



FINANCIAL STATEMENTS

December 31, 2008 and 2007

With Independent Auditors' Report

BERRY.DUNN.MCNEIL & PARKER



CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT CONSULTANTS



INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Maine Health Access Foundation, Inc.

We have audited the accompanying statements of financial position of the Maine Health Access Foundation, Inc. as of December 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Maine Health Access Foundation, Inc. as of December 31, 2008 and 2007, and the results of its activities and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Berry, Dunn, McNeil & Parker

Portland, Maine
August 6, 2009

MAINE HEALTH ACCESS FOUNDATION, INC.

Statements of Financial Position

December 31, 2008 and 2007

ASSETS

	<u>2008</u>	<u>2007</u>
Cash	\$ 138,526	\$ 24,487
Refundable income taxes	114,000	-
Prepaid expenses	14,045	10,944
Equipment, net of accumulated depreciation of \$155,487 in 2008 and \$139,345 in 2007	50,323	42,960
Program-related investments	750,000	-
Investments	88,713,163	126,480,004
Deferred tax asset	<u>265,000</u>	<u>-</u>
Total assets	<u>\$ 90,045,057</u>	<u>\$ 126,558,395</u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable and accrued expenses	\$ 70,579	\$ 61,379
Grants payable	5,441,227	3,694,022
Deferred tax liability	<u>-</u>	<u>410,000</u>
Total liabilities	<u>5,511,806</u>	<u>4,165,401</u>
Commitments (Note 7)		
Unrestricted net assets	<u>84,533,251</u>	<u>122,392,994</u>
Total liabilities and net assets	<u>\$ 90,045,057</u>	<u>\$ 126,558,395</u>

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

MAINE HEALTH ACCESS FOUNDATION, INC.

Statements of Activities

Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Changes in unrestricted net assets		
Revenues and gains		
Contributions	\$ 5,994,039	\$ -
Return on investments		
Interest, dividends and other	3,667,072	3,648,797
Investment advisory, management and custodial fees	(924,177)	(871,676)
Realized gains on sale of investments	886,689	7,189,031
Net unrealized (losses) gains on investments	<u>(40,960,693)</u>	<u>5,512,230</u>
Total investment return	(37,331,109)	15,478,382
Other revenue	<u>35,330</u>	<u>280</u>
Total revenues and gains	<u>(31,301,740)</u>	<u>15,478,662</u>
Expenses		
Program		
Grants, net of refunds of unspent amounts	5,537,336	7,250,673
Program service expenses	<u>555,873</u>	<u>611,161</u>
	6,093,209	7,861,834
Management and general expenses	914,352	842,715
Excise tax (benefit) expense	<u>(449,558)</u>	<u>221,000</u>
Total expenses	<u>6,558,003</u>	<u>8,925,550</u>
(Decrease) increase in unrestricted net assets	(37,859,743)	6,553,112
Unrestricted net assets, beginning of year	<u>122,392,994</u>	<u>115,839,882</u>
Unrestricted net assets, end of year	<u>\$ 84,533,251</u>	<u>\$ 122,392,994</u>

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

MAINE HEALTH ACCESS FOUNDATION, INC.

Statements of Cash Flows

Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities		
(Decrease) increase in unrestricted net assets	\$ (37,859,743)	\$ 6,553,112
Adjustment to reconcile (decrease) increase in unrestricted net assets to net cash provided (used) by operating activities		
Net realized gains on investments	(886,689)	(7,189,031)
Net unrealized losses (gains) on investments	40,960,693	(5,512,230)
Depreciation	20,189	23,093
Deferred excise taxes	(675,000)	64,000
Changes in operating assets and liabilities		
Increase		
Refundable income taxes	(114,000)	-
Prepaid expenses	(3,101)	(706)
Increase (decrease) in		
Accounts payable and accrued expenses	9,200	(29,178)
Grants payable	<u>1,747,205</u>	<u>2,447,308</u>
Net cash provided (used) by operating activities	<u>3,198,754</u>	<u>(3,643,632)</u>
Cash flows from investing activities		
Purchase of equipment	(27,552)	(17,963)
Advances to program-related investments	(750,000)	-
Proceeds from sale of investments	111,573,615	33,296,964
Purchase of investments	<u>(113,880,778)</u>	<u>(29,685,811)</u>
Net cash (used) provided by investing activities	<u>(3,084,715)</u>	<u>3,593,190</u>
Net increase (decrease) in cash	114,039	(50,442)
Cash, beginning of year	<u>24,487</u>	<u>74,929</u>
Cash, end of year	\$ <u>138,526</u>	\$ <u>24,487</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for excise tax	\$ <u>332,017</u>	\$ <u>200,000</u>

