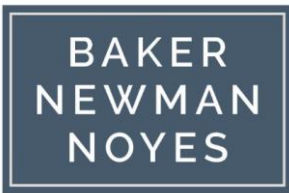


Maine Health Access Foundation, Inc.

Audited Financial Statements

*Years Ended December 31, 2019 and 2018
With Independent Auditors' Report*



INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Maine Health Access Foundation, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Maine Health Access Foundation, Inc., which comprise the statements of financial position as of December 31, 2019 and 2018, the related statements of activities and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Maine Health Access Foundation, Inc. as of December 31, 2019 and 2018, 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.

Baker Newman + Noyes LLC

Portland, Maine
October 8, 2020

MAINE HEALTH ACCESS FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 75,759	\$ —
Accounts receivable	—	245
Prepaid expenses and other current assets	65,759	60,818
Refundable excise taxes	137,000	35,000
Investments	125,448,288	110,914,604
Equipment, net of accumulated depreciation of \$160,584 in 2019 and \$146,066 in 2018	<u>33,850</u>	<u>27,601</u>
Total assets	<u>\$ 125,760,656</u>	<u>\$ 111,038,268</u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ 25,748	\$ 32,522
Grants payable	1,015,000	600,000
Deferred tax liability	<u>296,000</u>	<u>417,000</u>
Total liabilities	1,336,748	1,049,522
Net assets:		
Without donor restrictions	124,063,903	109,988,746
With donor restrictions	<u>360,005</u>	<u>—</u>
Total net assets	<u>124,423,908</u>	<u>109,988,746</u>
Total liabilities and net assets	<u>\$ 125,760,656</u>	<u>\$ 111,038,268</u>

See accompanying notes.

MAINE HEALTH ACCESS FOUNDATION, INC.

STATEMENTS OF ACTIVITIES

Years Ended December 31, 2019 and 2018

	2019		2018	
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Support and revenues:				
Net investment returns (losses)	\$ 20,246,392	\$ –	\$ 20,246,392	\$(10,325,563)
Contributions	20,000	874,090	894,090	2,000
Other income - miscellaneous	<u>8,502</u>	<u>–</u>	<u>8,502</u>	<u>5,539</u>
Total support and revenues	20,274,894	874,090	21,148,984	(10,318,024)
Net assets released from restrictions	<u>514,085</u>	<u>(514,085)</u>	–	–
Total revenue and other support	20,788,979	360,005	21,148,984	(10,318,024)
Expenses:				
Program:				
Grants, net of refunds of unspent amounts	4,537,225	–	4,537,225	1,977,922
Program service expenses	<u>824,116</u>	<u>–</u>	<u>824,116</u>	<u>928,280</u>
Total program	5,361,341	–	5,361,341	2,906,202
Management and general:				
Program related	1,266,117	–	1,266,117	1,177,226
Support services	<u>159,364</u>	<u>–</u>	<u>159,364</u>	<u>139,378</u>
Total management and general	1,425,481	–	1,425,481	1,316,604
Excise tax (benefit) expense	<u>(73,000)</u>	–	<u>(73,000)</u>	<u>35,000</u>
Total expenses	<u>6,713,822</u>	–	<u>6,713,822</u>	<u>4,257,806</u>
Change in net assets	14,075,157	360,005	14,435,162	(14,575,830)
Net assets, beginning of year	<u>109,988,746</u>	–	<u>109,988,746</u>	<u>124,564,576</u>
Net assets, end of year	<u>\$124,063,903</u>	<u>\$ 360,005</u>	<u>\$124,423,908</u>	<u>\$109,988,746</u>

See accompanying notes.

