per patient and are designed for non-medical expenses, including transportation, lodging, nutritional needs, childcare, and burial expenses, faced by patients because of their diagnosis and treatment. In 2021, the Financial Aid Fund programs include:

- American Cancer Society COVID-19 Assistance Fund: serving patients diagnosed with cancer who have been impacted by COVID-19
- COVID Care Recovery Fund: serving patients diagnosed with COVID-19
- DONNA Financial Aid Fund: Serving patients diagnosed with Breast Cancer that have received case management services through the DONNA CareLine
- Heart Valve Financial Aid Fund: Serving patients diagnosed with a valvular condition
- LEISHLine Financial Aid Fund: Serving patients diagnosed with ARDS, TSS and/or Sepsis
- Angel Fund Financial Aid Fund: supports funeral expenses associated with patients who have passed and died from ARDS, TSS and/or Sepsis
- Mahan Financial Aid Fund: Serving patients diagnosed with Acute Myeloid Leukemia
- Merkel Cell Carcinoma Financial Aid Fund: Serving patients diagnosed with a rare form of skin cancer
- Metastatic Breast Cancer Financial Aid Fund: Serving patients diagnosed with Stage III or Stage IV Breast Cancer
- PAF/Team Rubicon COVID-19 Emergency Food Assistance Program: Serving patients who have been impacted by COVID-19, have a diagnosis of Cancer, Multiple Sclerosis & Rheumatoid Arthritis and are experiencing food insecurity
- Sontag Foundation COVID-19 Emergency Patient Assistance: Serving patients diagnosed with brain tumors who have been impacted by COVID-19
- Florida Drive: Serving patients to provide travel support who are being evaluated, undergoing treatment, or receiving follow up care for prostate cancer and reside in Florida.
- Iowa Drive Fund: Serving patients to provide travel support who are being evaluated, undergoing treatment, or receiving follow up care for prostate cancer and reside in Iowa.
- New York Drive Fund: Serving patients to provide travel support who are being evaluated, undergoing treatment, or receiving follow up care for prostate cancer and reside in New York.
- Pennsylvania Drive Fund: Serving patients to provide travel support who are being evaluated, undergoing treatment, or receiving follow up care for prostate cancer and reside in Pennsylvania.
- Texas Drive Fund: Serving patients to provide travel support who are being evaluated, undergoing treatment, or receiving follow up care for prostate cancer and reside in Texas.

Non-profit service agreements (unaudited)

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 and patient financial aid programs. The Foundation continued to provide this contractual service during 2021 and 2020. The Foundation administered services to 42,133 and 66,510 patients in 2021 and 2020, respectively, through this service agreement.

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

4. 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. Deposits of approximately \$216,000,000 and \$210,000,000 at June 30, 2021 and 2020, respectively, were in excess of insured amounts. The Foundation has not experienced any financial loss as a result of such deposits.

During the years ended June 30, 2021 and 2020, three donors accounted for approximately 86% and 85% of donations received for the Co-Pay Relief Program, respectively.

5. 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.

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>2021</u>	<u>2020</u>
General operating cash and cash equivalents	\$ 28,356,319	\$ 34,643,003
Unconditional promises to give	880,608	704,325
Accounts receivable	<u>1,745,868</u>	<u>1,611,627</u>
	<u>\$ 30,982,795</u>	<u>\$ 36,958,955</u>

As part of the Foundation's liquidity management, the Board has invested cash in debt and equity investments, short-term investments, certificates of deposits, and money market funds. The Board has designated these funds as discussed in Note 18. The balance of the designated investments was \$2,194,524 and \$2,186,163 at June 30, 2021 and 2020, respectively.

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

6. Comparative Detail

Contract balances related to program service revenue are included in the accompanying statements of financial position as accounts receivable and deferred revenue. Accounts receivable and deferred revenue consists of the following types of revenue at June 30:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Accounts receivable:			
Program service revenue	\$ 1,029,911	\$ 738,889	\$ 538,498
Contributions and grants	<u>715,957</u>	<u>872,738</u>	<u>-</u>
	<u>\$ 1,745,868</u>	<u>\$ 1,611,627</u>	<u>\$ 538,498</u>
Deferred revenue:			
Program service revenue	\$ 20,555,740	\$ 17,485,701	\$ 15,865,287
Contributions and grants	<u>1,362,864</u>	<u>1,665,690</u>	<u>804,757</u>
	<u>\$ 21,918,604</u>	<u>\$ 19,151,391</u>	<u>\$ 16,670,044</u>

