

blue  of california
foundation

Blue Shield of California Foundation is an Independent Licensee of the Blue Shield Association

REPORT ON AUDITS OF FINANCIAL STATEMENTS
for the Years Ended December 31, 2011 and 2010

ARMANINO MCKENNA ^{LLP}
Certified Public Accountants & Consultants



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INDEPENDENT AUDITORS' REPORT

Audit Committee
Blue Shield of California Foundation
San Francisco, California

We have audited the accompanying statement of financial position of the Blue Shield of California Foundation (the "Foundation") as of December 31, 2011, and the related statements of activities and changes in net assets and cash flows for the year 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 audit. The financial statements of the Foundation as of December 31, 2010, were audited by other auditors whose report dated May 9, 2011, expressed an unqualified opinion on those statements.

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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2011 financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Armanino McKenna LLP
ARMANINO McKENNA LLP

May 2, 2012



BLUE SHIELD OF CALIFORNIA FOUNDATION
 Statements of Financial Position
 December 31, 2011 and 2010
(dollars in thousands)

	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 46,764	\$ 37,902
Investments, at fair value	15,202	14,980
Prepaid expenses	<u>14</u>	<u>-</u>
Total assets	<u>\$ 61,980</u>	<u>\$ 52,882</u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities		
Accounts payable and accrued expenses	\$ 252	\$ 380
Excise tax payable	49	137
Grants payable	<u>9,661</u>	<u>6,717</u>
Total liabilities	9,962	7,234
Total net assets - unrestricted	<u>52,018</u>	<u>45,648</u>
Total liabilities and net assets	<u>\$ 61,980</u>	<u>\$ 52,882</u>

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

BLUE SHIELD OF CALIFORNIA FOUNDATION
 Statements of Activities and Changes in Net Assets
 For the Years Ended December 31, 2011 and 2010
(dollars in thousands)

	2011	2010
Investment income and support		
Contributions	\$ 40,632	\$ 32,216
Interest and dividends	218	243
Net realized and unrealized gains on investments	49	615
Total investment income and support before investment related costs	40,899	33,074
Investment related costs		
Federal excise tax expense	190	172
Investment management fees	29	35
Total investment related costs	219	207
Net investment income and support	40,680	32,867
Grant-making and program expenses		
Health Care and Coverage	21,250	18,201
Blue Shield Against Violence	9,482	6,834
Public Affairs	1,160	1,251
Other programs	1,582	1,600
Total grant-making and program expenses	33,474	27,886
General and administrative expenses	836	912
Change in net assets - unrestricted	6,370	4,069
Net assets - unrestricted		
Beginning of year	45,648	41,579
End of year	\$ 52,018	\$ 45,648

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

BLUE SHIELD OF CALIFORNIA FOUNDATION
Statements of Cash Flows
For the Years Ended December 31, 2011 and 2010
(dollars in thousands)

	2011	2010
Cash flows from operating activities		
Change in net assets	\$ 6,370	\$ 4,069
Adjustments to reconcile change in net assets to net cash used in operating activities		
Donations of marketable securities	(38,195)	(30,150)
Net realized and unrealized gains on investments	(49)	(615)
Changes in operating assets and liabilities		
Excise tax receivable	-	34
Prepaid expenses	(14)	-
Accounts payable and accrued expenses	(128)	334
Excise tax payable	(88)	137
Grants payable	2,944	(6,203)
Net cash used in operating activities	(29,160)	(32,394)
 Cash flows from investing activities		
Purchases of investments	(2,170)	(1,623)
Sales and maturities of investments	40,192	33,408
Net cash provided by investing activities	38,022	31,785
 Net increase (decrease) in cash and cash equivalents	8,862	(609)
 Cash and cash equivalents, beginning of year	37,902	38,511
 Cash and cash equivalents, end of year	\$ 46,764	\$ 37,902

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

BLUE SHIELD OF CALIFORNIA FOUNDATION
Notes to Financial Statements
December, 2011 and 2010
(dollars in thousands)

1. Organization

Nature of activities

Blue Shield of California Foundation (the "Foundation"), a California public benefit corporation, was founded in 1981 as California Physicians Service Foundation (doing business as Blue Shield of California Foundation). The Foundation's mission is to improve the lives of Californians by making health care effective, safe, and accessible for all Californians, particularly underserved populations, and by ending domestic violence. The vision of the Foundation is a California free from intimate partner and family violence; where everyone has access to high quality, cost-effective health care; where the use of medical technologies is based on scientific evidence; and where care is supported by state of the art information technology.