MAINE HEALTH ACCESS FOUNDATION, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 14,435,162	\$(14,575,830)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Net realized and unrealized (gains) losses on investments	(19,384,038)	11,342,640
Restricted contributions	(874,090)	—
Depreciation	14,584	17,342
Refundable/deferred excise taxes	(223,000)	(152,000)
Change in accounts receivable	245	1,237
Change in prepaid expenses and other current assets	(4,941)	418,562
Change in accounts payable and accrued expenses	(6,774)	(2,844)
Change in grants payable	<u>415,000</u>	<u>(1,611,752)</u>
Net cash used by operating activities	(5,627,852)	(4,562,645)
Cash flows from investing activities:		
Purchase of equipment	(20,833)	(6,739)
Proceeds from sale of investments	31,879,241	11,214,501
Purchase of investments	(27,028,887)	(6,704,949)
Repayment of program related investments	<u>—</u>	<u>34,000</u>
Net cash provided by investing activities	4,829,521	4,536,813
Cash flows from financing activities:		
Contributions with donor restrictions	<u>874,090</u>	<u>—</u>
Net cash provided by financing activities	<u>874,090</u>	<u>—</u>
Net increase (decrease) in cash	75,759	(25,832)
Cash and cash equivalents, beginning of year	<u>—</u>	<u>25,832</u>
Cash and cash equivalents, end of year	\$ <u>75,759</u>	\$ <u>—</u>
Supplemental disclosure of cash flow information:		
Cash paid for excise taxes	\$ <u>150,000</u>	\$ <u>187,000</u>

See accompanying notes.

MAINE HEALTH ACCESS FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019 and 2018

1. Nature of the Foundation

Maine Health Access Foundation, Inc. (the Foundation or MeHAF), founded in April 2000 following the sale of Blue Cross and Blue Shield of Maine to Anthem Insurance Companies, is Maine's largest not-for-profit health care foundation.

The Foundation's mission is to promote access to quality health care, especially for those who are uninsured and underserved, and improve the health of everyone in Maine. The Foundation's human and financial resources are used to ensure all people have access to high quality, affordable health care to achieve or preserve better health.

As a statewide organization, MeHAF supports strategic solutions to address Maine's health care needs through grants and other programs with an emphasis on targeting the uninsured and medically underserved.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Classification of Net Assets

The following provides a description of the net asset classifications represented in the Foundation's statement of financial position:

Net Assets With Donor Restrictions include contributions subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature that are expected to be met either by actions of the Foundation and/or the passage of time. As of December 31, 2019, the Foundation's net assets with donor restrictions are restricted for funding various community needs as specified by the donors. There were no net assets with donor restrictions as of December 31, 2018.

Net Assets Without Donor Restrictions represent expendable resources that are available for operations at management's discretion, this includes net assets available but designated to fund grants, scholarships and initiatives not subject to donor restrictions, which includes amounts appropriated for expenditure from net assets with donor restrictions.

MAINE HEALTH ACCESS FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019 and 2018

2. **Summary of Significant Accounting Policies (Continued)**

Revenue Recognition

Unconditional promises to give cash and other assets to the Foundation are reported at their fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at their fair value at the date the gift is actually received or the conditions are met. Gifts are reported as donor restricted support if they are received with donor stipulations that limit the use of the donated assets. When donor restrictions expire, 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 statement of activities and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions in the accompanying financial statements.

Use of 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments and Spending Policies

In July 2006, The National Conference of Commissioners on Uniform State Laws approved the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA). In 2009, the State of Maine passed a version of UPMIFA, effective on July 1, 2009. In accordance with the By-laws of the Foundation, the Board of Trustees shall administer the assets of the Foundation in accordance with UPMIFA.

The Foundation makes the following disclosures related to this guidance and adoption of UPMIFA:

Investments will be managed on a total return basis, consistent with the applicable standard of conduct set forth in UPMIFA.

The Foundation has adopted an investment policy, approved by the Board of Trustees, which seeks to maximize the long-term total return of financial assets consistent with the current and future funding needs of the Foundation.

Accordingly, the Foundation's ability to achieve these returns will depend upon the ability to accept reasonable risk, recognizing that some degree of volatility in market value is necessary to achieve long-term capital appreciation and maintain spending growth. The Foundation's investments are invested in a well-diversified asset mix, which includes money market funds, mutual funds, collective trusts and limited partnerships.

MAINE HEALTH ACCESS FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019 and 2018

2. Summary of Significant Accounting Policies (Continued)

The Foundation has adopted a spending policy, approved by the Board of Trustees, which allows for distributions of up to 5% of the market value of the endowment funds on an annual basis, calculated on a three year rolling average. In the event that the Board determines that 5% is insufficient in any year or years, it may vote to exceed the maximum 5% in that/those years only. Expenditures should not exceed the defined level of "prudence" of 7% as set forth in UPMIFA. Distributions from the unrestricted investment general fund may be made at any time at the discretion of the Foundation's Finance and Investment Committee.

