



HEALTHWELL
FOUNDATION[®]

When health insurance is not enough.[®]

HEALTHWELL FOUNDATION AND AFFILIATE

Consolidated Financial Statements

For the Year Ended December 31, 2018



**and
Report Thereon**



HEALTHWELL FOUNDATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
HealthWell Foundation and Affiliate

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of HealthWell Foundation (HealthWell) and Affiliate (collectively referred to as the Foundation), which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Continued

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of HealthWell Foundation and Affiliate as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Marcum LLP

Washington, DC
June 11, 2019

HEALTHWELL FOUNDATION AND AFFILIATE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2018

ASSETS

Cash and cash equivalents	\$ 119,401,881
Investments	207,466,329
Pledges receivable	18,042,500
Interest receivable and other assets	557,854
Property and equipment, net	<u>377,442</u>

TOTAL ASSETS	<u><u>\$ 345,846,006</u></u>
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LIABILITIES AND NET ASSETS

Liabilities

Accounts payable and accrued expenses	\$ 9,942,844
Copayments and premium assistance payable	<u>6,805,835</u>

TOTAL LIABILITIES	<u>16,748,679</u>
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Net Assets

Without donor restrictions	(756,134)
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With donor restrictions

Committed to patients	133,760,470
Uncommitted	<u>196,092,991</u>

Total With Donor Restrictions	<u>329,853,461</u>
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TOTAL NET ASSETS	<u>329,097,327</u>
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TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 345,846,006</u></u>
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The accompanying notes are an integral part of these consolidated financial statements.

HEALTHWELL FOUNDATION AND AFFILIATE

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
OPERATING REVENUE AND SUPPORT			
Contributions	\$ 733,886	\$ 426,836,549	\$ 427,570,435
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>323,973,100</u>	<u>(323,973,100)</u>	<u>-</u>
TOTAL OPERATING REVENUE AND SUPPORT	<u>324,706,986</u>	<u>102,863,449</u>	<u>427,570,435</u>
EXPENSES			
Program Services:			
Multiple Myeloma – Medicare Access	99,985,575	-	99,985,575
Pulmonary Fibrosis	38,726,083	-	38,726,083
Hepatitis C	36,419,154	-	36,419,154
Multiple Sclerosis – Medicare Access	35,216,090	-	35,216,090
Renal Cell Carcinoma – Medicare Access	10,988,544	-	10,988,544
Cystic Fibrosis Treatments	9,890,238	-	9,890,238
Post-Menopausal Osteoporosis – Medicare Access	9,568,634	-	9,568,634
Chemotherapy-Induced Neutropenia – Medicare Access	8,648,356	-	8,648,356
Bone Metastases – Medicare Access	8,362,443	-	8,362,443
Non-Small Cell Lung Cancer – Medicare Access	6,851,219	-	6,851,219
Breast Cancer – Medicare Access	6,306,528	-	6,306,528
Secondary Hyperparathyroidism	5,181,704	-	5,181,704
Acute Myeloid Leukemia – Medicare Access	4,787,697	-	4,787,697
Melanoma – Medicare Access	4,974,893	-	4,974,893
Systemic Lupus Erythematosus	4,512,496	-	4,512,496
Macular Degeneration	3,296,495	-	3,296,495
Tardive Dyskinesia – Medicare Access	2,890,065	-	2,890,065
Cystic Fibrosis Vitamins and Supplements	2,671,064	-	2,671,064
Urticaria	2,595,441	-	2,595,441
Amyotrophic Lateral Sclerosis – Medicare Access	2,518,793	-	2,518,793
Gout – Medicare Access	1,921,226	-	1,921,226
Peyronie's Disease	1,811,314	-	1,811,314
Dupuytren's Disease	1,708,504	-	1,708,504
Idiopathic Thrombocytopenic Purpura	1,608,007	-	1,608,007
Colorectal Carcinoma – Medicare Access	1,534,126	-	1,534,126
Ovarian Cancer – Medicare Access	1,490,195	-	1,490,195
Huntington's Disease – Medicare Access	1,419,080	-	1,419,080
Carcinoid Tumors and Associated Symptoms – Medicare Access	1,337,859	-	1,337,859
Movement Disorders – Medicare Access	1,094,617	-	1,094,617
Bladder and Urothelial Cancer – Medicare Access	1,022,955	-	1,022,955
Giant Cell Arteritis or Temporal Arteritis – Medicare Access	877,595	-	877,595
Chronic Myeloid Leukemia – Medicare Access	814,861	-	814,861
Pediatric Assistance	766,211	-	766,211