The Foundation is supported by contributions received from California Physicians' Service, doing business as Blue Shield of California ("Blue Shield"), a related party (see Notes 6 and 7).

Program funding

The Foundation makes grants and contributions to organizations operating for charitable, scientific, or educational purposes. These grants are made directly to organizations whose charitable work is related to ending domestic violence (Blue Shield Against Violence), and ensuring access to health care for all Californians (Health Care and Coverage). Each year, a limited number of other grant awards to nonprofit organizations, in support of the Foundation's mission, are awarded by the Blue Shield of California Foundation (Other Awards).

Activities such as reports, policy briefs or educational campaigns which are designed to communicate with community members, press, public policy leaders and other key audiences are included in the Foundation's Public Affairs program area.

The Foundation awards scholarships through the annual Blue Shield of California Foundation scholarship program. The scholarship program is open to qualified dependent children and grandchildren of Blue Shield of California employees. The scholarship program is administered by the Citizens Scholarship Foundation of America, a nonprofit organization independent of the Foundation. Scholarships are included in other program expenses on the Foundation's statements of changes in activities and net assets for the years ended December 31, 2011 and 2010.

BLUE SHIELD OF CALIFORNIA FOUNDATION
Notes to Financial Statements
December, 2011 and 2010
(dollars in thousands)

2. Summary of Significant Accounting Policies

Basis of presentation

The Foundation's financial statements have been prepared on the accrual basis of accounting. Net assets and changes therein are classified as follows:

Unrestricted net assets - Unrestricted net assets consist of all resources of the Foundation which have not been specifically restricted by a donor.

Temporarily restricted net assets - Temporarily restricted net assets consist of cash and other assets received with donor stipulations that limit the use of donated assets. The Foundation had no temporarily restricted net assets as of December 31, 2011 or 2010.

Permanently restricted net assets - Permanently restricted net assets consist of assets whose use has been restricted for investment in perpetuity. The Foundation had no permanently restricted net assets as of December 31, 2011 or 2010.

Cash and cash equivalents

Cash equivalents that are held as operating funds and designated for the payment of grants and expenses are included in cash and cash equivalents in the statements of financial position. Cash equivalents held as reserve funds or as investments are included in investments in the statement of financial position. Cash equivalents for both generally consist of short-term, highly liquid investments with original maturities of three months or less at the time of purchase.

Fair value measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date.

The Foundation determines the fair values of its assets and liabilities based on a fair value hierarchy that includes three levels of inputs that may be used to measure fair value (Level 1, Level 2 and Level 3). Level 1 inputs are quoted market prices (unadjusted) in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Level 2 inputs are inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

BLUE SHIELD OF CALIFORNIA FOUNDATION
Notes to Financial Statements
December, 2011 and 2010
(dollars in thousands)

2. Summary of Significant Accounting Policies (continued)

Fair value measurement (continued)

Unobservable inputs reflect the Foundation's own assumptions about the assumptions market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the Foundation's own data.

The following methods and assumptions were used to estimate the fair value of financial instruments:

Level 1 investments include quoted prices (unadjusted) in active markets for identical investments that the Foundation has the ability to access at the measurement date.

Level 2 investments include other significant observable inputs (including quoted prices for similar instruments, interest rates, prepayment speeds, credit risk, etc.).

Level 3 investments include significant unobservable inputs (including the Foundation's own assumptions in determining fair value instruments).

The categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Investments

The Foundation's investments are stated at fair value based on quoted prices in active markets. Any related changes in realized or unrealized gain (loss) are reflected in changes in market value in the statement of activities and changes in net assets.

Donations

In-kind donations consist of Foundation staff salaries and benefits, office space, and other donated goods and facilities received from Blue Shield. Donated goods and services are recorded at estimated fair value when received.

Revenue recognition

Cash and other assets received as donations are reported at fair value when the unconditional promise to give has been communicated. Donations are classified as restricted support if they are received with a donor restriction. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions. No restricted donations were received during 2011 or 2010.

BLUE SHIELD OF CALIFORNIA FOUNDATION
Notes to Financial Statements
December, 2011 and 2010
(dollars in thousands)

2. Summary of Significant Accounting Policies (continued)

Grants

Grants are recognized as expenses when the unconditional promise to give to an individual program or award is approved by the Board of Directors. Conditional promises to give are recognized as grant expenses in the period in which the recipient meets the terms of the condition. Grants scheduled for payment in more than one year are measured at the present value of future payments. The discounts on these amounts are computed using an appropriate discount rate commensurate with the risks involved. Amortization of the discounts is included in grants awarded.

The Foundation occasionally makes conditional grants to organizations. There are no unpaid conditional grant awards of December 31, 2011 and 2010 and the Foundation has no other conditional promises to give.

Income taxes

The Foundation is a nonprofit organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code (the "Code") and Section 23701d of the Revenue and Taxation Code of the State of California. The Foundation has been determined by the Internal Revenue Service to be a private foundation within the meaning of Section 509(a) of the Code. The Foundation is exempt from both federal and state income taxes, but is subject to federal excise tax on its net investment income. Federal excise tax expense totaled \$190 and \$172 for the years ended December 31, 2011 and 2010, respectively.

The Foundation is subject to federal excise taxes on net investment income, as defined by federal law, at 2% or 1% if certain conditions are met. The current portion of excise tax payable is \$49 and \$137 for the years ended December 31, 2011 and 2010, respectively.

The Foundation assesses tax positions taken or expected to be taken against more-likely-than-not recognition threshold and measurement attributes for financial statement recognition. Based on an analysis prepared by the Foundation, it was determined that the tax positions taken or expected to be taken had no material effect on the recorded tax assets and liabilities of the Foundation.

Functional allocation of expenses

Expenses have been charged directly to program and general and administrative classifications based on direct expenses incurred. Any expenses not directly chargeable are allocated to program or general and administrative classifications based on management analysis of what classification was benefited by the expense.

BLUE SHIELD OF CALIFORNIA FOUNDATION
Notes to Financial Statements
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(dollars in thousands)

2. Summary of Significant Accounting Policies (continued)

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.

3. Investments

The cost and fair value of investments at December 31, 2011 and 2010 is as follows:

	<u>2011</u>		<u>2010</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Money market funds	\$ 3,247	\$ 3,247	\$ 3,262	\$ 3,262
Mutual Funds				
Domestic fixed income securities	3,755	3,818	3,679	3,734
Domestic equity securities	<u>6,024</u>	<u>8,137</u>	<u>5,569</u>	<u>7,984</u>
Total	<u>\$13,026</u>	<u>\$15,202</u>	<u>\$12,510</u>	<u>\$14,980</u>

Investment income and gains (losses) comprised the following for the years ended December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Income - interest and dividends	<u>\$ 218</u>	<u>\$243</u>
Changes in market value		
Net unrealized gain (loss) on investments	\$(296)	\$685
Net realized gain (loss) on sale of investments	<u>345</u>	<u>(70)</u>
Total	<u>\$ 49</u>	<u>\$615</u>

Investment income is gross of investment management and custody expenses which totaled \$29 and \$35 for the years ended December 31, 2011 and 2010, respectively.