The Board of Trustees interpreted UPMIFA as requiring the preservation of the fair value of the endowed 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, when reviewing its donor-restricted endowment funds, the Foundation considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Foundation has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law.

Investments and Investment Income

Investment securities are stated at fair value. The Foundation invests in money market funds, mutual funds, collective trusts and limited partnerships. The fair value of money market funds and mutual funds are based on quoted market prices. The fair value of other investment securities (i.e. alternative investments) for which quoted market prices are not available (i.e. collective trusts and limited partnerships) are determined by management based upon valuations provided by the respective investment managers, which are generally based upon the investment's audited financial statements. Gains and losses on investments are computed on a specific identification basis. Purchases and sales are recorded on a trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

The Foundation has applied the accounting guidance in Accounting Standards Codification (ASC) Topic 820 which permits the use of net asset value (NAV) or its equivalent reported for certain alternative investment funds as a practical expedient to estimate the fair value of the investment. These investments are generally redeemable or may be liquidated at NAV under the original terms of the subscription agreements or operations of the underlying assets. However, it is possible that these redemption rights may be restricted by the fund manager in the future in accordance with the underlying fund agreements, as applicable. Changes in market conditions, the economic environment, or the funds' liquidity provisions may significantly impact the NAV of the funds, and consequently, the fair value of the Foundation's interest in such funds. Although certain investments may be sold in a secondary market, the secondary market is not public and individual transactions are not necessarily observable.

The Foundation's management is responsible for the fair value measurement of investments reported in the financial statements. The Foundation has implemented policies and procedures to assess the reasonableness of the fair values provided. Because of the inherent uncertainty of valuation for these investments, the estimate of the fund manager or general partner may differ from actual values, and the differences could be significant. The Foundation believes that reported fair values of its alternative investments at the statement of financial position dates are reasonable.

MAINE HEALTH ACCESS FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019 and 2018

2. Summary of Significant Accounting Policies (Continued)

Investment securities, in general, are exposed to various risks, such as interest rate, credit, liquidity and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Equipment

Equipment is recorded at cost on the date of acquisition and is being depreciated using the straight-line method over the estimated useful life of between three and five years.

Cash and Cash Equivalents

The Foundation considers all money market and highly liquid securities with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents residing within the Foundation's managed investment portfolios are reported as investments.

Grants Payable

Grant awards are recorded when approved by the Board of Trustees and the payment of such grant is unconditional.

Donor Advised Fund

In 2018, the Foundation established the Maine Health Access Foundation donor advised fund at the Maine Community Foundation. The fund provides the Foundation with additional opportunities to further its mission and goals. Grants from the fund are made upon the recommendation of the Board of Trustees of the Foundation and acceptance by the Maine Community Foundation. At December 31, 2019 and 2018, the balance in the fund was \$171,000 and \$155,000, respectively, and are not reflected in the statements of financial position.

Net Investment Return

Net investment return is reported in the statements of activities and consists of interest and dividend income, realized and unrealized investment gains and losses, less internal and external investment expenses.

Disclosures About the Fair Value of Financial Instruments

The carrying value of the Foundation's cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate their fair values due to the short term nature of the instruments. There is no market for program-related investments or grants payable and fair value is not determinable. The carrying value of program-related investments is based on the amount advanced and grants payable is based on the present value of the future payments of the grants. Refer to note 5 for fair value disclosures related to investments.

MAINE HEALTH ACCESS FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019 and 2018

2. Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses

The costs of providing program services and other activities have been summarized on a functional basis in Note 11. Accordingly, costs have been allocated among program services and supporting services benefitted based on estimates of time spent by the members of the staff.

Excise Taxes

MeHAF is a not-for-profit corporation recognized as income tax exempt under Section 501(c)(3) of the Internal Revenue Code (IRC) and is a private foundation under Section 509(a) of the Code. The IRC imposes an excise tax on private foundations equal to 2% of net investment income (principally interest, dividends, and net realized capital gains, less expenses incurred in the production of investment income). This tax is reduced to 1% for foundations that meet certain distribution requirements. The Foundation provides for excise taxes at 1.4%.

