



Solving Insurance and Healthcare Access Problems | *since 1996*

FINANCIAL REPORT

June 30, 2020 and 2019

CONTENTS

INDEPENDENT AUDITOR’S REPORT.....	1
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities	4
Statement of Functional Expenses - 2020	5
Statement of Functional Expenses - 2019	6
Statements of Cash Flows	7
Notes to Financial Statements	8



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, 2020 and 2019, 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, 2020 and 2019, 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 13, 2020

PATIENT ADVOCATE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
June 30, 2020 and 2019

	2020	2019
ASSETS		
CURRENT ASSETS		
General operating cash and cash equivalents (Note 4)	\$ 34,643,003	\$ 28,077,632
Restricted cash and cash equivalents (Note 2)	172,931,062	250,800,565
Unconditional promises to give (Note 4)	14,086,492	17,254,062
Accounts receivable (Note 4)	1,611,627	538,498
Interest receivable	266,096	-
Due from National Patient Advocate Foundation	41,713	18,437
Investments (Note 5)	127,186,163	2,078,900
Inventories	55,002	42,269
Prepaid expenses	471,457	412,217
Total current assets	351,292,615	299,222,580
PROPERTY AND EQUIPMENT, net (Note 6)	3,919,924	4,321,760
OTHER ASSETS	50,331	50,331
	\$ 355,262,870	\$ 303,594,671
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 13,105,119	\$ 3,763,880
Due to National Patient Advocate Foundation	52,641	10,290
Postretirement benefits liability, current portion	48,930	34,233
Deferred revenue	19,151,391	16,670,044
Accrued vacation leave	569,698	462,147
Total current liabilities	32,927,779	20,940,594
LONG-TERM LIABILITIES		
Postretirement benefits liability, less current portion (Note 11)	4,148,581	3,137,549
Incurred but not recorded liabilities (Note 7)	135,687	126,804
Total long-term liabilities	4,284,268	3,264,353
Total liabilities	37,212,047	24,204,947
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Undesignated	16,262,233	13,272,753
Board designated (Notes 8 and 15)	2,186,163	2,078,900
Total net assets without donor restrictions	18,448,396	15,351,653
NET ASSETS WITH DONOR RESTRICTIONS		
Restricted by purpose (Notes 8 and 9)	299,602,427	264,038,071
Total net assets	318,050,823	279,389,724
Total liabilities and net assets	\$ 355,262,870	\$ 303,594,671

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

PATIENT ADVOCATE FOUNDATION

STATEMENTS OF ACTIVITIES
Years Ended June 30, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUES						
Contributions:						
Grants	\$ 3,838,516	\$ 274,299,154	\$ 278,137,670	\$ 3,759,260	\$ 217,776,219	\$ 221,535,479
Private and public donations	258,937	-	258,937	165,787	-	165,787
Donated services and materials	36,924	-	36,924	35,314	-	35,314
Program administration	18,618,857	-	18,618,857	16,996,013	-	16,996,013
Patient Congress	70,000	-	70,000	80,000	-	80,000
Promise of Hope	123,770	-	123,770	141,650	-	141,650
Patient Action Council	125,000	-	125,000	75,000	-	75,000
Investment return (Note 5)	3,882,221	-	3,882,221	5,559,850	-	5,559,850
Net assets released from restrictions:						
Satisfaction of program restrictions (Note 9)	238,734,798	(238,734,798)	-	235,446,577	(235,446,577)	-
Total revenues, gains and other support	<u>265,689,023</u>	<u>35,564,356</u>	<u>301,253,379</u>	<u>262,259,451</u>	<u>(17,670,358)</u>	<u>244,589,093</u>
OPERATING EXPENSES						
Program services:						
Patient/educational services	5,575,996	-	5,575,996	5,867,102	-	5,867,102
Financial aid programs	246,082,505	-	246,082,505	242,788,385	-	242,788,385
Service contracts	6,044,175	-	6,044,175	5,234,955	-	5,234,955
Supporting services:						
Management and general	2,860,826	-	2,860,826	2,746,021	-	2,746,021
Fundraising	1,085,844	-	1,085,844	1,138,723	-	1,138,723
Total expenses	<u>261,649,346</u>	<u>-</u>	<u>261,649,346</u>	<u>257,775,186</u>	<u>-</u>	<u>257,775,186</u>
Change in net assets from operations	4,039,677	35,564,356	39,604,033	4,484,265	(17,670,358)	(13,186,093)
OTHER NONOPERATING CHANGES						
Postretirement benefit charges other than periodic cost	(942,934)	-	(942,934)	(689,077)	-	(689,077)
Change in net assets	3,096,743	35,564,356	38,661,099	3,795,188	(17,670,358)	(13,875,170)
Net assets, beginning of year	15,351,653	264,038,071	279,389,724	11,556,465	281,708,429	293,264,894
Net assets, end of year	<u>\$ 18,448,396</u>	<u>\$ 299,602,427</u>	<u>\$ 318,050,823</u>	<u>\$ 15,351,653</u>	<u>\$ 264,038,071</u>	<u>\$ 279,389,724</u>

