

Blue Shield of California Foundation

Financial Statements

December 31, 2018
(With Comparative Totals for 2017)



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INDEPENDENT AUDITOR'S REPORT

To the Audit Committee
Blue Shield of California Foundation
San Francisco, California

We have audited the accompanying financial statements of Blue Shield of California Foundation (a California nonprofit corporation) (the "Foundation"), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and cash flows for the year 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 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 auditor's 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 Blue Shield of California Foundation as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 2 to the financial statements, the Foundation adopted ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

Report on Summarized Comparative Information

We have previously audited Blue Shield of California Foundation's 2017 financial statements, and our report dated May 30, 2018 expressed an unmodified opinion on those audited financial statements. As part of our audit of the 2018 financial statements, we also audited the adjustments to the 2017 financial statements to apply the change in accounting principle discussed above. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, adjusted for the change in accounting principle discussed above, is consistent, in all material respects, with the audited financial statements from which it has been derived. Also, in our opinion, such adjustments are appropriate and have been properly applied.



Armanino^{LLP}
San Jose, California

May 21, 2019

Blue Shield of California Foundation
Statement of Financial Position
December 31, 2018
(With Comparative Totals for 2017)
(In thousands)

	2018	2017
ASSETS		
Cash and cash equivalents	\$ 63,719	\$ 45,151
Investments	25,827	26,043
Prepaid expenses and other assets	472	-
Total assets	\$ 90,018	\$ 71,194
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 931	\$ 772
Grants payable	14,364	6,404
Deferred excise tax liability	107	102
Total liabilities	15,402	7,278
Net assets		
Without donor restrictions		
Undesignated	48,789	37,873
Board-designated	25,827	26,043
Total without donor restrictions	74,616	63,916
Total liabilities and net assets	\$ 90,018	\$ 71,194

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

Blue Shield of California Foundation
Statement of Activities
For the Year Ended December 31, 2018
(With Comparative Totals for 2017)
(In thousands)

	<u>2018</u>	<u>2017</u>
Revenues and support		
Contributions	\$ 44,552	\$ 39,076
Investment return, net	<u>264</u>	<u>2,282</u>
Total revenues and support	<u>44,816</u>	<u>41,358</u>
Functional expenses		
Grantmaking	26,573	25,590
Program	5,876	5,191
General and administrative	<u>1,667</u>	<u>1,843</u>
Total functional expenses	<u>34,116</u>	<u>32,624</u>
Change in net assets	10,700	8,734
Net assets without donor restrictions, beginning of year	<u>63,916</u>	<u>55,182</u>
Net assets without donor restrictions, end of year	<u>\$ 74,616</u>	<u>\$ 63,916</u>

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

Blue Shield of California Foundation
Statement of Cash Flows
For the Year Ended December 31, 2018
(With Comparative Totals for 2017)
(In thousands)

	2018	2017
Cash flows from operating activities		
Change in net assets	\$ 10,700	\$ 8,734
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Donations of marketable securities	-	(35,004)
Proceeds from immediate sale of donated marketable securities	-	35,027
Net realized and unrealized (gains) losses on investments	788	(2,297)
Deferred excise taxes	5	(1)
Changes in operating assets and liabilities		
Prepaid expenses and other assets	(472)	-
Accounts payable and accrued expenses	159	(303)
Grants payable	7,960	(2,727)
Net cash provided by operating activities	19,140	3,429
Cash flows from investing activities		
Purchases of investments	(1,141)	(6,179)
Sales and maturities of investments	569	4,190
Net cash used in investing activities	(572)	(1,989)
Net increase in cash and cash equivalents	18,568	1,440
Cash and cash equivalents, beginning of year	45,151	43,711
Cash and cash equivalents, end of year	\$ 63,719	\$ 45,151

Supplemental disclosure of cash flow information

Cash paid during the year for federal excise taxes	\$ 375	\$ 533
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The accompanying notes are an integral part of these financial statements.