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

MAINE HEALTH ACCESS FOUNDATION, INC.

Notes to Financial Statements

December 31, 2008 and 2007

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 affordable and timely access to comprehensive, quality health care, and improve the health of every Maine resident.

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.

1. Summary of Significant Accounting Policies

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statement of financial position based on quoted market prices. Other investments, for which no such quotations or valuations are readily available, are carried at fair value as estimated by management using audited values provided by external investment managers. The Foundation reviews and evaluates the valuations provided by the investment managers and believes that these valuations are a reasonable estimate of fair value at December 31, 2008, but are subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed.

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 between three and five years.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash represents amounts in demand accounts used to fund operations.

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.

MAINE HEALTH ACCESS FOUNDATION, INC.

Notes to Financial Statements

December 31, 2008 and 2007

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.

Income and Excise Taxes

MeHAF is a not-for-profit corporation and is recognized as income tax exempt under Section 501(c)(3) of the Internal Revenue Code and is a private foundation under Section 509(a) of the Code.

The Internal Revenue Code imposes an excise tax on private foundations equal to 2 percent 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 percent for foundations that meet certain distribution requirements.

The Internal Revenue Code 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 2007 has been met and the estimated 2008 requirement of \$5,450,000 is expected to be met during 2009. In addition, from 2001 through 2004, the Foundation made set-asides totaling \$14,200,000 for future charitable distributions. These set-asides were made under Code Section 4942(g)(2), which allows start-up foundations to set aside funds for future distributions instead of making such distributions currently.

As of December 31, 2007, the Foundation had distributed all but \$544,527 of these set-asides. This remaining amount must be distributed by the end of 2009. Although the final determination will not be made until the 2008 Form 990-PF is filed, it is anticipated that the Foundation will apply \$544,527 of its 2008 distributions to complete its obligation to pay these set-asides.

2. Program-Related Investments

In addition to making grants, MeHAF may advance its mission through program-related investments (PRI). At December 31, 2008, the Foundation had advanced \$750,000 to the Finance Authority of Maine (FAME) as a PRI in the form of a loan bearing below-market interest. FAME will disburse the funds in the form of loans to as yet unidentified borrowers qualifying under the program terms. The PRI is receivable to the Foundation within five years of the date FAME disburses funds or as repayments are received. Repayments received will increase the Foundation's distribution requirement in the year such repayments, if any, are received.

The Foundation has the option to covert any or all of the PRI into a grant should collectibility become uncertain or for other programmatic reasons. The PRI is deemed fully collectible at December 31, 2008.

MAINE HEALTH ACCESS FOUNDATION, INC.