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

Continued

HEALTHWELL FOUNDATION AND AFFILIATE

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2018

(continued)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
EXPENSES (CONTINUED)			
ANCA – Associated Vasculitis, Wegener's and Granulomatosis with Polyangiitis	\$ 590,991	\$ -	\$ 590,991
Head and Neck Cancer – Medicare Access	383,402	-	383,402
Cystic Fibrosis	359,785	-	359,785
Diabetic Foot Ulcers	340,587	-	340,587
Cytomegalovirus Disease – Prevention and Treatment	190,950	-	190,950
Acromegaly – Medicare Access	175,659	-	175,659
Fungal Infections – Aspergillosis and Candidiasis	166,969	-	166,969
Breakthrough Cancer Pain – Medicare Access	158,005	-	158,005
ANCA – Associated Vasculitis, Wegener's and Immunosuppressive Treatment for Solid Organ Transplant Recipients – Medicare Access	159,638	-	159,638
Asthma	136,673	-	136,673
Autoimmune – Medicare Access	111,944	-	111,944
Inflammatory Bowel Disease – Medicare Access	93,822	-	93,822
Congenital Sucrase-Isomaltase Deficiency	72,748	-	72,748
Other	68,992	-	68,992
Chemotherapy Induced Nausea or Vomiting – Medicare Access	45,456	-	45,456
HIV and AIDS Wasting Syndrome and Anorexia due to HIV or AIDS – Medicare Access	41,022	-	41,022
Gastric Cancer – Medicare Access	38,789	-	38,789
Homocystinuria	30,832	-	30,832
	<u>324,964,326</u>	<u>-</u>	<u>324,964,326</u>
Supporting Services:			
Management and general	1,131,834	-	1,131,834
Marketing and communications	731,116	-	731,116
Fundraising	728,096	-	728,096
	<u>2,591,046</u>	<u>-</u>	<u>2,591,046</u>
	<u>327,555,372</u>	<u>-</u>	<u>327,555,372</u>
Change in net assets from operations	(2,848,386)	102,863,449	100,015,063
Nonoperating Activities:			
Investment losses, net	<u>(4,359,687)</u>	<u>-</u>	<u>(4,359,687)</u>
CHANGE IN NET ASSETS	(7,208,073)	102,863,449	95,655,376
NET ASSETS, BEGINNING OF YEAR	<u>6,451,939</u>	<u>226,990,012</u>	<u>233,441,951</u>
NET ASSETS, END OF YEAR	<u>\$ (756,134)</u>	<u>\$ 329,853,461</u>	<u>\$ 329,097,327</u>