The IRC provides that each year the Foundation must distribute within 12 months of the end of such year approximately 5% of the average fair value of its assets. The distribution requirement for 2018 has been met and the estimated 2019 requirement of approximately \$5,611,000 is expected to be met during 2020.

In certain circumstances, tax-exempt organizations may be required to record an obligation for income taxes as the result of a tax position they have historically taken on various tax exposure items including unrelated business income or tax status. Under guidance issued by the Financial Accounting Standards Board, assets and liabilities are established for uncertain tax positions taken or positions expected to be taken in income tax returns when such positions are judged to not meet the "more-likely-than-not" threshold, based upon the technical merits of the position. Estimated interest and penalties, if applicable, related to uncertain tax positions are included as a component of income tax expense.

Management has evaluated the Foundation's tax positions and concluded that the Foundation has maintained its tax-exempt status, does not have any significant unrelated business income and has taken no uncertain tax positions that require adjustment to the financial statements.

New Accounting Pronouncements

Effective January 1, 2019, the Foundation adopted the new accounting guidance regarding revenue recognition under the FASB Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09) and all related amendments using the modified retrospective approach. ASU 2014-09 provides a five-step model to be applied to all contracts with customers. The five steps are to identify the contract(s) with the customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract and recognize revenue when each performance obligation is satisfied. The Foundation completed its overall assessment of revenue streams and review of related contracts potentially affected by the ASU. Based on this assessment, the Foundation concluded that ASU 2014-09 did not change the method in which the Foundation currently recognizes revenue. Since there was no impact upon adoption of the new guidance, a cumulative effect adjustment to opening net assets was not necessary.

MAINE HEALTH ACCESS FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019 and 2018

2. Summary of Significant Accounting Policies (Continued)

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08). ASU 2018-08 clarifies and improves current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the Foundation follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. It also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. This is important because such classification affects the timing of contribution revenues and expense recognition. ASU 2018-08 is effective for the Foundation for transactions in which they serve as the resource recipient beginning January 1, 2019. The Foundation adopted ASU 2018-08 as the resource recipient effective January 1, 2019. Adoption of this standard did not result in a significant change in these consolidated financial statements. The adoption of ASU 2018-08 as the resource provider is effective January 1, 2020, and will not have a significant impact on the financial statements.

Prospective Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02 *Leases (Topic 842)* (ASU 2016-02). Under ASU 2016-02, at the commencement of a long-term lease, lessees will recognize a liability equivalent to the discounted payments due under the lease agreement, as well as an offsetting right-of-use asset. ASU 2016-02 is effective for the Foundation on January 1, 2022, with early adoption permitted. Lessees (for capital and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees may not apply a full retrospective transition approach. The Foundation is currently evaluating the impact of the pending adoption of ASU 2016-02 on the financial statements but does not expect significant changes as a result of adoption.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The amendments in this ASU modify the disclosure requirements for fair value measurements for Level 3 assets and liabilities, and eliminate the requirement to disclose transfers between Levels 1 and 2 of the fair value hierarchy, among other modifications. The amendments in this ASU are effective for all entities for fiscal years beginning after December 15, 2019 and are to be applied prospectively for all new disclosures, and retrospectively for existing disclosures that were modified or removed. Early adoption is permitted. An entity is permitted to early adopt any removed or modified disclosures and delay adoption of the additional disclosures until their effective date. The Foundation is currently evaluating the impact of the pending adoption of ASU 2018-13 on the financial statements but does not expect significant changes as a result of adoption.

Subsequent Events

Events occurring after the statement of financial position date are evaluated by management to determine whether such events should be recognized or disclosed in the financial statements. Management has evaluated subsequent events through October 8, 2020, which is the date the financial statements were available to be issued.

MAINE HEALTH ACCESS FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019 and 2018

2. **Summary of Significant Accounting Policies (Continued)**

On March 11, 2020, the World Health Organization declared the outbreak of the coronavirus (COVID-19) a pandemic. The recent COVID-19 outbreak could negatively impact, for some period of time, the overall economy as well as certain business segments. Investment markets have experienced increased volatility which may negatively affect the carrying value of the Foundation's investments. As a result, the spread of COVID-19 could adversely affect the Foundation's financial condition and results of operations. At the date of these financial statements, management is unable to quantify the potential effects of this pandemic on future operations.