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

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	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
Financial aid programs	-	238,734,798	-	238,734,798	-	-	-	238,734,798
Depreciation	87,449	1,005,906	567,640	1,660,995	5,164	533	5,697	1,666,692
Telephone	232,316	350,498	316,822	899,636	41,057	20,593	61,650	961,286
Professional fees, NPAF	-	-	-	-	780,000	-	780,000	780,000
Occupancy	171,808	267,708	242,325	681,841	36,947	18,267	55,214	737,055
Processing services	14,205	534,110	159,990	708,305	-	-	-	708,305
Equipment rental and maintenance	188,608	195,035	214,509	598,152	56,621	9,364	65,985	664,137
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
Postage and shipping	19,096	172,790	83,631	275,517	10,381	1,131	11,512	287,029
Legal fees	-	-	-	-	212,089	-	212,089	212,089
Travel	113,603	6,582	227	120,412	11,773	49,766	61,539	181,951
Accounting fees	-	28,100	-	28,100	150,741	-	150,741	178,841
Supplies	64,252	37,763	29,118	131,133	17,397	12,117	29,514	160,647
Bank fees and interest	-	89,733	-	89,733	20,165	6,051	26,216	115,949
Insurance	2,656	4,138	3,746	10,540	82,794	282	83,076	93,616
Scholarships	75,000	-	-	75,000	-	-	-	75,000
Printing and publications	17,267	40,077	5,701	63,045	5,012	5,696	10,708	73,753
Marketing	15,833	3,000	-	18,833	7,155	7,200	14,355	33,188
Staff meeting and incentives	11,944	9,093	8,428	29,465	3,879	3,680	7,559	37,024
Property taxes	-	-	-	-	28,938	-	28,938	28,938
Recruiting	-	-	-	-	18,509	-	18,509	18,509
Donations	-	-	-	-	10,500	-	10,500	10,500
Loss on fixed assets disposal	173	270	244	687	34	18	52	739
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