7. Investments

Investments, consisting of treasury securities, federal agency bonds, and certificate of deposits are stated at fair value. Cash equivalents, consisting of money market funds, are stated at amortized cost which approximates fair value. Investments consist of the following:

<u>2021</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain</u>
Treasury securities	\$ 155,151	\$ 156,490	\$ 1,339
Federal agency bonds	655,001	683,301	28,300
Certificates of deposit	60,490,000	60,511,517	21,517
Money market funds (cash equivalents)	<u>843,216</u>	<u>843,216</u>	<u>-</u>
	<u>\$ 62,143,368</u>	<u>\$ 62,194,524</u>	<u>\$ 51,156</u>
<u>2020</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain</u>
Treasury securities	\$ 340,662	\$ 344,957	\$ 4,295
Federal agency bonds	742,260	784,141	41,881
Certificates of deposit	125,590,000	125,621,053	31,053
Money market funds (cash equivalents)	<u>436,012</u>	<u>436,012</u>	<u>-</u>
	<u>\$127,108,934</u>	<u>\$127,186,163</u>	<u>\$ 77,229</u>

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 8 for discussion of fair value measurements.

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

8. 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 and cash equivalents (money market funds).

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 techniques used for Level 2 and Level 3 assets measured at fair value. There have been no changes in the methodologies used at June 30, 2021 and 2020.

Treasury securities and federal agency bonds: valued at prices obtained from an independent pricing service when such prices are available. These are included as Level 2 measurements in the table below.

Certificates of deposit: long-term certificates of deposit purchased within five years to maturity are valued at amortized cost, which approximates market value. These are included as Level 2 measurements in the table below.

Unconditional promises to give: reported at net realizable value if from the time the promise is made, payment is expected in one year or less. Pledges expected to be collected in more than one year are reported at fair value which is calculated as the present value of the expected cash flows to be received. These are excluded from Level 3 measurements in the table below as all balances were expected to be collected in one year or less at June 30, 2021 and 2020.

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.

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

8. Fair Value Measurements (Continued)

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, 2021			
	Level 1	Level 2	Level 3	Total
Treasury securities	\$ -	\$ 156,490	\$ -	\$ 156,490
Federal agency bonds	-	683,301	-	683,301
Certificates of deposit	-	60,511,517	-	60,511,517
Money market funds	843,216	-	-	843,216
	<u>\$ 843,216</u>	<u>\$ 61,351,308</u>	<u>\$ -</u>	<u>\$ 62,194,524</u>

	Assets at Fair Value as of June 30, 2020			
	Level 1	Level 2	Level 3	Total
Treasury securities	\$ -	\$ 344,957	\$ -	\$ 344,957
Federal agency bonds	-	784,141	-	784,141
Certificates of deposit	-	125,621,053	-	125,621,053
Money market funds	436,012	-	-	436,012
	<u>\$ 436,012</u>	<u>\$126,750,151</u>	<u>\$ -</u>	<u>\$ 127,186,163</u>

9. Property and Equipment

Property and equipment consist of the following:

	2021	2020
Computers, software and other assets	\$ 11,178,519	\$ 9,889,546
Projects in progress	618,891	1,053,512
Furniture and fixtures	403,988	416,140
Office equipment	202,262	229,323
Leasehold improvements	90,993	90,993
	<u>12,494,653</u>	<u>11,679,514</u>
Accumulated depreciation	(8,633,489)	(7,759,590)
	<u>\$ 3,861,164</u>	<u>\$ 3,919,924</u>

Depreciation expense was \$1,292,556 and \$1,666,692 for the year ended 2021 and 2020, respectively.

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

10. Self-Insurance

The Foundation participates in a partially self-funded health insurance program offered to their employees. During 2021 and 2020, the plan provided claims coverage up to a maximum of \$120,000 per contract and \$1,425,203 and \$1,594,960, respectively, for an aggregate of 151 and 143 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 statements 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. The IBNR liability was \$152,603 and \$135,687 at June 30, 2021 and 2020, respectively, and is reported on the statements of financial position in long-term liabilities.

11. Restrictions and Designations on Net Assets

For 2021 and 2020, 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>2021</u>	<u>2020</u>
Co-Pay Relief Program funding (CPR)	\$ 345,969,065	\$ 294,606,003
Financial Aid Programs	<u>676,293</u>	<u>4,996,424</u>
Total net assets with donor restrictions	<u>\$ 346,645,358</u>	<u>\$ 299,602,427</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. Board designated net assets were \$2,194,524 and \$2,186,163 at June 30, 2021 and 2020, respectively.