3. **Liquidity and Availability**

Financial assets available for general expenditure within one year of the statement of financial position date, consist of the following at December 31, 2019:

Cash and cash equivalents	\$ 75,759
Investments without donor restrictions	<u>125,088,283</u>
	125,164,042
Less grants payable due in 2020	<u>(840,000)</u>
	<u>\$124,324,042</u>

The Foundation regularly monitors liquidity required to meet operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Foundation has various sources of liquidity at its disposal, including cash and cash equivalents and investments.

The Foundation's governing Board has designated a portion of unrestricted resources for future purposes. These funds are invested for long-term appreciation and current income but remain available and may be spent at the discretion of the Board, with the intent of spending 5% each year. Accordingly, these assets have been included in the quantitative information above.

4. **Program-Related Investments**

In addition to making grants, MeHAF may advance its mission through program-related investments (PRI). In prior years, the Foundation advanced \$750,000 to the Finance Authority of Maine (FAME) as a PRI in the form of a loan bearing below-market interest. The loan agreement provides that FAME will disburse the funds in the form of loans to borrowers qualifying under the program terms. The PRI is receivable by the Foundation within five years of the date FAME disburses funds or as repayments are received. The PRI agreement matured in 2018. Repayments received increased the Foundation's distribution requirement in the year such repayments, if any, are received. In 2018, the Foundation received repayments of \$34,000. There are no outstanding program-related investments as of December 31, 2019 and 2018.

MAINE HEALTH ACCESS FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019 and 2018

5. Investments

Investments are comprised of the following at December 31:

	<u>2019</u>	<u>2018</u>
Invested cash and cash equivalents	\$ 2,330,714	\$ 925,629
Mutual funds:		
Bond funds	4,266,661	7,602,824
U.S. government obligations fund	4,318,929	4,210,878
Domestic equity securities funds	39,311,364	37,572,828
Collective trusts and limited partnerships primarily invested in:		
Domestic equity securities	25,335,754	18,914,931
Foreign equity securities	18,330,609	15,712,902
Real assets	12,701,241	4,063,254
Limited partnerships	14,526,005	15,950,458
Global bond fund	<u>4,327,011</u>	<u>5,960,900</u>
	<u>\$125,448,288</u>	<u>\$110,914,604</u>

Net Investment Return

The principal components of net investment return consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Interest and dividend income	\$ 1,207,756	\$ 1,378,253
Net realized and unrealized gains (losses)	19,383,897	(11,342,640)
External and direct internal investment expenses	<u>(345,261)</u>	<u>(361,176)</u>
Net investment return (loss)	<u>\$20,246,392</u>	<u>\$ (10,325,563)</u>

Fair Value Measurements

The Foundation has adopted a framework for measuring fair value under GAAP for all financial instruments that are being measured and reported on a fair value basis.

Fair value is defined as the exchange price that would be received for an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are:

Level 1 - Valuations are based on quoted prices in active markets for identical assets.

MAINE HEALTH ACCESS FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019 and 2018

5. Investments (Continued)

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets.

In accordance with ASU 2015-07, certain investments that are measured at fair value using the NAV or its equivalent practical expedient have not been classified in the fair value hierarchy. Therefore, there is no hierarchy required for the collective trust funds and limited partnership investments held by the Foundation totaling \$75,220,620 and \$60,602,445 at December 31, 2019 and 2018, respectively.

In determining the appropriate levels, the Foundation performs a detailed analysis of the assets that are subject to fair value measurements. At each reporting period, if there are assets for which the fair value measurement is based on significant unobservable inputs, they are classified as Level 3.