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2019

	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	\$ 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
Financial aid programs	-	235,446,577	-	235,446,577	-	-	-	235,446,577
Depreciation	71,092	1,035,381	461,069	1,567,542	12,588	6,016	18,604	1,586,146
Telephone	216,544	444,086	328,847	989,477	10,497	13,052	23,549	1,013,026
Professional fees, NPAF	-	-	-	-	780,000	-	780,000	780,000
Occupancy	174,997	266,957	240,851	682,805	31,414	23,230	54,644	737,449
Processing services	56,864	526,125	80,878	663,867	-	-	-	663,867
Equipment rental and maintenance	149,727	272,037	261,112	682,876	24,954	21,229	46,183	729,059
Conferences, conventions and meetings	548,721	-	-	548,721	39,814	65,135	104,949	653,670
Consultants	149,738	224,842	180,704	555,284	-	-	-	555,284
Postage and shipping	19,687	164,774	74,542	259,003	8,619	3,725	12,344	271,347
Legal fees	-	-	-	-	263,431	-	263,431	263,431
Travel	65,697	1,578	6,123	73,398	8,628	106,844	115,472	188,870
Accounting fees	-	28,000	-	28,000	118,601	-	118,601	146,601
Supplies	63,679	49,757	41,154	154,590	26,714	20,019	46,733	201,323
Bank fees and interest	11,828	108,226	6,368	126,422	831	3,545	4,376	130,798
Insurance	3,411	5,203	4,694	13,308	85,021	453	85,474	98,782
Scholarships	60,000	-	-	60,000	-	-	-	60,000
Printing and publications	47,413	19,361	89	66,863	11,796	4,039	15,835	82,698
Marketing	6,055	6,450	-	12,505	10,804	3,197	14,001	26,506
Staff meeting and incentives	10,209	9,503	10,340	30,052	6,595	5,148	11,743	41,795
Property taxes	-	-	-	-	32,948	-	32,948	32,948
Recruiting	-	-	-	-	16,321	-	16,321	16,321
Donations	-	-	-	-	-	500	500	500
Loss on fixed assets disposal	454	691	624	1,769	81	60	141	1,910
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

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 38,661,099	\$ (13,875,170)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	1,666,692	1,586,146
Net realized and unrealized gain on investments	(65,895)	(45,371)
Loss on disposal of fixed assets	739	1,910
Net (increase) decrease in:		
Unconditional promises to give	3,167,570	13,170,419
Accounts receivable	(1,073,129)	(24,267)
Interest receivable	(266,096)	-
Due to/from National Patient Advocate Foundation	19,075	(30,159)
Inventories	(12,733)	16,301
Prepaid expenses	(59,240)	(7,071)
Accounts payable and accrued expenses	9,341,239	(4,886,826)
Deferred revenue	2,481,347	(1,533,881)
Accrued vacation leave	107,551	143,457
Postretirement benefit liability	1,025,729	749,768
Other liabilities	8,883	33,830
	<u>55,002,831</u>	<u>(4,700,914)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(1,265,595)	(1,691,644)
Proceeds from sale of investments	310,000	434,000
Purchases of investments	(125,351,368)	(468,514)
	<u>(126,306,963)</u>	<u>(1,726,158)</u>
Net cash used in investing activities	<u>(126,306,963)</u>	<u>(1,726,158)</u>
Net decrease in cash and cash equivalents	(71,304,132)	(6,427,072)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>278,878,197</u>	<u>285,305,269</u>
End of year	<u>\$ 207,574,065</u>	<u>\$ 278,878,197</u>
BALANCE SHEET PRESENTATION OF CASH AND CASH EQUIVALENTS		
General operating cash and cash equivalents	\$ 34,643,003	\$ 28,077,632
Restricted cash and cash equivalents	172,931,062	250,800,565
	<u>\$ 207,574,065</u>	<u>\$ 278,878,197</u>

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

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

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.

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

2. Summary of Significant Accounting Policies (Continued)

Revenue recognition

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*, which includes grants, private and public donations, and donated services and materials, are recognized by the Foundation in the year the promise is made. Conditional pledges are carried at fair value and 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.

The Foundation's policy is to report donor restricted support that was initially a conditional contribution and for which the donor-imposed conditions and restrictions are met in the same reporting period as net assets without donor restrictions.

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 or management.

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.

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

2. Summary of Significant Accounting Policies (Continued)

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.

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 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.

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

2. Summary of Significant Accounting Policies (Continued)

Functional expenses

The Foundation's expenses are related to the performance of three functions: program services, management and general, and fundraising. Definitions of these functions are as follows:

Program Services - The Foundation has multiple program services areas.