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

HEALTHWELL FOUNDATION AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2018

	Supporting Services					
	Program Services	Management and General	Marketing and Communications	Fundraising	Total Supporting Services	Total
Patient grants	\$ 316,762,820	\$ -	\$ -	\$ -	\$ -	\$ 316,762,820
Contracted services	6,330,410	127,970	91,308	254,792	474,070	6,804,480
Salaries and wages	514,328	460,020	410,067	322,606	1,192,693	1,707,021
Professional fees	525,950	164,361	-	-	164,361	690,311
Fringe benefits and payroll taxes	127,587	147,767	105,239	50,792	303,798	431,385
Telecommunications and systems	283,212	19,723	13,706	6,764	40,193	323,405
Miscellaneous	92,691	37,428	66,532	36,691	140,651	233,342
Software licenses	125,916	45	-	-	45	125,961
Depreciation and amortization	82,352	23,041	-	-	23,041	105,393
Board honoraria	-	102,881	-	-	102,881	102,881
Occupancy	42,631	27,235	18,385	9,948	55,568	98,199
Travel and meals	-	16,352	25,802	45,809	87,963	87,963
Printing and postage	76,429	5,011	77	694	5,782	82,211
	TOTAL EXPENSES	\$ 1,131,834	\$ 731,116	\$ 728,096	\$ 2,591,046	\$ 327,555,372

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

HEALTHWELL FOUNDATION AND AFFILIATE
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 95,655,376
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	105,393
Net realized and unrealized gains on investments	11,153,812
Changes in assets and liabilities:	
Pledges receivable	(6,254,166)
Interest receivable and other assets	(226,120)
Accounts payable and accrued expenses	3,470,031
Copayments and premium assistance payable	<u>1,041,464</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>104,945,790</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments	(131,957,860)
Purchases of property and equipment	(160,469)
Proceeds from sales and maturities of investments	<u>75,615,821</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(56,502,508)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	48,443,282
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>70,958,599</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 119,401,881</u></u>

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

HEALTHWELL FOUNDATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

1. Organization and Nature of Activities

Organization

The HealthWell Foundation (HealthWell) is an independent, nonprofit organization that provides financial assistance to underinsured adults and children living with chronic or life-altering diseases, such as cancer, asthma and autoimmune disorders. The Foundation helps eligible individuals afford out-of-pocket costs for prescription drug copayments, coinsurance, deductibles, premiums and other select out-of-pocket costs. The Foundation's primary source of revenue is contributions from corporations and individuals.

HWF – Direct, LLC (HWF) an affiliate of HealthWell, was organized on October 10, 2018, as a single-member limited liability corporation (LLC) to administer the Foundation's call-center functions. HealthWell is the sole member of HWF and funds its operations through intercompany service charges.

2. Summary of Significant Accounting Policies

Basis of Accounting

The Foundation's financial statements have been prepared on the accrual basis of accounting. Accordingly, revenue is recognized when earned and expenses are recorded as the obligations are incurred.

Principles of Consolidation

The consolidated financial statements of HealthWell and HWF (collectively referred to as the Foundation) have been prepared on the accrual basis of accounting and include the accounts of HealthWell and its affiliate. All material intercompany balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

For financial statement reporting purposes, cash and cash equivalents include demand deposits and money market funds, excluding cash and cash equivalents held in investment accounts.

Investments

Investments are carried at fair value in the financial statements and include cash and cash equivalents held in investment accounts. 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. Realized gains and losses are recognized upon the sale or disposal of the investment. Interest and dividend income is recorded as earned. Unrealized gains and losses due to market fluctuations during the year are recognized as revenue and support without donor restrictions in the accompanying consolidated statement of activities.

HEALTHWELL FOUNDATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

2. Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are recorded at cost and are depreciated or amortized using the straight-line method over the estimated useful lives of the assets, which is five years. It is the Foundation's policy to capitalize purchases of property and equipment that cost \$5,000 or more and have an economic life in excess of one year.

Expenditures for major repairs and improvements are capitalized; expenditures for minor repairs and maintenance are expensed as incurred. Upon the disposal of an asset, the appropriate property accounts are reduced by the related costs and accumulated depreciation or amortization. The resulting gains or losses are reflected in the accompanying consolidated statement of activities.

Net Assets

The Foundation's net assets are classified on the basis of the existence or absence of donor-imposed restrictions. Accordingly, the Foundation's net assets are classified and reported as follows:

- *Without donor restrictions* – Net assets not subject to any donor-imposed stipulations or other legal limitations.
- *With donor restrictions* – Net assets subject to donor-imposed stipulations that may be met by the Foundation's actions and/or the passage of time. Grants awarded to patients that have not yet been expended by the patients are reported as temporarily restricted net assets committed to patients.

