



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, 2010 and 2009

BLUE SHIELD OF CALIFORNIA FOUNDATION

C O N T E N T S

	Page
Independent Auditor's Report	1
Statements of Financial Position	2
Statements of Activities and Changes in Net Assets	3
Statements of Cash Flows	4
Notes to Financial Statements	5-11



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INDEPENDENT AUDITORS' REPORT

Audit Committee
Blue Shield of California Foundation

We have audited the accompanying statements of financial position of Blue Shield of California Foundation (the Foundation) as of December 31, 2010 and 2009, and the related statements of activities and changes in net assets, 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 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 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 Blue Shield of California Foundation as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Burr Pilger Mayer, Dore.

San Francisco, California
May 9, 2011

Member of The Leading Edge Alliance

BLUE SHIELD OF CALIFORNIA FOUNDATION**STATEMENTS OF FINANCIAL POSITION**

December 31, 2010 and 2009

(dollars in thousands)

	<u>2010</u>	<u>2009</u>
ASSETS		
Cash and cash equivalents	\$ 37,902	\$ 38,511
Excise tax receivable	-	34
Investments, at fair value	<u>14,980</u>	<u>16,000</u>
Total assets	<u>\$ 52,882</u>	<u>\$ 54,545</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 380	\$ 46
Excise tax payable	137	-
Grants payable, net	<u>6,717</u>	<u>12,920</u>
Total liabilities	7,234	12,966
Net assets—unrestricted	<u>45,648</u>	<u>41,579</u>
Total liabilities and net assets	<u>\$ 52,882</u>	<u>\$ 54,545</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, 2010 and 2009
(dollars in thousands)

	<u>2010</u>	<u>2009</u>
Investment income and support:		
Contributions	\$ 32,216	\$ 26,927
Interest and dividends	243	284
Change in market value	<u>615</u>	<u>1,825</u>
Total investment income and support before investment related costs	<u>33,074</u>	<u>29,036</u>
Investment related costs:		
Federal excise tax expense	172	46
Investment management fees	<u>35</u>	<u>26</u>
Total investment related costs	<u>207</u>	<u>72</u>
Net investment income and support	<u>32,867</u>	<u>28,964</u>
Grant-making and program expenses:		
Health Care and Coverage	18,201	23,858
Blue Shield Against Violence	6,834	7,498
Public Affairs	1,251	1,282
Other programs	<u>1,600</u>	<u>1,804</u>
Total grant-making and program expenses	<u>27,886</u>	<u>34,442</u>
General and administrative expenses	<u>912</u>	<u>876</u>
Change in net assets—unrestricted	4,069	(6,354)
Net assets—unrestricted:		
Beginning of year	<u>41,579</u>	<u>47,933</u>
End of year	<u><u>\$ 45,648</u></u>	<u><u>\$ 41,579</u></u>

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, 2010 and 2009

(dollars in thousands)

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Interest and dividends received	\$ 238	\$ 320
Grants paid	(28,242)	(34,726)
Cash paid for program, general, and administrative expenses	(4,395)	(5,846)
Excise taxes refunded	<u>-</u>	<u>72</u>
Net cash used in operating activities	<u>(32,399)</u>	<u>(40,180)</u>
Cash flows from investing activities:		
Purchases of investments	(1,623)	(241)
Sales and maturities of investments	<u>33,413</u>	<u>25,086</u>
Net cash provided by investing activities	<u>31,790</u>	<u>24,845</u>
Decrease in cash and cash equivalents	(609)	(15,335)
Cash and cash equivalents, beginning of year	<u>38,511</u>	<u>53,846</u>
Cash and cash equivalents, end of year	<u><u>\$ 37,902</u></u>	<u><u>\$ 38,511</u></u>
Reconciliation of change in net assets to net cash used in operating activities:		
Change in net assets	\$ 4,069	\$ (6,354)
Donations of marketable securities	(30,150)	(24,865)
Change in market value of investments	(615)	(1,825)
Changes in operating assets and liabilities:		
Investment income receivable	(5)	36
Excise tax receivable	34	118
Grants payable	(6,203)	(5,534)
Excise tax payable	137	-
Accounts payable and accrued expenses	<u>334</u>	<u>(1,756)</u>
Net cash used in operating activities	<u><u>\$ (32,399)</u></u>	<u><u>\$ (40,180)</u></u>

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

BLUE SHIELD OF CALIFORNIA FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(dollars in thousands)

1. Organization

Blue Shield of California Foundation (the Foundation), a California public benefit corporation, was founded in 1981. The Foundation's mission is to improve the lives of Californians, particularly underserved populations, by making health care effective, safe, and affordable for all Californians and by ending domestic violence. The vision of the Foundation is a future in which every Californian has access to affordable, high-quality health care and is free of domestic violence. Blue Shield of California Foundation is funded entirely by contributions from Blue Shield of California, a mission-based, not-for-profit health plan founded by physicians in 1939.