BLUE SHIELD OF CALIFORNIA FOUNDATION
Notes to Financial Statements
December, 2011 and 2010
(dollars in thousands)

4. Fair Value Measurements

The following table summarizes the valuation of the Foundation's equity securities and fixed income investments measured on a recurring basis at December 31, 2011 and 2010:

	<u>As of December 31, 2011</u>		
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	<u>Total</u>
Investments			
Money market funds	\$ 3,247	\$ -	\$ 3,247
Domestic equity securities	8,137	-	8,137
Domestic fixed income securities	<u>-</u>	<u>3,818</u>	<u>3,818</u>
Total	<u>\$11,384</u>	<u>\$3,818</u>	<u>\$15,202</u>
	<u>As of December 31, 2010</u>		
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	<u>Total</u>
Investments			
Money market funds	\$ 3,262	\$ -	\$ 3,262
Domestic equity securities	7,980	4	7,984
Domestic fixed income securities	<u>-</u>	<u>3,734</u>	<u>3,734</u>
Total	<u>\$11,242</u>	<u>\$3,738</u>	<u>\$14,980</u>

Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair values for debt and equity investments are generally based upon quoted market prices or other significant observable inputs for similar instruments.

BLUE SHIELD OF CALIFORNIA FOUNDATION
Notes to Financial Statements
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5. Grants Payable

Grants awarded, but unpaid are payable as follows as of December 31, 2011:

Year Ended December 31:

2012	\$7,804
2013	1,792
2014	<u>65</u>
Total	<u>\$9,661</u>

6. Concentrations and Credit Risk

Financial instruments

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash and cash equivalents and short-term investments. Risks associated with cash and cash equivalents are mitigated by banking with creditworthy institutions. Such balances with any one institution may, at times, be in excess of federally insured amounts. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the near term could materially affect the amounts reported in the statement of financial position.

Contributions

For the years ended December 31, 2011 and 2010, all contributions came from Blue Shield, a related party (see Note 7).

7. Related Party Transactions

In 2011 and 2010, Blue Shield provided the Foundation with a total of \$38,195 and \$30,150, respectively, in donated support. This support is unrestricted and will be used primarily to fund research, policy, and community grant-making of the Foundation. In addition, Blue Shield provided the Foundation administrative services and personnel for which Blue Shield received no compensation. The estimated fair value amounts of the administrative services and personnel provided to the Foundation were approximately \$2,437 and \$2,066 for the years ended December 31, 2011 and 2010, respectively, and were comprised of the following:

BLUE SHIELD OF CALIFORNIA FOUNDATION
Notes to Financial Statements
December, 2011 and 2010
(dollars in thousands)

7. Related Party Transactions (continued)

	<u>2011</u>	<u>2010</u>
Labor	\$1,863	\$1,377
Benefits	362	293
Occupancy and other	<u>212</u>	<u>396</u>
Total in-kind	<u>\$2,437</u>	<u>\$2,066</u>

Both the grants and administrative services and personnel provided are reflected as contributions in the accompanying statements of activities and changes in net assets.

The in-kind costs were allocated to various programs or general and administrative expenses based on time incurred as follows:

	<u>2011</u>	<u>2010</u>
Heath Care and Coverage	\$ 764	\$ 668
Blue Shield Against Violence	483	473
Health and Technology	89	441
Public Affairs	568	130
General and administrative	<u>533</u>	<u>354</u>
Total in-kind	<u>\$2,437</u>	<u>\$2,066</u>

The Foundation occasionally makes grants to organizations where a member of the Board of Trustees is also an interested party related to the recipient organization. Foundation policies require Trustees to disclose any real or perceived conflicts of interest and the recusal of any conflicted Trustees from Board votes on proposed Foundation grant awards. The Foundation's board has complied with this policy during 2011 and 2010.

During 2011, six grants totaling \$2,773 were awarded to organizations in which Foundation trustees are interested parties. During 2010, eight such grants were awarded totaling \$3,308.

8. Subsequent Events

The Foundation has evaluated all events occurring subsequent through May 2, 2012, which is the date the financial statements were available to be issued. No subsequent events have occurred that would have a material impact on the presentation of the Foundation's financial statements.