Fair Value Measurement

In accordance with the accounting standards for fair value measurements for those assets and liabilities that are measured at fair value on a recurring basis, the Foundation has categorized its applicable financial instruments into a required fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the fair value hierarchy, the categorization is based on the lowest-level input that is significant to the fair value measurement of the instrument. Applicable financial assets and liabilities are categorized on the basis of the inputs to the valuation techniques as follows:

Level 1 – Inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities accessible at the measurement date.

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets.

Level 3 – Unobservable inputs for the asset or liability, including the reporting entity's own assumptions in determining the fair value measurement.

HEALTHWELL FOUNDATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

2. Summary of Significant Accounting Policies (continued)

Fair Value Measurement (continued)

As of and for the year ended December 31, 2018, only the Foundation's investments, as described in Notes 3 and 8, were measured at fair value on a recurring basis.

Revenue Recognition

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update No. 2016-04, *Not-for-Profit Entities, (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, contributions received are recorded as revenue and support without donor restrictions and with donor restrictions depending on the existence and/or nature of any donor restrictions. Donor-restricted revenue is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

Program Services

The Foundation awards financial assistance to underinsured patients living with chronic or life-altering diseases. The Foundation records this financial assistance as program service expense when the services are provided, rather than when the assistance is awarded, as payments are contingent upon the patients obtaining the approved medications and/or services.

The Foundation has instituted a process for withdrawing and adjusting the original patient assistance committed to, but not subsequently used by, the patient so that the funds are available for new awards. Funds awarded to patients that have not yet been expended by the patients are recorded as net assets with donor restrictions committed to patients on the accompanying consolidated statement of financial position.

Copayments and Premium Assistance Payable

An estimated liability for unpaid copayments and premium claims incurred, but not reported, as of year-end, based upon actual subsequent claims payments, is recorded in the accompanying consolidated statement of financial position.

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the accompanying consolidated statement of functional expenses. Indirect expenses, which include costs related to occupancy, the call center and various consultants, are allocated among the programs and supporting services based on patient grant expense. Salaries, including those related to the executive, finance, human resources, marketing and technology functions, are allocated first on the basis of an annually prepared estimation of hours worked by employee in each function and then by patient grant expense.

HEALTHWELL FOUNDATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

2. Summary of Significant Accounting Policies (continued)

Measure of Operations

The consolidated statement of activities separately reports changes in net assets from operations as well as nonoperating activities. Operating activities consist primarily of contributions and expenses related to the financial assistance awarding process. Nonoperating activities include gains, losses, income and expenses related to the Foundation's investments.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

3. Investments

The Foundation's investments as of December 31, 2018, are summarized as follows:

Mutual funds	\$ 123,227,165
Corporate bonds	33,538,291
Closed-end funds	26,859,500
Government securities	21,400,059
Money market funds	1,229,491
Cash and cash equivalents	1,014,587
Certificates of deposit	<u>197,236</u>
Total Investments	<u>\$ 207,466,329</u>

Investment loss, including interest earned on cash and cash equivalents, is as follows for the year ended December 31, 2018:

Unrealized loss	\$ (14,094,993)
Interest and dividends	7,058,197
Realized gains	2,941,181
Investment fees	<u>(264,072)</u>
Investment Loss, Net	<u>\$ (4,359,687)</u>

4. Pledges Receivable

Pledges receivable represent grants and contributions from corporations that are due within one year. Pledges receivable are deemed to be fully collectible. Approximately 99% of pledges receivable were due from two contributors as of December 31, 2018.