Blue Shield of California Foundation
Notes to Financial Statements
December 31, 2018
(In thousands)

1. NATURE OF OPERATIONS

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 build lasting and equitable solutions that make California the healthiest state and end domestic violence. The strategic direction of the Foundation is rooted in our knowledge that well-being depends upon much more than traditional healthcare services and crisis intervention. Our work is focused on moving further forward to help improve the lives of those who struggle the most in order to create a California that is full of possibility for all.

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 7 and 8).

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, and ensuring access to health care for all Californians.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

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

- *Without donor restrictions* - Net assets without donor restrictions consist of all resources of the Foundation which have not been specifically restricted by a donor.
- *With donor restrictions* - Net assets with donor restrictions consist of cash and other assets received with donor stipulations that limit the use of donated assets. These stipulations may expire with time or may be satisfied by the actions of the Foundation according to the intentions of the donor. The Foundation did not have any net assets with donor restrictions as of December 31, 2018.

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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as net assets released from restrictions.

Blue Shield of California Foundation
Notes to Financial Statements
December 31, 2018
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Investments

The Foundation's investments are stated at fair value based on quoted prices in active markets. Any related changes in the fair value of investments are reflected in investment return, net in the statement of activities. Purchases and sales are recorded on a trade date basis and interest and dividend income is accrued as earned. A decline in the fair value of securities below cost that is deemed to be other than temporary results in a reduction in the carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. The Foundation performs regular analysis of its investments to determine the need to record impairment. There were no impairments during the year ended December 31, 2018.

Fair value measurements

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 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 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.

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

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

Blue Shield of California Foundation
Notes to Financial Statements
December 31, 2018
(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 Trustees. Annually, the Board of Trustees approves a President's Discretionary Fund wherein the Foundation's President directs the awards. Discretionary funds are not recognized as grant expenses until the President directs the award and the grant becomes unconditional. 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 excess of 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.

The Foundation occasionally makes conditional grants to organizations. There are no unpaid conditional grant awards as of December 31, 2018 and the Foundation has no other conditional promises to give.

In-kind donations

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

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. For the year ended December 31, 2018, the Foundation had a federal excise tax benefit of \$20.

The Foundation is subject to federal excise taxes on net investment income, as defined by federal law, at two percent or one percent if certain conditions are met. As of December 31, 2018, the Foundation had no excise taxes payable, however, had \$400 of excise tax refund receivable included in prepaid expenses and other assets in the statement of financial position. The total deferred excise tax liability was \$107 as of December 31, 2018.

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.

Blue Shield of California Foundation
Notes to Financial Statements
December 31, 2018
(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.

Functional allocation of expenses

Expenses have been charged directly to grantmaking, program, and general and administrative classifications based on direct expenses incurred. Any expenses not directly chargeable are allocated to grantmaking, program or general and administrative classifications based on management's analysis of what classification was benefited by the expense. Management's analysis primarily includes estimates of employee time incurred.

Change in accounting principle

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The Foundation adopted the provisions of this new standard in the year ended December 31, 2018. ASU 2016-14 makes certain improvements to current reporting requirements including:

- Reducing the classes of net assets from three (unrestricted, temporarily restricted, and permanently restricted) to two (with donor restrictions and without donor restrictions);
- Enhancing disclosures about:
 1. Amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions;
 2. Composition of net assets with donor restrictions and how the restrictions affect the use of resources;
 3. Qualitative information about management of liquid resources and quantitative information about the availability of liquid resources to meet cash needs for general expenditures within one year of the statement of financial position date;
 4. Amounts of expenses by both their natural classification and their functional classification in one location as a separate statement or in the notes to the financial statements;
 5. Methods used to allocate costs among functions; and
- Reporting investment return net of external and direct internal investment expenses.

Blue Shield of California Foundation
Notes to Financial Statements
December 31, 2018
(In thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle (continued)

The amendments have been applied on a retrospective basis in 2018. The 2017 comparative financial information has been adjusted to apply the change in accounting principle for comparative purposes.

Comparative financial information

The financial statements include certain prior year summarized comparative information in total, but not by net asset classification. Such summarized information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2017, from which the summarized information was derived.

Subsequent events

The Foundation has evaluated subsequent events through May 21, 2019, 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.

