

blue shield
of california
foundation

REPORT ON AUDIT OF FINANCIAL STATEMENTS
for the years ended December 31, 2008 and 2007

BLUE SHIELD OF CALIFORNIA FOUNDATION

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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, 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 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 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 Blue Shield of California Foundation as of December 31, 2008 and 2007, 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 LLP

San Francisco, California
May 13, 2009

Member of The Leading Edge Alliance

BLUE SHIELD OF CALIFORNIA FOUNDATION

STATEMENTS OF FINANCIAL POSITION

December 31, 2008 and 2007

(dollars in thousands)

	ASSETS	<u>2008</u>	<u>2007</u>
Cash and cash equivalents		\$ 53,846	\$ 57,937
Excise tax receivable		152	-
Investments		<u>14,192</u>	<u>16,826</u>
Total assets		<u>\$ 68,190</u>	<u>\$ 74,763</u>
LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts payable and accrued expenses		\$ 1,803	\$ 1,939
Excise tax payable		-	75
Grants payable		<u>18,454</u>	<u>11,296</u>
Total liabilities		20,257	13,310
Unrestricted net assets		<u>47,933</u>	<u>61,453</u>
Total liabilities and net assets		<u>\$ 68,190</u>	<u>\$ 74,763</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, 2008 and 2007
(dollars in thousands)

	2008		2007	
	<u>Un- restricted</u>	<u>Un- restricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue:				
Contributions	\$32,708	\$41,641	\$ (14)	\$ 41,627
Interest and dividends	1,311	2,244	-	2,244
Change in market value	<u>(3,061)</u>	<u>510</u>	<u>-</u>	<u>510</u>
Total	<u>30,958</u>	<u>44,395</u>	<u>(14)</u>	<u>44,381</u>
Investment related costs:				
Excise tax expense	80	295	-	295
Investment management fees	<u>15</u>	<u>12</u>	<u>-</u>	<u>12</u>
Total investment related costs	<u>95</u>	<u>307</u>	<u>-</u>	<u>307</u>
Net revenue	<u>30,863</u>	<u>44,088</u>	<u>(14)</u>	<u>44,074</u>
Grant-making and program expenditures:				
Health Care and Coverage	20,092	18,658	-	18,658
Blue Shield Against Violence	7,762	3,804	-	3,804
Health and Technology	12,223	9,253	-	9,253
Public Affairs	2,289	515	-	515
Other Awards	719	423	-	423
Scholarship Awards	<u>53</u>	<u>52</u>	<u>-</u>	<u>52</u>
Total grant-making and program expenditures	<u>43,138</u>	<u>32,705</u>	<u>-</u>	<u>32,705</u>
General and administrative expenses	<u>1,245</u>	<u>1,372</u>	<u>-</u>	<u>1,372</u>
Decrease (increase) in net assets	(13,520)	10,011	(14)	9,997
Net assets, beginning of year	<u>61,453</u>	<u>51,442</u>	<u>14</u>	<u>51,456</u>
Net assets, end of year	<u>\$47,933</u>	<u>\$61,453</u>	<u>-</u>	<u>\$ 61,453</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, 2008 and 2007

(dollars in thousands)

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Interest and dividends received	\$ 1,311	\$ 2,244
Cash contributions	617	(14)
Grants paid	(29,741)	(31,321)
Cash paid for program and other expenses	(5,569)	(1,055)
Excise taxes paid	<u>(307)</u>	<u>(205)</u>
Net cash used in operating activities	<u>(33,689)</u>	<u>(30,351)</u>
Cash flows from financing activities:		
Purchases of investments	(331)	(519)
Sales and maturities of investments	<u>29,929</u>	<u>40,252</u>
Net cash provided by investing activities	<u>29,598</u>	<u>39,733</u>
(Decrease) increase in cash and cash equivalents	(4,091)	9,382
Cash and cash equivalents, beginning of year	<u>57,937</u>	<u>48,555</u>
Cash and cash equivalents, end of year	<u>\$ 53,846</u>	<u>\$ 57,937</u>
Reconciliation of change in net assets to net cash used in operating activities:		
Change in net assets	\$ (13,520)	\$ 9,997
Depreciation and amortization expense	-	277
Donations of marketable securities	(30,024)	(40,002)
Net realized and unrealized losses (gains) on investments	3,061	(510)
(Increase) in prepaid expenses and other current assets	-	24
(Increase) in tax receivable	(152)	-
Increase (decrease) in grants payable	7,157	(2,104)
(Decrease) increase in excise tax payable	(75)	75
Increase (decrease) in accounts payable	<u>(136)</u>	<u>1,892</u>
Net cash used in operating activities	<u>\$ (33,689)</u>	<u>\$ (30,351)</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 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.

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), advancing medical technology and the use of evidence-based medicine (Health and Technology), 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.

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, 2008 and 2007.

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.

Continued

BLUE SHIELD OF CALIFORNIA FOUNDATION
NOTES TO FINANCIAL STATEMENTS, Continued
(dollars in thousands)

2. **Summary of Significant Accounting Policies**, continued

Financial Instruments and Fair Value

The Foundation's investments are stated at fair value, with any related changes in realized or unrealized gain (loss) reflected in changes in market value in the statement of activities. The Foundation determines the fair value of its assets using Level 1 inputs as defined in Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS No. 157). Level 1 valuation inputs are based on quoted prices in active markets for identical assets.