HEALTHWELL FOUNDATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

5. Property and Equipment

Property and equipment consisted of the following at December 31, 2018:

Computer software	\$ 1,280,033
Computer equipment	140,341
Furniture	<u>256,174</u>
Total Property and Equipment	1,676,548
Less: Accumulated Depreciation and Amortization	<u>(1,299,106)</u>
Property and Equipment, Net	<u><u>\$ 377,442</u></u>

Depreciation and amortization expense totaled \$105,393 for the year ended December 31, 2018.

6. Net Assets With Donor Restrictions

As of December 31, 2018, net assets with donor restrictions were available for the following disease funds:

Hepatitis C	\$ 60,122,049
Multiple Myeloma – Medicare Access	58,511,444
Cystic Fibrosis Treatments	24,435,364
Pulmonary Fibrosis	20,934,053
Multiple Sclerosis – Medicare Access	20,345,332
Post-Menopausal Osteoporosis – Medicare Access	19,314,813
Secondary Hyperparathyroidism	17,784,643
Breast Cancer – Medicare Access	13,222,627
Bone Metastases – Medicare Access	10,997,645
Renal Cell Carcinoma – Medicare Access	10,236,496
Tardive Dyskinesia – Medicare Access	8,110,035
Chemotherapy-Induced Neutropenia – Medicare Access	6,153,576
Macular Degeneration	5,840,778
Non-Small Cell Lung Cancer – Medicare Access	5,219,004
Huntington’s Disease – Medicare Access	4,877,990
Acute Myeloid Leukemia – Medicare Access	4,851,757
Ovarian Cancer – Medicare Access	4,761,173
Systemic Lupus Erythematosus	4,463,223
Amyotrophic Lateral Sclerosis – Medicare Access	4,135,609
Melanoma – Medicare Access	3,732,089
Idiopathic Thrombocytopenic Purpura	2,795,763
Non-Hodgkin’s Lymphoma – Medicare Access	2,487,627
Colorectal Carcinoma – Medicare Access	2,118,998
Gout – Medicare Access	1,676,489
Cystic Fibrosis Vitamins and Supplements	1,664,448
Peyronie’s Disease	1,202,266

HEALTHWELL FOUNDATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

6. Net Assets With Donor Restrictions (continued)

Migraine	\$ 999,530
Dupuytren's Disease	857,966
Carcinoid Tumors and Associated Symptoms – Medicare Access	812,311
Urticaria	778,462
Bladder and Urothelial Cancer – Medicare Access	752,745
Glioblastoma Multiforme/Anaplastic Astrocytoma	747,771
Chronic Myeloid Leukemia – Medicare Access	473,775
Asthma	366,191
Inflammatory Bowel Disease – Medicare Access	355,415
Chronic Lymphocytic Leukemia – Medicare Access	348,743
Gastric Cancer – Medicare Access	337,711
Cytomegalovirus Disease – Prevention and Treatment	331,289
Acromegaly – Medicare Access	324,281
Movement Disorders – Medicare Access	242,424
Congenital Sucrase-Isomaltase Deficiency	227,252
Cystic Fibrosis	226,897
ANCA – Associated Vasculitis, Wegener's and Granulomatosis with Polyangiitis	218,592
Autoimmune – Medicare Access	211,702
Fungal Infections – Aspergillosis and Candidiasis	205,256
Diabetic Foot Ulcers	188,208
Other funds	162,512
Melanoma	133,711
Breakthrough Cancer Pain – Medicare Access	107,111
Iron Overload as a Result of Blood Transfusions	102,766
Cancer Related Behavioral Health	78,216
Porphyrias	74,094
Growth Hormone Deficiency	68,995
Chemotherapy Induced Nausea or Vomiting – Medicare Access	66,275
Urea Cycles Disorder	57,970
Total	<u>\$ 329,853,461</u>

7. Pension Plan

The Foundation maintains a defined-contribution plan under Section 401(k) of the Internal Revenue Code (the IRC). Under the 401(k) plan, participants may elect to contribute annually to the plan amounts up to the federal tax limit, which was \$18,500 for 2018. The Foundation matches 100% of an employee's contributions, up to 6% of the employee's salary. Employees are vested in their own contributions and employer matching contributions at the time the contributions are made. The Foundation's pension expense totaled \$85,945 for the year ended December 31, 2018.