3. LIQUIDITY AND FUNDS AVAILABLE

The Foundation's liquidity management includes a policy to structure its financial assets to be available as its grants, general expenditures, liabilities, and other obligations come due. The Foundation maintains cash and investments in liquid securities. However, it also structures its portfolio holdings in a three-tier platform based upon the anticipated timing of planned expenditures. None of the Foundation's financial assets are subject to donor-imposed stipulations, redemption restrictions, or other contractual limitations on the ability to liquidate funds. The Foundation's financial assets are considered highly liquid and available for expenditure as needed; however, based on the Foundation's investment policies, approximately \$26,000 held in investments is designated for operating reserves intended to support the Foundation in years beyond 2019.

The Foundation's financial assets available within one year of December 31, 2018 to meet general expenditures included:

Cash and cash equivalents	\$ 63,719
Investments	25,827
Excise tax refund receivable	400
Less: board-designated operating reserves	<u>(25,827)</u>
	<u>\$ 64,119</u>

Blue Shield of California Foundation
Notes to Financial Statements
December 31, 2018
(In thousands)

3. LIQUIDITY AND FUNDS AVAILABLE (continued)

The board-designated operating reserves of \$25,827 as of December 31, 2018 represent funds intended to be spent within the next two to four years as well as funds intended to be maintained for over five years for purposes of providing operational support should the Foundation experience reduced funding. Although the Foundation does not intend to spend from its board-designated operating reserves within one year, funds may be made available for expenditure by the Board of Trustees as deemed necessary.

4. INVESTMENTS

The cost and fair value of investments consisted of the following:

	Cost	Fair Value
Money market funds	\$ 6,723	\$ 6,723
Domestic equity securities	7,878	13,062
Domestic fixed income securities	5,665	6,042
	\$ 20,266	\$ 25,827

5. FAIR VALUE MEASUREMENTS

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of December 31, 2018:

	Level 1	Level 2	Level 3	Fair Value
Money market funds	\$ 6,723	\$ -	\$ -	\$ 6,723
Domestic equity securities	13,062	-	-	13,062
Domestic fixed income securities	-	6,042	-	6,042
	\$ 19,785	\$ 6,042	\$ -	\$ 25,827

6. GRANTS PAYABLE

Grants awarded, but unpaid, are payable as follows:

Year ending December 31,

2019	\$ 11,210
2020	3,154
	\$ 14,364

Blue Shield of California Foundation
Notes to Financial Statements
December 31, 2018
(In thousands)

7. CONCENTRATIONS

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 year ended December 31, 2018, all contributions were received from Blue Shield, a related party (see Note 8).

8. RELATED PARTY TRANSACTIONS

In 2018, Blue Shield provided the Foundation with a total of \$44,552 in donated support. This support has no donor restrictions and is used primarily to fund research, policy, and community grantmaking of the Foundation. Total donated support from Blue Shield included occupancy and personnel costs for which Blue Shield received no compensation.

Personnel and occupancy provided to the Foundation was comprised of the following:

Labor, at Blue Shield cost	\$ 3,365
Benefits, at Blue Shield cost	606
Occupancy and other, at fair value	<u>581</u>
	<u>\$ 4,552</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 policy requires 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 2018.

During 2018, ten grants totaling \$1,399 were awarded to organizations in which Foundation Trustees are interested parties.

Blue Shield of California Foundation
Notes to Financial Statements
December 31, 2018
(In thousands)

8. RELATED PARTY TRANSACTIONS (continued)

During 2018, the Foundation made payments totaling \$108 related to professional services and memberships to organizations in which Foundation Trustees are interested parties.

9. FUNCTIONAL EXPENSES

The table below presents expenses by both their nature and their function as of December 31, 2018:

	<u>Grantmaking</u>	<u>Program</u>	<u>General and Administrative</u>	<u>Total</u>
Grants awarded	\$ 26,573	\$ -	\$ -	\$ 26,573
In-kind labor contributed services	-	2,731	1,240	3,971
In-kind non-labor contributed services	-	413	168	581
Professional services	-	2,463	48	2,511
Other	-	269	211	480
	<u>\$ 26,573</u>	<u>\$ 5,876</u>	<u>\$ 1,667</u>	<u>\$ 34,116</u>