

# **Blue Shield of California Foundation**

Financial Statements

December 31, 2015  
(With Comparative Totals for 2014)



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## INDEPENDENT AUDITOR'S REPORT

Audit Committee  
Blue Shield of California Foundation  
San Francisco, California

We have audited the accompanying financial statements of Blue Shield of California Foundation (a non-profit corporation), which comprise the statement of financial position as of December 31, 2015, 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, 2015, 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.

## **Report on Summarized Comparative Information**

We have previously audited Blue Shield of California Foundation's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 22, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Armanino LLP*  
Armanino<sup>LLP</sup>  
San Ramon, California

May 17, 2016

BLUE SHIELD OF CALIFORNIA FOUNDATION  
 Statement of Financial Position  
 December 31, 2015  
 (With Comparative Totals for December 31, 2014)  
 (dollars in thousands)

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<u>ASSETS</u>	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 50,958	\$ 53,643
Investments, at fair value	<u>20,360</u>	<u>20,677</u>
Total assets	<u>\$ 71,318</u>	<u>\$ 74,320</u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities		
Accounts payable and accrued expenses	\$ 776	\$ 753
Excise tax payable	315	165
Grants payable	<u>12,663</u>	<u>15,591</u>
Total liabilities	13,754	16,509
Total net assets - unrestricted	<u>57,564</u>	<u>57,811</u>
Total liabilities and net assets	<u>\$ 71,318</u>	<u>\$ 74,320</u>

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, 2015  
(With Comparative Totals for the Year Ended December 31, 2014)  
*(dollars in thousands)*

	2015	2014
Investment income and support		
Contributions	\$ 38,773	\$ 38,795
Interest and dividends	315	261
Net realized and unrealized gains (losses) on investments	<u>(642)</u>	<u>1,057</u>
Total investment income and support before investment related costs	<u>38,446</u>	<u>40,113</u>
Investment related costs		
Federal excise tax expense	410	477
Investment management fees	<u>60</u>	<u>60</u>
Total investment related costs	<u>470</u>	<u>537</u>
Net investment income and support	<u>37,976</u>	<u>39,576</u>
Grantmaking and program expenses		
Grantmaking	30,858	31,581
Program expenses	<u>5,720</u>	<u>6,118</u>
Total grantmaking and program expenses	<u>36,578</u>	<u>37,699</u>
General and administrative expenses	<u>1,645</u>	<u>1,429</u>
Change in net assets - unrestricted	<u>(247)</u>	<u>448</u>
Net assets - unrestricted		
Beginning of year	<u>57,811</u>	<u>57,363</u>
End of year	<u>\$ 57,564</u>	<u>\$ 57,811</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, 2015  
(With Comparative Totals for the Year Ended December 31, 2014)  
*(dollars in thousands)*

	2015	2014
Cash flows from operating activities		
Change in net assets	\$ (247)	\$ 448
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Donations of marketable securities	(35,026)	(35,267)
Proceeds from immediate sale of donated marketable securities	34,544	35,116
Net realized and unrealized gains (losses) on investments	642	(1,057)
Changes in operating assets and liabilities		
Accounts payable and accrued expenses	23	63
Excise tax payable	150	12
Grants payable	(2,928)	10,675
Net cash provided by (used in) operating activities	(2,843)	9,990
Cash flows from investing activities		
Purchases of investments	(3,640)	(3,538)
Sales and maturities of investments	3,798	3,282
Net cash provided by (used in) investing activities	158	(256)
Net increase (decrease) in cash and cash equivalents	(2,685)	9,734
Cash and cash equivalents, beginning of year	53,643	43,909
Cash and cash equivalents, end of year	\$ 50,958	\$ 53,643

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

BLUE SHIELD OF CALIFORNIA FOUNDATION  
Notes to Financial Statements  
December 31, 2015  
(dollars in thousands)

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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, and ensuring access to health care for all Californians.

Priority areas

During 2015, the Foundation distributed resources across seven priorities ("Priority Areas"), which tie to the Foundation's long term strategy and involve the cross functional use of resources.

A brief description of the purpose of grantmaking and program expenditures within each Priority Area are as follows:

*Value Based Care* - Funding designed to promote the ability of safety net providers in California to provide value-based health care: improving access to services, the quality of care delivered, with a focus on reducing healthcare cost trends. Support for a pilot program designed to test value-based care concepts across community health centers, and initiatives designed to promote population health in California are cornerstones of this funding priority for Blue Shield of California Foundation.



BLUE SHIELD OF CALIFORNIA FOUNDATION

Notes to Financial Statements

December 31, 2015

(dollars in thousands)

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1. Organization (continued)

Priority areas (continued)

*Care Integration* - Support to promote service delivery integration for health care and domestic violence service providers and providers of adjacent services who serve the same patient/survivor population. The aim of this funding is to bring California safety net providers closer to a "no wrong door" model to serve the needs of complex, underserved low-income patients and survivors of domestic violence. Early investments in this area support integrated health care delivery through the e-consult system, integration between behavioral health and primary care service providers, and integration between domestic violence and health care service providers.

*Patient Engagement/Survivor Experience* - Funding designed to improve long-term outcomes by promoting patient engagement in health care delivery. Support in this area is designed to identify and share meaningful patient engagement practices, and to raise awareness about what it means to have a survivor-centered approach to domestic violence services.

*Domestic Violence Systems* - Blue Shield of California Foundation believes that domestic violence survivors will be better served by a survivor-centered system that is culturally responsive, able to engage new stakeholders, and operating in a cross-sector manner. Funding in this priority area is designed to build strength in, and expand the field of, domestic violence service providers in support of this long-term vision.