Notes to Financial Statements

December 31, 2008 and 2007

3. Investments

Investments carried at fair value as of December 31, 2008 and 2007 include the following:

	<u>2008</u>	<u>2007</u>
Invested cash and cash equivalents	\$ 1,981,555	\$ 1,552,987
United States government obligations	4,378,927	5,916,798
Mortgage- and asset-backed securities	-	8,065,235
Corporate bonds	-	2,265,525
Fixed income mutual funds	10,548,466	-
Commingled funds primarily invested in:		
Domestic equity securities	40,972,867	74,401,133
Foreign equity securities	18,841,705	26,083,867
Real assets	<u>11,989,643</u>	<u>8,194,459</u>
	<u>\$ 88,713,163</u>	<u>\$ 126,480,004</u>

4. Grants and Grants Payable

Grants are recorded when awarded. A summary of grants made and payable by the Foundation follows:

	<u>Grant Amount</u>	<u>Amount Paid (Received)</u>	<u>Grants Payable</u>
<u>2008</u>			
Grants awarded during the year ended December 31, 2008	\$ 5,563,115	\$ 3,226,639	\$ 2,336,476
Less refunds of grants unspent or reduced	<u>(25,779)</u>	<u>(25,779)</u>	<u>-</u>
	<u>\$ 5,537,336</u>	<u>\$ 3,200,860</u>	2,336,476
Status of grants made in 2007 and 2006 - remaining grant amounts	<u>\$ 3,694,022</u>	<u>\$ 589,271</u>	<u>3,104,751</u>
Grants payable at December 31, 2008			<u>\$ 5,441,227</u>
<u>2007</u>			
Grants awarded during the year ended December 31, 2007	\$ 7,322,548	\$ 4,207,697	\$ 3,114,851
Less refunds of grants unspent or reduced	<u>(71,875)</u>	<u>(71,875)</u>	<u>-</u>
	<u>\$ 7,250,673</u>	<u>\$ 4,135,822</u>	3,114,851
Status of grants awarded during 2006 and 2005 - remaining grant amounts	<u>\$ 1,246,714</u>	<u>\$ 667,543</u>	<u>579,171</u>
Grants payable at December 31, 2007			<u>\$ 3,694,022</u>

MAINE HEALTH ACCESS FOUNDATION, INC.

Notes to Financial Statements

December 31, 2008 and 2007

Grants payable at December 31, 2008 are due as follows:

2009	\$ 2,190,515
2010	2,352,265
2011	<u>898,447</u>
	<u>\$ 5,441,227</u>

5. **Excise Tax**

Federal excise tax (benefit) expense consists of the following for the years ended December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Current	\$ 225,442	\$ 157,000
Deferred	<u>(675,000)</u>	<u>64,000</u>
	<u>\$ (449,558)</u>	<u>\$ 221,000</u>

Timing differences related to unrealized gains and losses on investments give rise to the deferred taxes.

6. **Liquidating Trust and Closing Tax Reserve**

As part of the plan of liquidation adopted as a result of the sale of BCBS-ME to Anthem, a Liquidating Trust was established to facilitate the complete liquidation of BCBS-ME. The Liquidating Trust was controlled by an independent trustee. The Liquidating Trust was terminated July 29, 2008 and remaining assets of \$3,293,995 were transferred to MeHAF.

In addition, a Closing Tax Reserve was established as a result of the sale of BCBS-ME to Anthem. The Closing Tax Reserve was established to completely satisfy the aggregate tax liability under the sale. The Closing Tax Reserve was held by an independent trustee and maintained until all tax liabilities were considered met and any applicable statutes of limitations had expired. Upon termination of the Closing Tax Reserve, remaining assets of \$2,700,044 were transferred to MeHAF on July 28, 2008.

MeHAF had not reflected remaining amounts or related activity within the Liquidating Trust or the Closing Tax Reserve in its financial statements in prior years, nor had it recorded a beneficial interest in any potential remaining assets in either trust for amounts which may have been transferred to MeHAF at termination other than proceeds actually received due to the uncertainty as to what MeHAF's beneficial interest would ultimately be.

MAINE HEALTH ACCESS FOUNDATION, INC.

Notes to Financial Statements

December 31, 2008 and 2007

7. Pension Plan

MeHAF has a 403(b) 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 a SEP plan. The approved employee SEP contributions for 2008 and 2007 were \$18,926 and \$19,161, respectively, and represent 5% of employee salaries. No other expenses were incurred for either the SEP or the 403(b) plan during 2008 and 2007.