HEALTHWELL FOUNDATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

8. Fair Value Measurement

The following table summarizes the Foundation's assets measured at fair value on a recurring basis as of December 31, 2018:

	<u>Total Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments measured in fair value hierarchy:				
Mutual funds:				
Nontraditional bond funds	\$ 50,664,323	\$ 50,664,323	\$ -	\$ -
Short and intermediate term bond funds	35,939,271	35,939,271	-	-
Domestic equity	19,798,278	19,798,278	-	-
International equity	13,732,692	13,732,692	-	-
Allocation funds	<u>3,092,601</u>	<u>3,092,601</u>	-	-
Total Mutual Funds	123,227,165	123,227,165	-	-
Corporate bonds	33,538,291	-	33,538,291	-
Closed-end funds:				
Equity allocation	26,859,500	26,859,500	-	-
Government securities	21,400,059	-	21,400,059	-
Money market funds	1,229,491	1,229,491	-	-
Certificates of deposit	<u>197,236</u>	<u>-</u>	<u>197,236</u>	<u>-</u>
Total Investments Measured in Fair Value Hierarchy	206,451,742	<u>\$151,316,156</u>	<u>\$55,135,586</u>	<u>\$ -</u>
Cash and cash equivalents	<u>1,014,587</u>			
Total Investments	<u>\$ 207,466,329</u>			

As of December 31, 2018, the Foundation used the following methods and significant assumptions to estimate fair value for assets recorded at fair value:

Mutual funds, closed-end funds and money market funds – These securities are valued using a quoted per-share price or net asset value for identical assets in active markets, generally obtained from the relevant exchange or dealer market.

HEALTHWELL FOUNDATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

8. Fair Value Measurement (continued)

Government securities – Government securities represent securities that are generally not traded on a daily basis. The fair value estimates of such investments are based on observable market information, rather than market quotes. Accordingly, the estimates of fair value for such investments, as provided by the pricing service, are included in Level 2.

Corporate bonds – Corporate bonds are valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable characteristics, as provided by a third party using a computerized valuation formula. If quoted market prices are not available, then fair values are estimated using the most recent bid prices in the over-the-counter market in which the individual securities are traded and adjusted for other factors, such as interest rates, credit, etc., as determined by the broker and/or custodian.

Certificates of deposit – Certificates of deposit have original maturity dates in excess of 90 days. A yield-based matrix system was used to arrive at an estimated fair value for these instruments which are classified within Level 2 of the valuation hierarchy.

9. Portfolio Loan Payable

The Foundation had a portfolio loan facility with a maximum limit of \$30,013,000. As of April 12, 2018, the line was effectively closed and the Foundation did not re-open it. There was no activity during the year ended December 31, 2018.

10. Risks and Commitments

Cash

The Foundation maintains its cash with certain commercial financial institutions, which aggregate balances may exceed, at times, the Federal Deposit Insurance Corporation (FDIC) insured limit of \$250,000 per depositor per institution. As of December 31, 2018, the Foundation had approximately \$120,000,000 in demand deposits which exceeded the maximum limit insured by the FDIC.

Concentration of Revenue Risk

During the year ended December 31, 2018, the Foundation received approximately 84% of its total revenue and support from four donors.

Operating Lease

The Foundation has entered into an operating lease for office space through June 30, 2021. The lease provides for monthly base rent beginning at \$8,218, plus a prorated share of basic property operating costs, and a fixed escalation clause for increases in the annual minimum rent

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10. Risks and Commitments (continued)

Operating Lease (continued)

at a rate of 2.7% per year. The lease also required the Foundation to pay a rental deposit equivalent to one month's base rent of \$8,218 and allowed for a rent abatement for the first 180 days of the operating lease. Under GAAP, all rental payments, including rent increases, are recognized on a straight-line basis over the term of the lease.