Grant-Making and Program Expenditures

The Foundation's activities are focused on two program areas: Health Care and Coverage and Blue Shield Against Violence. Reports, forums and policy briefs designed to communicate with community members, press, public policy leaders and other key audiences are included in Public Affairs. The goals of these programs are to:

- ensure that California can successfully implement national health reform to expand coverage to the uninsured;
- ensure that California's safety net optimizes the opportunities created by national health reform to expand access for the state's underserved and/or uninsured; and
- build a strong, coordinated network of domestic violence service providers in California.

Expenditures for legacy projects that fall outside the focus of the Foundation's two main program areas and a scholarship program are included in Other programs. These programs include the California Technology Assessment Forum (CTAF) and the California Healthcare-Associated Infection Prevention Initiative (CHAIP). CTAF reviews the effectiveness of new medical technologies and disseminates their finding to the field. CHAIP, expected to end in 2011, focuses on promoting quality and safety in care within California's public hospitals. The Foundation also awards scholarships through the Blue Shield of California Foundation scholarship program. This 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.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Foundation's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and are presented on the basis of unrestricted, temporarily restricted, and permanently restricted net assets. The Foundation had no temporarily or permanently restricted net assets as of December 31, 2010 and 2009.

Continued

BLUE SHIELD OF CALIFORNIA FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(dollars in thousands)

2. Summary of Significant Accounting Policies, continued

Financial Accounting Standards Board Codification

In June 2009, the Financial Accounting Standards Board (FASB) issued the Accounting Standards Codification (ASC) for Generally Accepted Accounting Principles (GAAP). The FASB ASC reorganized a large number of pronouncements issued by various standard setters into roughly 90 accounting topics and displays them using a consistent structure. The FASB ASC was established as the single source of authoritative nongovernmental U.S. GAAP. It is effective for interim or annual financial periods ending after September 15, 2009 and, therefore, was adopted by the Foundation for the fiscal year ended December 31, 2009.

The adoption was not intended to and did not change GAAP, and did not have a material impact on the Foundation's financial position, statements of activities and changes in net assets, and cash flows. The FASB ASC has affected the way authoritative accounting pronouncements are referenced in the financial statements.

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 Statement 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—Definition and Hierarchy

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the assets or liabilities in an orderly transaction between market participants on the measurement date. Subsequent changes in fair value of these financial assets and liabilities are recognized as gains or losses when they occur.

In determining fair value, the Foundation uses various valuation approaches. A hierarchy has been established for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Foundation. Unobservable inputs are inputs that reflect the Foundation's assumptions about what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The hierarchy is broken down into three levels based on the observability of inputs as follows:

Level 1—quoted prices in active markets for identical investments.

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

Continued

BLUE SHIELD OF CALIFORNIA FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(dollars in thousands)

2. Summary of Significant Accounting Policies, continued

Fair Value Measurement—Definition and Hierarchy, continued

Level 3—significant unobservable inputs (the Foundation has no Level 3 investments).

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

Contributions

Contributions include in-kind donations of Foundation personnel, as well as donated facilities and administrative services. In-kind donations are recorded at estimated fair value when received.

Unrestricted Net Assets

Unrestricted net assets represent resources available to support the Foundation's operations.

Revenue Recognition

Cash and other assets received as contributions are reported at fair value when the unconditional promise to give has been communicated. Contributions 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 contributions were received during 2010 or 2009.

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 risk-free rates applicable in the award year, based on when those promises are expected to be paid. Amortization of the discounts is included in grants awarded.

Income and Excise Taxes

The Foundation is a nonprofit organization exempt from income tax under Section 501(c)(3) of the Internal Revenue 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 \$172 and \$46 for the years ended December 31, 2010 and 2009, respectively.