Case Management Services

For over 24 years, the Foundation has provided case management services to critically or chronically ill patients from across the country. PAF helps them maintain access to and afford healthcare through various means including locating resources to support cost-of-living expenses while in treatment, evaluating health insurance coverage and better managing, or reducing, the out-of-pocket medical and cost of living debt they face. The Foundation provides free, one-on-one professional case managers who work alongside patients, their loved ones, or medical professionals to resolve complex healthcare access and affordability challenges encountered in the healthcare system. The Foundation's case management staff directly worked with or on behalf of 21,380 individuals in 2020. These patients represented 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 issues. This work translates to nearly 335,000 unique contacts on behalf of patients and families receiving case management services.

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.

Patient Education and Empowerment

PAF extends the impact of one-to-one case management services through the development of patient education and empowerment tools that provide actionable advice and guidance to healthcare consumers. The goal is to improve the patient's everyday experience with the healthcare system 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 healthcare professionals.

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

2. Summary of Significant Accounting Policies (Continued)

Functional expenses (Continued)

Patient Education and Empowerment (Continued)

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 supported 4 multi-year educational projects including Health Insurance Literacy, Migraine Matters and Matters of the Heart.

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. PAF also launched 4 new projects and completed enhancements to 4 existing projects and launched a newly designed, easier to navigate, mobile-friendly organizational website.

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 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 2020, PAF entered into year two of its 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. Work under the current cooperative agreement focuses on the following:

- adoption of clear indoor policies among blue collar worksites in Kentucky;
- linkage to mammography screening and breast cancer treatment for low income women in Tennessee;
- integration of brief cessation counseling in clinical workflow in FQHCs in South Carolina;
- building capacity of state comprehensive cancer program to expand human papillomavirus (HPV) vaccination; and
- increasing HPV vaccination among health care provider networks serving populations with low SES characteristics.

During 2019, the Foundation was successful in securing the 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). 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.

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

2. Summary of Significant Accounting Policies (Continued)

Functional expenses (Continued)

Health Equity Initiative, Community Outreach and Patient Engagement (Continued)

PAF's Health Equity platform continues to identify and interact with a myriad of grassroots and national partners through its Community Engagement and Outreach Initiative. The intentional focus on community allows PAF to better understand unique, local experiences and apply those learnings into responsive program design and outreach activities to meet those needs. Recent outreach and engagement efforts have focused on African American and Latina women with breast cancer in Chicago and Memphis, and persons with lung cancer residing in the Appalachian region. The community engagement model used by PAF continues to yield positive results. Engagement activities include convening community meetings/listening sessions; conducting focus groups and key interviews; and convening of grassroots organizations to better understand resource gaps and to facilitate opportunities for collaboration. Through partnerships with organizations such as National Black Nurses Association (NBNA), National Hispanic Nurses Association (NHNA), Coalition of 100 Black Women (Memphis Chapter) along with a host of grassroots organizations such as Sisters Working It Out, Sister's Network (Memphis and Chicago), Caregivers Respite and others, PAF is able to engage with health care providers, patients and caregivers to bring awareness of local and national resources that assist the populations they serve. Through two national and seven local outreach events, PAF reached more than 2,540 patients, caregivers, lay health navigators and nurses during the 2020 fiscal year. In 2019, the outreach events reached more than 2,880 patients, caregivers, community health workers, lay health navigators and nurses through 3 national and 9 local events.

PAF's Health Equity work expanded further this year through the creation of forums to bring together organizations to respond to the unique needs of their respective communities. As a result of PAF's initial work in Chicago, PAF was asked to convene other grassroots organizations to explore how increased integration and coordination of resources could better meet the breast cancer needs of residents on Chicago's southside. In February 2020, PAF convened 10 grassroots organizations serving African American and Latina women diagnosed with or at risk for breast cancer from communities across the southside experiencing disparities in breast cancer mortality. Through this convening, three priority areas were identified: 1). Caregivers support; 2) Access to care (insurance); and 3). Quality of Care. These three themes parallel the key focus areas from the community conversation held in 2019. Through this dialogue, the participating organizations were able to identify areas of overlap and gaps. For areas where gaps were identified, organizations began to engage in action planning around how best to align resources to fill those gaps. Where no resources existed, other strategies emerged, including exploring joint funding opportunities. The outcomes from this meeting will be used to guide future outreach and engagement activities.