Fair values of assets measured at fair value on a recurring basis are summarized below based on input level:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>2019</u>				
Investments:				
Cash and cash equivalents	\$ 2,330,714	\$ -	\$ -	\$ 2,330,714
Mutual funds:				
Fixed income:				
Bond funds	4,266,661	-	-	4,266,661
U.S. government obligations fund	4,318,929	-	-	4,318,929
Long-term capital appreciation:				
Domestic equity securities funds	<u>39,311,364</u>	<u>-</u>	<u>-</u>	<u>39,311,364</u>
	<u>\$50,227,668</u>	<u>\$ -</u>	<u>\$ -</u>	50,227,668
Investments valued at NAV:				
Fixed income:				
Global bond fund				4,327,011
Long-term capital appreciation:				
Domestic equity securities				25,335,754
Foreign equity securities				18,330,609
Volatility reduction:				
Real assets				12,701,241
Limited partnerships				<u>14,526,005</u>
				<u>\$ 125,448,288</u>

MAINE HEALTH ACCESS FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019 and 2018

5. Investments (Continued)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>2018</u>				
Investments:				
Cash and cash equivalents	\$ 925,629	\$ -	\$ -	\$ 925,629
Mutual funds:				
Fixed income:				
Bond funds	7,602,824	-	-	7,602,824
U.S. government obligations fund	4,210,878	-	-	4,210,878
Long-term capital appreciation:				
Domestic equity securities funds	<u>37,572,828</u>	<u>-</u>	<u>-</u>	<u>37,572,828</u>
	<u>\$50,312,159</u>	<u>\$ -</u>	<u>\$ -</u>	50,312,159
Investments valued at NAV:				
Fixed income:				
Global bond fund				5,960,900
Long-term capital appreciation:				
Domestic equity securities				18,914,931
Foreign equity securities				15,712,902
Volatility reduction:				
Real assets				4,063,254
Limited partnerships				<u>15,950,458</u>
				<u>\$110,914,604</u>

Valuation methodologies have been consistent in 2019 and 2018.

One of the investments recorded at NAV with a value of approximately \$8.5 million at December 31, 2019 has indicated that it will liquidate in 2020. The Foundation anticipates receiving the full value on this investment.

Liquidity

Following are additional details regarding the liquidity of investments as of December 31, 2019:

	<u>Fair Value</u>	<u>Redemption Notice Period</u>
Daily	\$ 62,928,909	1 Day
Semi-monthly	4,327,011	5 Days
Monthly	18,330,609	10 Days
Quarterly	25,335,754	60 Days
Annually	<u>14,526,005</u>	90 Days
Total investments	<u>\$125,448,288</u>	

MAINE HEALTH ACCESS FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

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5. Investments (Continued)

Net Asset Value (NAV) Per Share

Certain investments are measured at NAV and are redeemable with the fund or limited partnership at NAV under the original terms of the subscription agreement and/or partnership agreement, and require 90 days or less written notice prior to the redemption period. The domestic equity security funds' general partner has the right to limit the amount of withdrawals on any withdrawal date to an aggregate amount equal to 20% of the value of the aggregate capital accounts of all limited partners. The following table discloses the fair value and redemption frequency of those assets whose fair value is determined using net asset value per share at December 31, 2019:

<u>Investment</u>	<u>Fair Value</u>	<u>Unfunded Commitment</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Real assets	\$12,701,241	\$ –	Daily	1 day
Bond funds	4,327,011	–	Semi-monthly	10 days
Foreign equity securities	18,330,609	–	Monthly	10 days
Domestic equity securities	25,335,754	–	Quarterly	60 days
Limited partnerships	14,526,005	–	Annually	90 days

The significant investment strategies of the investment categories which are carried at fair value based on NAV are as follows:

Foreign Equity Securities – The primary purpose of foreign equity investments is to provide appreciation of principal and growth of income with the recognition that this requires the assumption of greater market volatility and risk of loss.

Real Assets – The primary purpose of real assets investments is to provide further portfolio diversification and to reduce overall portfolio volatility by investing in strategies that are less correlated with traditional equity and fixed income investments. Alternative investments may provide access to strategies otherwise not accessible through traditional equities and fixed income such as derivative instruments, real estate, distressed debt and private equity and debt.

Limited Partnerships – The purpose of limited partnerships is to provide increased return potential and to reduce overall volatility of the portfolio through greater diversification. These investments can be made either in the form of direct investment, partnerships, fund-of-funds or with an investment manager.

Domestic Equity Securities – The primary purpose of domestic equity investments is to participate in the common stocks of U.S. companies with the goal to provide annual long-term returns superior to the S&P 500 Index.

Global Bond Funds – The primary purpose is to achieve favorable income-oriented results from a globally diversified portfolio of debt instruments while preserving principal.