Continued

BLUE SHIELD OF CALIFORNIA FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(dollars in thousands)

2. Summary of Significant Accounting Policies, continued

Income and Excise Taxes, continued

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 \$137 and \$0, respectively, for the years ended December 31, 2010 and 2009. Additionally, the Foundation had prepaid future excise taxes in the amount of \$0 and \$34 as of December 31, 2010 and 2009, 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.

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.

Reclassifications

Certain reclassifications have been made to 2009 financial statements in order to conform to the current year presentation. The Foundation changed their 2009 functional expense allocation to conform with 2010.

3. Investments

The cost and fair value of investments at December 31, 2010 and 2009 is as follows:

	2010		2009	
	Cost	Fair Value	Cost	Fair Value
Money market funds	\$ 3,262	\$ 3,262	\$ 4,227	\$ 4,227
Mutual funds:				
Domestic fixed income funds	3,679	3,734	4,580	4,607
Domestic equity funds	5,569	7,984	5,407	7,166
Total	<u>\$ 12,510</u>	<u>\$ 14,980</u>	<u>\$ 14,214</u>	<u>\$ 16,000</u>

Continued

BLUE SHIELD OF CALIFORNIA FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(dollars in thousands)

3. Investments, continued

Investment income and gains (losses) were comprised of the following for the years ended December 31, 2010 and 2009:

	2010	2009
Income—Interest and dividends	\$ 243	\$ 284
Changes in market value:		
Net unrealized gains on investments	\$ 685	\$ 5,802
Net realized loss on sale of investments	(70)	(3,977)
Total	\$ 615	\$ 1,825

Investment income is gross of investment management and custody expenses which totaled \$35 and \$26 for the years ended December 31, 2010 and 2009, respectively.

4. Fair Value Measurements

Fair Values Measured on Recurring Basis

The following table summarizes the valuation of the Foundation's financial assets measured on a recurring basis at December 31, 2010 and 2009:

	As of December 31, 2010		
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Assets:			
Cash and cash equivalents	\$ 37,902	\$ -	\$ 37,902
Investments:			
Money market funds	3,262	-	3,262
Domestic equity funds	7,980	4	7,984
Domestic fixed income funds	-	3,734	3,734
Total investments	11,242	3,738	14,980
Total	\$ 49,144	\$ 3,738	\$ 52,882

Continued

BLUE SHIELD OF CALIFORNIA FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(dollars in thousands)

4. Fair Value Measurements, continued

Fair Values Measured on Recurring Basis, continued

	As of December 31, 2009		
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Assets:			
Cash and cash equivalents	\$ 38,511	\$ -	\$ 38,511
Investments:			
Money market funds	4,285	-	4,285
Domestic equity funds	7,108	-	7,108
Domestic fixed income funds	-	4,607	4,607
Total investments	11,393	4,607	16,000
Total	\$ 49,904	\$ 4,607	\$ 54,511

5. Grants Payable

Grants awarded, but unpaid are payable as follows as of December 31, 2010:

Year ended December 31:	
2011	\$ 6,630
2012	87
Total	<u>\$ 6,717</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.

Continued

BLUE SHIELD OF CALIFORNIA FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(dollars in thousands)

6. Concentrations and Credit Risk, continued

Financial Instruments, continued

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, 2010 and 2009, all contributions came from California Physicians' Service, doing business as Blue Shield of California (Blue Shield), a related party (see Note 7).

7. Related Party Transactions

In 2010 and 2009, Blue Shield provided the Foundation with a total of \$30,150 and \$24,865, respectively, in contributed support. This support is unrestricted and will be used primarily to fund research, policy, and grant-making of the Foundation. In addition, Blue Shield provided the Foundation in-kind contributions of administrative services, facilities, and personnel for which Blue Shield received no compensation. The estimated fair value of the in-kind contributions were approximately \$2,066 and \$2,062 for the years ended December 31, 2010 and 2009, respectively. The in-kind costs were allocated to various programs or general and administrative based on management's estimates of the value of staff time by program area as follows:

	2010	2009
Health Care and Coverage	\$ 668	\$ 577
Blue Shield Against Violence	473	509
Public Affairs	441	444
Other programs	130	143
General and administrative	354	389
Total in-kind	<u>\$ 2,066</u>	<u>\$ 2,062</u>

The Foundation occasionally makes grants to organizations where a member of 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 complied with this policy.

8. Subsequent Events

The Foundation has evaluated all events occurring subsequent to December 31, 2010 through May 9, 2011, and nothing has occurred outside the normal course of its business operations.