One urgent need that was identified during a Chicago Community Conversation on Cancer in February 2019 was a catalog 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 now reflects a search option specific to "Chicago" that will help 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, 2020 and 2019

2. Summary of Significant Accounting Policies (Continued)

Functional expenses (Continued)

Health Equity Initiative, Community Outreach and Patient Engagement (Continued)

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.

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 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.

Though a silent and live auction at the Foundation’s 19th Annual A Promise of Hope Affair, as well as community fundraising initiatives, PAF raised funds to expand the number of students supported through the Scholarship for Survivors program from twenty-five in the 2019-2020 academic year to thirty for the 2020-2021 academic year. To date, the Foundation has awarded 126 scholarships totaling over \$730,000.

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 medications prescribed to treat and/or manage the patient’s disease. The Foundation offers telephonic support services to patients who might need assistance with various aspects of the program.

In 2020, PAF’s Co-Pay Relief Program assisted patients through twenty eight (28) disease-specific funds including Acromegaly, Asthma, Breast Cancer, Cancer Genetic and Genomic Testing, Cervical Cancer, Cystic Fibrosis , Gaucher Disease, Hemophilia, Hepatitis B, Hepatitis C, HIV, AIDS and Prevention, Homozygous Familial Hypercholesterolemia, Inherited or Acquired Lipodystrophy, Metastatic Breast Cancer, Metastatic Colorectal Cancer, Metastatic Prostate Cancer, Multiple Myeloma, Multiple Sclerosis, Myelodysplastic Syndrome, Osteoporosis, Ovarian Cancer, Prostate Cancer, Pulmonary Fibrosis, Pulmonary Hypertension, Renal Cell Carcinoma, Rheumatoid Arthritis, Skin Cancer and Ulcerative Colitis.

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

2. Summary of Significant Accounting Policies (Continued)

Functional expenses (Continued)

Financial Support Programs (Continued)

The Foundation's Co-Pay Relief Program offers a secure web-based application for patients and/or their family members to enroll electronically for the Co-Pay Relief Program. Also, CPR offers two secured websites for medical providers and pharmacy representatives who have been authorized to enroll electronically for the Co-Pay Relief Program on behalf of a patient.

In 2020, the Foundation administered co-payment assistance to 72,906 qualified patients through the 28 assistance funds available through the Co-Pay Relief Program. The program staff fielded 255,600 telephone calls and processed claims totaling over \$233,000,000 from 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 472,000 individuals allocating more than \$1.4 billion in co-payment awards. In 2019, 75,580 qualified patients received assistance through 32 funds. PAF staff fielded 230,263 calls and processed claims totaling more than \$241,000,000.

The Foundation also administered ten (10) financial aid funds in 2020 and seven in 2019 that provided assistance to qualified patients for non-medical related out of pocket and cost of living expenses associated with their diagnosis and treatment. In 2020, the Foundation provided one-time small grants to 15,558 patients, totaling \$7,872,150. In 2019, 1,646 patients received financial relief from these grants, totaling more than \$1,011,000. These grants range from \$300 - \$1,000 per patient and are designed to defray the costs of transportation and similar cost of living expenses. 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
- 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
- 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 Acute Respiratory Distress Syndrome, Toxic Shock Syndrome and/or Sepsis
- Mahan Financial Aid Fund: Serving patients diagnosed with Acute Myeloid Leukemia
- Merkel Cell Carcinoma Financial Aid Fund: Serving patients diagnosed Merkel Cell Carcinoma, a rare form of skin cancer
- Metastatic Breast Cancer Financial Aid Fund: Serving patients diagnosed with Stage III or Stage IV Breast Cancer
- Sontag Foundation COVID-19 Emergency Patient Assistance: serving patients diagnosed with brain tumors who have been impacted by COVID-19

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

2. Summary of Significant Accounting Policies (Continued)

Functional expenses (Continued)

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 and patient financial aid programs. The Foundation continued to provide this contractual service during 2020. The Foundation administered services to 66,510 and 34,521 patients in 2020 and 2019, respectively, through this service agreement.