MAINE HEALTH ACCESS FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019 and 2018

6. Grants and Grants Payable

A summary of grants made and payable on the accrual basis as required under GAAP by the Foundation follows:

	<u>Grant Amount</u>	<u>Amount Paid (Received)</u>	<u>Grants Payable</u>
<u>2019</u>			
Grants awarded during the year ended December 31, 2019	\$4,083,789	\$3,268,789	\$ 815,000
Less refunds of grants unspent	<u>(16,564)</u>	<u>(16,564)</u>	<u>—</u>
	<u>\$4,067,225</u>	<u>\$3,252,225</u>	815,000
Status of grants made in 2018 – remaining grant amounts, net of reductions	\$ <u>600,000</u>	\$ <u>400,000</u>	<u>200,000</u>
Grants payable at December 31, 2019			<u>\$1,015,000</u>
<u>2018</u>			
Grants awarded during the year ended December 31, 2018	\$1,980,093	\$1,430,093	\$ 550,000
Less refunds of grants unspent	<u>(2,171)</u>	<u>(2,171)</u>	<u>—</u>
	<u>\$1,977,922</u>	<u>\$1,427,922</u>	550,000
Status of grants made in 2016 and 2017 – remaining grant amounts, net of reductions	\$ <u>2,211,752</u>	\$ <u>2,161,752</u>	<u>50,000</u>
Grants payable at December 31, 2018			<u>\$ 600,000</u>
Grants payable at December 31, 2019 are as follows:			
2020			\$ 840,000
2021			<u>175,000</u>
			<u>\$1,015,000</u>

7. Contracts

During 2019 and 2018, the Foundation entered into five and seven contracts with vendors for certain consultant services through 2020 and 2021, respectively. Future estimated obligations related to the contracts subsequent to December 31, 2019 are \$253,376. Total payments on these contracts in 2019 and 2018 were \$227,277 and \$167,357, respectively.

MAINE HEALTH ACCESS FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019 and 2018

8. Excise Tax

Federal excise tax (benefit) expense consists of the following for the years ended December 31:

	<u>2019</u>	<u>2018</u>
Current	\$ 48,000	\$ 242,000
Deferred	<u>(121,000)</u>	<u>(207,000)</u>
	<u>\$ (73,000)</u>	<u>\$ 35,000</u>

Temporary differences related to unrealized gains on investments give rise to the deferred taxes.

9. Defined Contribution Plan

The Foundation provides a 401(k) defined contribution plan covering substantially all of its employees. At the discretion of the Board of Trustees, MeHAF may contribute a percentage of the employees' salaries to the defined contribution plan. The approved contributions for 2019 and 2018 were \$46,816 and \$45,711, respectively, and represent a 3% employer contribution and a 3% safe harbor contribution.

10. Lease

MeHAF leases its office space under a noncancelable operating lease agreement expiring April 2024. Rent expense under the lease was \$93,757 and \$86,768 in 2019 and 2018, respectively.

Future minimum lease payments subsequent to December 31 under this lease are:

2020	\$ 82,243
2021	82,243
2022	82,243
2023	82,243
2024	<u>20,561</u>
	<u>\$349,533</u>

MAINE HEALTH ACCESS FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019 and 2018

11. Functional Expenses

The Foundation provides grants and other programs to address Maine's health care needs. Costs have been allocated among program services and supporting services benefitted based on estimates of time spent by the members of the staff. Expenses related to providing these services are as follows for the year ended December 31:

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
2019			
Grants	\$4,553,789	\$ –	\$4,553,789
Contracts and program activities	824,116	–	824,116
Grant refunds	(16,564)	–	(16,564)
Salaries and wages	726,836	80,760	807,596
Payroll taxes	53,904	5,989	59,893
Benefits and retirement	163,929	18,214	182,143
Professional services	13,775	13,776	27,551
Accounting services	25,276	2,808	28,084
Legal services	8,431	8,432	16,863
Meetings	11,186	1,243	12,429
Travel (Board of Trustees/Community Advisory Committee/Staff)	31,130	3,459	34,589
Professional development (Board of Trustees/ Community Advisory Committee/Staff)	49,225	5,469	54,694
Depreciation	13,126	1,458	14,584
Occupancy	108,598	12,067	120,665
Insurance	10,934	1,215	12,149
Computer and office maintenance	13,474	1,497	14,971
Website development and maintenance	2,563	285	2,848
Printing and publications	11,153	1,239	12,392
Supplies	5,525	614	6,139
Postage	2,245	249	2,494
Miscellaneous	3,217	358	3,575
Staff recruitment	2,093	232	2,325
Federal and state taxes	–	(73,000)	(73,000)
1099 excluded reimbursements	<u>9,497</u>	<u>–</u>	<u>9,497</u>
	<u>\$6,627,458</u>	<u>\$ 86,364</u>	<u>\$6,713,822</u>