8. Lease

MeHAF leases its office space under a noncancellable operating lease agreement expiring February 2012. Future minimum lease payments under this lease for the years ending December 31 are:

2009	\$ 47,832
2010	48,332
2011	48,332
2012	<u>8,055</u>
Total	<u>\$ 152,551</u>

Lease expense was \$48,319 in 2008 and \$47,937 in 2007.

9. Related Party Transactions

During 2008, grants awarded to organizations affiliated with a MeHAF trustee were as follows:

Acadia Hospital	\$ 300,000
Crisis and Counseling Centers, Inc.	40,000
Downeast Health Services, Inc.	300,000
Eastern Maine Medical Center	39,949
HealthReach Community Health Centers	40,000
Maine Center for Economic Policy	120,000
MaineGeneral Medical Center	28,289
NAMI-Maine Incorporated	119,840
Quality Counts	299,362
Spring Harbor Hospital	294,753
St. Andrews Hospital and Healthcare Center	<u>359,618</u>
	<u>\$ 1,941,811</u>

MeHAF defines Board affiliation more broadly than direct fiduciary relationships. Board affiliation is declared when Trustees are affiliated through collaborating organizations to the primary grantee, or when trustees have other conflicts of interest that may suggest a lack of perceived objectivity. Of the eleven grants listed above, none were awarded to an organization that employed a trustee.

MAINE HEALTH ACCESS FOUNDATION, INC.

Notes to Financial Statements

December 31, 2008 and 2007

During 2007, grants totaling \$3,359,697 were awarded to organizations affiliated with a MeHAF trustee. This includes one matching grant totaling \$2,000,000 to HealthInfoNet in which a MeHAF trustee also served on the Board of Directors of the grantee organization.

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 2008 and 2007 grant awards.

10. Fair Value of Financial Instruments and Fair Value Measurements

The Foundation's financial instruments consist of cash, interest receivable and investments. The carrying values of all financial instruments approximate their fair values.

In September 2006, the Financial Accounting Standards Board issued SFAS No. 157, *Fair Value Measurements*. This Statement defines fair value, establishes a framework for measuring fair value in accordance with U.S. generally accepted accounting principles, and expands disclosures about fair value measurements. Although this Statement does not require any new fair value measurements, it has expanded fair value disclosures. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007.

SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS No. 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

MAINE HEALTH ACCESS FOUNDATION, INC.

Notes to Financial Statements

December 31, 2008 and 2007

Assets measured at fair value on a recurring basis are summarized below.

Fair Value Measurements at December 31, 2008, Using

	<u>Total</u>	Quoted Prices In Active Markets for Identical Assets <u>(Level 1)</u>	Significant Other Observable Inputs <u>(Level 2)</u>	Significant Unobservable Inputs <u>(Level 3)</u>
Investments	\$ 88,713,163	\$ 13,456,970	\$ 47,769,158	\$ 27,487,035

Investments in general are exposed to various risks, such as interest rates, credit, and overall market volatility. As such, it is reasonably possible that changes could materially affect the amounts reported in the balance sheets and statements of activities.

Significant 2008 activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) is as follows:

Level 3 investments at January 1, 2008	\$ 41,448,009
Interest and dividends	273,338
Investment fees	(108,262)
Realized losses	(770,015)
Unrealized losses, included in net unrealized (losses) gains on investments in the statement of activities	(11,356,035)
Withdrawals	<u>(2,000,000)</u>
Level 3 investments at December 31, 2008	\$ <u>27,487,035</u>
Unrealized depreciation from Level 3 investments still held as of December 31, 2008	\$ <u>(281,351)</u>

Level 3 investments consist of the fair value of shares in limited partnerships and limited liability companies (the Funds). The fair values of the Funds are based on information disclosed in the financial statements and notes audited by other independent auditors as of December 31, 2008. The Funds consist of a variety of financial instruments including equity and debt securities of U.S. and foreign issuers as well as a variety of derivative instruments and real assets.