12. Net Assets Released from Donor Restrictions

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

	<u>2021</u>	<u>2020</u>
Purpose restrictions accomplished:		
Co-Pay Relief Program funding (CPR)	\$ 242,235,252	\$ 232,284,048
Financial Aid Programs	<u>5,173,900</u>	<u>6,450,750</u>
Total restrictions released	<u>\$ 247,409,152</u>	<u>\$ 238,734,798</u>

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

13. Pension Plan

The Foundation has a 401(k) plan in which both full and part time employees are eligible to participate 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 \$382,474 and \$365,058 for 2021 and 2020, respectively, which is shown as employee retirement on the statement of functional expenses.

14. 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% up to \$9,900 annually that can be utilized to pay for eligible healthcare expenses, healthcare premium expenses, including Medicare parts B, 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 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. Effective January 1, 2021, participants must have been hired on or before January 1, 2009, to be eligible for postretirement benefits. The removal of employees hired after January 1, 2009, triggered curtailment accounting under ASC 715-30, *Compensation - Retirement Benefits*.

Expected future net benefit payments are as follows:

<u>Year Ending June 30</u>		
2022	\$	63,621
2023		72,629
2024		76,577
2025		75,537
2026		84,131
2027 - 2031		<u>636,520</u>
	\$	<u>1,009,015</u>

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

	<u>2021</u>	<u>2020</u>
Discount rate, benefit obligations	2.81%	2.78%
Discount rate, net periodic benefit cost	2.78%	3.58%
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, 2021 and 2020

14. Post-Retirement Benefits Obligation (Continued)

Components of net periodic benefit cost

	2021	2020
Service cost	\$ 266,187	\$ 308,136
Interest cost	96,616	114,811
Amortization of:		
Prior service cost	53,310	86,094
Actuarial loss	25,725	13,899
Curtailment loss	414,637	-
Net periodic benefit cost	\$ 856,475	\$ 522,940

Accumulated postretirement benefit obligations

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

	2021	2020
APBO, beginning of year	\$ 4,197,511	\$ 3,171,781
Service cost	266,187	308,136
Interest cost	96,616	114,811
Curtailment	(1,966,348)	-
Estimated benefits paid	(59,059)	(39,357)
Actuarial loss	238,390	642,140
APBO, end of year	\$ 2,773,297	\$ 4,197,511

Funded status for fiscal years ending June 30:

	2021	2020
APBO, end of year	\$ (2,773,297)	\$ (4,197,511)
Fair value of Plan assets, end of year	-	-
Net amount recognized in statements of financial position	(2,773,297)	(4,197,511)
Current portion	63,621	48,930
Long term portion	\$ (2,709,676)	\$ (4,148,581)

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

15. Donated Services and Property

During 2021 and 2020, donated materials were valued at \$9,511 and \$32,825, respectively, primarily in support of the Foundation's annual Promise of Hope Affair and included in conferences, conventions and meetings on the statements of functional expenses.

During 2021 and 2020, \$-0- and \$4,099, respectively, in professional services were donated and recognized as related income and expense for donated services, which are included in printing and publications on the statements of functional expenses.

16. Related Party Transactions

During both 2021 and 2020, 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, 2021 and 2020, respectively, due from NPAF was \$37,462 and \$47,713 and due to NPAF was \$35,162 and \$52,641 and are included on the statements of financial position.

17. Operating Leases

The Foundation leases a 36,500 square feet office space, under a ten-year lease agreement, which expires in September 2033. 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 were \$730,489 and \$714,946 for 2021 and 2020, respectively, and are included in occupancy and equipment rental and maintenance on the statements of functional expenses.

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

<u>Year Ending</u> <u>June 30,</u>	
2022	\$ 702,708
2023	715,843
2024	680,818
2025	676,459
2026	680,609
Thereafter	<u>5,205,081</u>
	<u>\$ 8,661,518</u>

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

18. 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.

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 (UPMIFA) 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 net assets with donor restrictions (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 net assets without donor restrictions. 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 assets were exclusively board designated endowment funds without donor restrictions and were \$2,194,524 and \$2,186,163 at June 30, 2021 and 2020, respectively.

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

18. Board Designated Endowments (Continued)

Changes in board designated endowment fund net assets in were as follows:

	<u>2021</u>	<u>2020</u>
Endowment fund net assets - beginning of year	\$ 2,186,163	\$ 2,078,900
Investment return, net	<u>8,361</u>	<u>107,263</u>
Endowment fund net assets - end of year	<u>\$ 2,194,524</u>	<u>\$ 2,186,163</u>