MAINE HEALTH ACCESS FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019 and 2018

11. Functional Expenses (Continued)

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
2018			
Grants	\$1,980,093	\$ —	\$1,980,093
Contracts and program activities	928,280	—	928,280
Grant refunds	(2,171)	—	(2,171)
Salaries and wages	688,703	76,523	765,226
Payroll taxes	51,059	5,673	56,732
Benefits and retirement	148,524	16,503	165,027
Professional services	8,698	8,698	17,396
Accounting services	25,592	2,844	28,436
Legal services	2,723	2,723	5,446
Meetings	11,275	1,253	12,528
Travel (Board of Trustees/Community Advisory Committee/Staff)	20,851	2,317	23,168
Professional development (Board of Trustees/ Community Advisory Committee/Staff)	35,397	3,933	39,330
Depreciation	15,608	1,734	17,342
Occupancy	101,207	11,245	112,452
Insurance	10,447	1,160	11,607
Computer and office maintenance	14,212	1,579	15,791
Website development and maintenance	3,663	407	4,070
Printing and publications	11,249	1,250	12,499
Supplies	4,030	448	4,478
Postage	1,358	151	1,509
Miscellaneous	4,275	475	4,750
Staff recruitment	4,160	462	4,622
Federal and state taxes	—	35,000	35,000
1099 excluded reimbursements	<u>14,195</u>	<u>—</u>	<u>14,195</u>
	<u>\$4,083,428</u>	<u>\$174,378</u>	<u>\$4,257,806</u>

MAINE HEALTH ACCESS FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019 and 2018

12. Related Party Transactions

During 2019, grants awarded to organizations affiliated with a MeHAF trustee or staff person were as follows and represent 7% of total grants awarded:

Maine Family Planning	\$ 25,000
Maine Public Health Association	25,000
Planned Parenthood of Northern New England	25,000
Maine Council on Aging	25,000
Maine Behavioral Health Foundation	25,000
Hanley Center for Health Leadership Development	100,000
Consumers for Affordable Care	<u>75,000</u>
	<u>\$300,000</u>

MeHAF has a very well-defined and comprehensive conflict of interest policy that requires trustees and staff to declare direct fiduciary relationships associated with employment by a grantee organization or Board affiliation. MeHAF also requires conflict of interest declarations of more tangential, perceived conflicts where there is no fiduciary relationship, such as when trustees or staff are affiliated through collaborating organizations to the primary grantee, or when trustees or staff have other conflicts of interest that may suggest a perceived lack of objectivity.

Affected trustees were not present during the Board discussion and voting on the grant proposals. In no instance did an affected MeHAF trustee receive compensation as part of any of the 2019 and 2018 grant awards.

During 2018, grants totaling \$155,000 were awarded to organizations affiliated with a MeHAF trustee or staff person which represented 8% of total grants awarded.

13. Concentration of Credit Risk

MeHAF maintains its cash in a bank deposit account which, at times, may exceed federally insured limits. MeHAF has not experienced any losses with respect to this account and management believes it is not exposed to any significant risk with respect to this account. In 2019, a sweep account was added for any amounts over \$250,000. In addition, as of December 31, 2019 and 2018, the Foundation has three and two, respectively, investments with a fund manager that each exceed 10% of total investments. Such investments totaled \$58,498,495 and \$34,627,833 and comprised 47% and 31% of total investments at December 31, 2019 and 2018, respectively. The Foundation does not believe it is exposed to any significant risk with these investments as each fund invests in a diversified portfolio of investment vehicles and asset classes.