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 were \$33,188 and \$26,506 for 2020 and 2019, respectively.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through October 13, 2020, 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, 2020 and 2019, deposits of approximately \$210,000,000 and \$270,000,000, 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, 2020 and 2019, four donors accounted for approximately 85% and 96% 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, 2020 and 2019

4. Liquidity and Availability of Resources (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.

	2020	2019
General operating cash and cash equivalents	\$ 34,643,003	\$ 28,077,632
Unconditional promises to give	14,086,492	17,254,062
Accounts receivable	1,611,627	538,498
	\$ 50,341,122	\$ 47,949,092

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 15. The balance of the designated investments was \$2,186,163 and \$2,078,900 at June 30, 2020 and 2019.

5. 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:

	Cost	Fair Value	Unrealized Gain
<u>2020</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)	436,012	436,012	-
	\$127,108,934	\$127,186,163	\$ 77,229
<u>2019</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 (cash equivalents)	81,379	81,379	-
	\$ 2,067,566	\$ 2,078,900	\$ 11,334

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

5. Investments (Continued)

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>2020</u>	<u>2019</u>
Interest and dividends	\$ 3,816,326	\$ 5,514,479
Net unrealized/realized gains	<u>65,895</u>	<u>45,371</u>
	<u>\$ 3,882,221</u>	<u>\$ 5,559,850</u>

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

Fair value measurements

Financial Accounting Standards Board (FASB), Accounting Standard Codification (ASC) 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. 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.

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

5. Investments (Continued)

Fair value measurements (Continued)

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, 2020 and 2019.

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. These are included as Level 2 measurements in the table below.

Money market funds: valued at the closing price reported by the fund sponsor from an actively traded exchange. These cash equivalents are included as Level 1 measurements in the table below.

Unconditional promises to give: valued based on inputs observable or by other means specific to this asset and are included as Level 3 measurements in the table below.

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, 2020			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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
Unconditional promises to give	-	-	14,086,492	14,086,492
	<u>\$ 436,012</u>	<u>\$126,750,151</u>	<u>\$ 14,086,492</u>	<u>\$141,272,655</u>

	Assets at Fair Value as of June 30, 2019			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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
Unconditional promises to give	-	-	17,254,062	17,254,062
	<u>\$ 81,379</u>	<u>\$ 1,997,521</u>	<u>\$ 17,254,062</u>	<u>\$ 19,332,962</u>

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

6. Property and Equipment

Property and equipment consist of the following:

	<u>2020</u>	<u>2019</u>
Computers, software and other assets	\$ 9,889,546	\$ 8,341,751
Projects in progress	1,053,512	1,425,676
Furniture and fixtures	416,140	416,140
Office equipment	229,323	229,323
Leasehold improvements	<u>90,993</u>	<u>90,993</u>
	11,679,514	10,503,883
Accumulated depreciation	<u>(7,759,590)</u>	<u>(6,182,123)</u>
	<u>\$ 3,919,924</u>	<u>\$ 4,321,760</u>

Depreciation expense was \$1,666,692 and \$1,586,146 for the year ended 2020 and 2019, respectively.

7. Self-Insurance

The Foundation participates in a partially self-funded health insurance program offered to their employees. During 2020 and 2019, the plan provided claims coverage up to a maximum of \$90,000 per contract and \$1,594,960 and \$1,348,042, respectively, for the aggregate of 154 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 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. The IBNR liability was \$135,687 and \$126,804 at June 30, 2020 and 2019, respectively, and is reported on the statements of financial position in long-term liabilities.