In December 2018, the Foundation, on behalf of HWF Direct, LLC, signed an operating lease for additional office space through June 30, 2022. The lease provides for monthly base rent beginning at \$16,992 and a fixed escalation clause for increases in the annual minimum rent at a rate of 4% per year. The lease also required the Foundation to pay a rental deposit equivalent to two months' base rent of \$33,986. Under GAAP, all rental payments, including rent increases, are recognized on a straight-line basis over the term of the lease.

The following is a schedule of future minimum lease payments as of December 31, 2018:

For the Year Ending December 31,		
2019	\$	293,908
2020		321,326
2021		276,330
2022		133,066
Total	\$	1,024,630

Patient Commitments

At December 31, 2018, the Foundation had outstanding commitments to patients totaling \$133,760,470. These commitments are based upon amounts awarded by the Foundation for, but not yet expended on, copayments and premium assistance claims of patients as of December 31, 2018. As patients submit claims for approved medication and services, amounts committed to patients are transferred to copayments and premium assistance payable in the accompanying consolidated statement of financial position until the obligation is paid.

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11. Availability and Liquidity

The Foundation regularly monitors liquidity required to meet its annual operating needs and other contractual commitments, while also striving to preserve the principal and return on the investments of its funds. The Foundation's financial assets available within one year of the consolidated statement of financial position date for general expenditures at December 31, 2018, were as follows:

Cash and cash equivalents	\$ 119,401,881
Investments	207,466,329
Pledges receivable	18,042,500
Interest receivable and other assets	<u>557,854</u>
Total Financial Assets Available Within One Year	345,468,564
 Less:	
Amounts unavailable for general expenditures within one year due to donor's restriction with purpose restriction	<u>\$ (329,853,461)</u>
Financial Assets Available to Meet General Expenditures Within One Year	<u>\$ 15,615,103</u>

The Foundation has various sources of liquidity at its disposal, including cash and cash equivalents and investments, which are available for general expenditures, liabilities and other obligations as they come due. Management is focused on sustaining the financial liquidity of the Foundation throughout the year. This is done through monitoring and reviewing the Foundation's cash flow needs on a daily basis. As a result, management is aware of the cyclical nature of the organization's cash flow related to the Foundation's various funding sources and is therefore able to ensure that there is cash available to meet current liquidity needs. As part of the Foundation's liquidity plan, excess cash is invested in publicly traded investments vehicles, including mutual funds and equity securities, to support organizational initiatives. The Foundation can liquidate its investments anytime, and therefore the investments are available to meet current cash flow needs.

12. Income Tax Status

The Foundation is exempt from federal income taxation, except for unrelated business income, under Section 501(c)(3) of the IRC and is classified by the Internal Revenue Service as other than a private foundation. No provision for income taxes was required for the year ended December 31, 2018, as the Foundation had no taxable unrelated business income.

The Foundation follows the authoritative guidance relating to accounting for uncertainty in income taxes included in FASB ASC Topic 740, *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. The Foundation performed an evaluation of uncertain tax positions for the year ended December 31, 2018, and

HEALTHWELL FOUNDATION AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2018

12. Income Tax Status (continued)

determined that there were no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. As of December 31, 2018, the statute of limitations for tax years 2015 through 2017 remained open with the U.S. federal jurisdiction or the various states and local jurisdictions in which the Foundation files tax returns. However, there are currently no examinations in progress. It is the Foundation's policy to recognize interest and/or penalties related to uncertainty in income taxes, if any, in income tax or interest expense. As of December 31, 2018, the Foundation had no accrual for interest and/or penalties.

13. Subsequent Events

In preparing the financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through June 11, 2019, the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in these financial statements.