Donations

In-kind donations consist of Foundation staff salaries, as well as donated legal, accounting, and other professional services and donated goods and facilities. Donated goods and services are recorded at estimated fair value when received.

Unrestricted Net Assets

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

Temporarily Restricted Net Assets

Temporarily restricted net assets represent resources available to support specific pharmaceutical research projects. The Foundation had temporarily restricted net assets restricted to funding a pharmaceutical study totaling \$14 as of December 31, 2006. The study was deemed complete and the unspent funds were returned to the donor in 2007. This has been reflected as a reduction of contributions in 2007.

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 2008 or 2007.

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 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 years in which those promises are expected to be paid. Amortization of the discounts is included in grants awarded.

Continued

BLUE SHIELD OF CALIFORNIA FOUNDATION
NOTES TO FINANCIAL STATEMENTS, Continued
(dollars in thousands)

2. **Summary of Significant Accounting Policies, continued**

Income 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 \$80 and \$295 for the years ended December 31, 2008 and 2007, respectively.

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 the 2007 financial statements in order to conform to the current year presentation. The Foundation changed their presentation of the statement of cash flows to the direct method in the current year.

3. **Investments**

The cost and fair value of investments at December 31, 2008 and 2007 is as follows:

	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Cash equivalents	\$ 4,264	\$ 4,237	\$ 4,225	\$ 4,225
Mutual Fund:				
Debt securities	4,404	4,502	4,124	4,223
Equity securities	10,100	5,453	10,717	8,378
Total	\$18,768	\$14,192	\$19,066	\$16,826

Continued

BLUE SHIELD OF CALIFORNIA FOUNDATION
NOTES TO FINANCIAL STATEMENTS, Continued
(dollars in thousands)

3. **Investments**, continued

Investment income and gains (losses) for assets limited as to use comprised the following for the years ended December 31, 2008 and 2007:

	2008	2007
Income—interest and dividends	<u>\$ 1,311</u>	<u>\$2,244</u>
Changes in market value:		
Unrealized gains (losses) on investments	\$ (2,967)	\$ 102
Net realized gain (loss) on sale of investments	<u>(94)</u>	<u>408</u>
Total	<u>\$ (3,061)</u>	<u>\$ 510</u>

Investment income is gross of investment management and custody expenses which totaled \$15 and \$12 for the years ended December 31, 2008 and 2007, respectively.

4. **Fixed Assets**

During 2007, the Foundation entered into an agreement whereby it transferred the leasehold interest in its office space, leasehold improvements and furnishings to Blue Shield of California in exchange for the free use of office space, furnishings and equipment. The net book value of the assets on the effective date of the agreement was charged to depreciation and amortization expense. Thus the Foundation had no fixed assets at December 31, 2008 or 2007.

5. **Grants Payable**

Grants awarded, but unpaid are payable as follows as of December 31, 2008 and 2007, respectively:

	2008	2007
Year ended December 31:		
2008	-	\$ 8,716
2009	\$16,072	2,580
2010	2,043	-
2011	423	-
Less discount on grants payable	<u>(84)</u>	<u>-</u>
Total	<u>\$18,454</u>	<u>\$11,296</u>

Continued

BLUE SHIELD OF CALIFORNIA FOUNDATION

NOTES TO FINANCIAL STATEMENTS, Continued

(dollars in thousands)

6. **Concentrations and Credit Risk**

Financial Instruments

Financial instruments that potentially subject the Foundation to credit risk consist primarily of cash, cash equivalents, and investments. The Foundation maintains cash and cash equivalents with a commercial bank and one other major financial institution. The Foundation has not, nor does it anticipate any losses on funds. 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.

At December 31, 2008 and 2007 the Foundation had \$14,192 and \$16,826, respectively, in investments. The investments are not covered by insurance.

Contributions

For the years ended December 31, 2008 and 2007, contributions included amounts from California Physicians' Service, doing business as Blue Shield of California (Blue Shield), a related party (see Note 7), that represent 100% of contributions revenue.

7. **Related Party Transactions**

In 2008 and 2007 Blue Shield provided the Foundation with a total of \$30,640 and \$40,003, 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 \$2,068 and \$1,638 for the years ended December 31, 2008 and 2007, respectively. 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 based on time incurred as follows:

	<u>2008</u>	<u>2007</u>
Health Care and Coverage	\$ 313	\$ 230
Blue Shield Against Violence	292	219
Health and Technology	410	277
Public Affairs	290	231
General and Administrative	<u>763</u>	<u>681</u>
Total in-kind	<u>\$2,068</u>	<u>\$1,638</u>

Continued

BLUE SHIELD OF CALIFORNIA FOUNDATION
NOTES TO FINANCIAL STATEMENTS, Continued
(dollars in thousands)

7. **Related Party Transactions**, continued

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. During 2008, two such grants were made totaling \$1,020. During 2007 two such grants were made totaling \$1,485.

8. **Commitments**

The Foundation occasionally makes conditional grants to organizations. The total balance of unpaid conditional grant awards is \$532 and \$702 as of December 31, 2008 and 2007, respectively. The Foundation has no other conditional promises to give.