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

8. Restrictions on Net Assets

For 2020 and 2019, 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>2020</u>	<u>2019</u>
Co-Pay Relief Program funding (CPR)	\$ 294,606,003	\$ 263,551,531
Financial Aid Programs	<u>4,996,424</u>	<u>486,540</u>
Total net assets with donor restrictions	<u>\$ 299,602,427</u>	<u>\$ 264,038,071</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 \$2,186,163 and \$2,078,900 at June 30, 2020 and 2019, 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>2020</u>	<u>2019</u>
Purpose restrictions accomplished:		
Co-Pay Relief Program funding (CPR)	\$ 232,284,048	\$ 234,502,177
Financial Aid Programs	<u>6,450,750</u>	<u>944,400</u>
Total restrictions released	<u>\$ 238,734,798</u>	<u>\$ 235,446,577</u>

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 \$365,058 and \$335,485 for 2020 and 2019, respectively, which is shown as employee retirement on the statement of functional expenses.

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

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>	
2021	\$ 48,930
2022	63,051
2023	72,025
2024	75,954
2025	82,364
2026 - 2030	<u>906,073</u>
	<u>\$ 1,248,397</u>

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

	<u>2020</u>	<u>2019</u>
Discount rate, benefit obligations	2.78%	3.58%
Discount rate, net periodic benefit cost	3.58%	4.17%
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, 2020 and 2019

11. Post-Retirement Benefits Obligation (Continued)

Components of net periodic benefit cost

	2020	2019
Service cost	\$ 308,136	\$ 247,898
Interest cost	114,811	106,153
Amortization of:		
Prior service cost	86,094	86,094
Actuarial loss	13,899	-
Net periodic benefit cost	\$ 522,940	\$ 440,145

Accumulated postretirement benefit obligations

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

	2020	2019
APBO, beginning of year	\$ 3,171,781	\$ 2,451,399
Service cost	308,136	247,898
Interest cost	114,811	106,153
Estimated benefits paid	(39,357)	(29,531)
Actuarial loss	642,140	395,863
APBO, end of year	\$ 4,197,511	\$ 3,171,782

Funded status for fiscal years ending June 30:

	2020	2019
APBO, end of year	\$ (4,197,511)	\$ (3,171,782)
Fair value of Plan assets, end of year	-	-
Net amount recognized in statements of financial position	(4,197,511)	(3,171,782)
Current portion	48,930	34,233
Long term portion	\$ (4,148,581)	\$ (3,137,549)

12. Donated Services and Property

During 2020 and 2019, donated materials were valued at \$32,825 and \$30,334, 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 2020 and 2019, \$4,099 and \$4,980, 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.

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

13. Related Party Transactions

During both 2020 and 2019, 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, 2020 and 2019, there was \$41,713 and \$18,437, respectively, due from NPAF to the Foundation which is included on the statements of financial position. At June 30, 2020 and 2019, there was \$52,641 and \$10,290, respectively, 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 were \$714,946 and \$759,771 for 2020 and 2019, respectively, and 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>	
2021	\$ 698,421
2022	702,708
2023	715,843
2024	<u>182,812</u>
	<u>\$ 2,299,784</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, 2020 and 2019

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 \$2,186,163 and \$2,078,900 at June 30, 2020 and 2019, respectively.

(Continued)

PATIENT ADVOCATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

15. Board Designated Endowments (Continued)

Changes in board designated endowment fund net assets in 2020 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	\$ -	\$ 2,078,900	\$ -	\$ 2,078,900
Return on investment in endowment	-	107,263	-	107,263
Endowment fund net assets - end of year	<u>\$ -</u>	<u>\$ 2,186,163</u>	<u>\$ -</u>	<u>\$ 2,186,163</u>

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	-	79,885	-	79,885
Endowment fund net assets - end of year	<u>\$ -</u>	<u>\$ 2,078,900</u>	<u>\$ -</u>	<u>\$ 2,078,900</u>

16. COVID-19 Uncertainty

In December 2019, a novel strain of Coronavirus was reported in Wuhan, China. The World Health Organization has declared the outbreak to constitute a “Public Health Emergency of International Concern.” The COVID-19 outbreak has impacted activities across a range of industries. The extent of the impact of COVID-19 on the Foundation’s operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on the Foundation’s clients (patients and families), employees, donors and vendors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the Foundation’s financial condition or results of operations is uncertain.