*Remaining Uninsured* - Funding in this area is directly aligned with the Foundation's long history of support to expand access to health care and coverage for all Californians. Current efforts in this priority area are designed to promote the development, implementation and expansion of coverage and access models that improve access to care for populations that remain uninsured in California.

*Emerging Opportunities* - This forward-focused priority area is designed to explore new opportunities connected to health care and domestic violence that will significantly expand access and improve systems of care for California's most vulnerable residents, developing a meaningful pipeline of opportunities for future funding and support.

*Vibrant Organization* - Funding within this priority is designed to maximize the outcomes and impact of all Foundation efforts. Specific emphasis is placed on opportunities to engage partners in meaningful dialogue, to raise visibility around issues the Foundation is exploring, and to develop meaningful, collaborative relationships with partners in order to promote lasting change. Scholarships awarded through the annual Blue Shield of California Foundation Scholarship Program, open to qualified dependent children and grandchildren of Blue Shield of California employees, are also included in this area. Administration of this scholarship program is conducted by Citizens Scholarship Foundation of America, a nonprofit organization independent of the Foundation. Scholarships are included in other program expenses on the Foundation's statement of activities for the year ended December 31, 2015.

BLUE SHIELD OF CALIFORNIA FOUNDATION  
Notes to Financial Statements  
December 31, 2015  
(dollars in thousands)

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1. Organization (continued)

Priority areas (continued)

*Other* - A category comprised of grants awarded by more than 30 funders under the Joining Forces Impact Pledge, a program initiated by Blue Shield of California Foundation and three collaborating foundations, designed to engage philanthropy in support of service members, veterans and their families in their local communities. Blue Shield of California Foundation funding under this pledge was directed to programs designed to prevent violence in the homes of military families. One grant award payment reissue is also included in this category of program expenses.

2. Summary of Significant Accounting Policies

Basis of presentation

The Foundation's financial statements have been prepared using 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. These stipulations may expire with time or may be satisfied by the actions of the Foundation. The Foundation had no temporarily restricted net assets as of December 31, 2015.

*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, 2015.

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.

BLUE SHIELD OF CALIFORNIA FOUNDATION  
Notes to Financial Statements  
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2. Summary of Significant Accounting Policies (continued)

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 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.

Unobservable inputs reflect the Foundation's own suppositions 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.

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 net assets in the statement of activities. 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 as of December 31, 2015.

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. The donated goods and services are recognized if they (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

BLUE SHIELD OF CALIFORNIA FOUNDATION  
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2. Summary of Significant Accounting Policies (continued)

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.

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 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 as of December 31, 2015 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 \$410 for the year ended December 31, 2015.

The Foundation is subject to federal excise taxes on net investment income, as defined by federal law, at two percent or 1 percent if certain conditions are met. The current portion of excise tax payable is \$315 as of December 31, 2015.

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  
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2. Summary of Significant Accounting Policies (continued)

Functional allocation of expenses

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

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.

Prior year summarized information

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. 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, 2014, from which the summarized information was derived.

3. Investments

The cost and fair value of investments at December 31, 2015 is as follows:

	<u>Cost</u>	<u>Fair Value</u>
Money market funds	\$ 3,908	\$ 3,910
Mutual Funds		
Domestic fixed income securities	3,931	3,944
Domestic equity securities	<u>7,855</u>	<u>12,506</u>
Total	<u>\$15,694</u>	<u>\$20,360</u>

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

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3. Investments (continued)

Investment income and gains comprised the following for the year ended December 31, 2015:

Income - interest and dividends	<u>\$ 315</u>
Changes in market value	
Net unrealized loss on investments	\$ (582)
Net realized loss on sale of investments	<u>(60)</u>
Total	<u>\$ (642)</u>

Investment income is gross of investment management and custody expenses which totaled \$60 for the year ended December 31, 2015.

4. Fair Value Measurements

The following table summarizes the valuation of the Foundation's investments measured on a recurring basis at December 31, 2015:

	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>Total</u>
Investments			
Money market funds	\$ 3,910	\$ -	\$ 3,910
Domestic equity securities	12,506	-	12,506
Domestic fixed income securities	<u>-</u>	<u>3,944</u>	<u>3,944</u>
Total	<u>\$16,416</u>	<u>\$3,944</u>	<u>\$20,360</u>

Fair values for investments are generally based upon quoted market prices or other significant observable inputs for similar instruments.

5. Grants Payable

Grants awarded, but unpaid are payable as follows as of December 31, 2015:

<u>Year Ended December 31:</u>	
2016	\$11,718
2017	<u>945</u>
Total	<u>\$12,663</u>

BLUE SHIELD OF CALIFORNIA FOUNDATION  
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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 year ended December 31, 2015, all contributions were received from Blue Shield, a related party (see Note 7).

7. Related Party Transactions

In 2015, Blue Shield provided the Foundation with a total of \$38,773 in donated support. This support is unrestricted and used primarily to fund research, policy, and community grantmaking of the Foundation. Total donated support from Blue Shield included administrative services and personnel for which Blue Shield received no compensation.

The estimated fair value of administrative services and personnel provided to the Foundation was approximately \$3,748 for the year ended December 31, 2015 and was comprised of the following:

Labor	\$3,082
Benefits	362
Occupancy and other	<u>304</u>
Total in-kind	<u>\$3,748</u>

BLUE SHIELD OF CALIFORNIA FOUNDATION  
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(dollars in thousands)

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7. Related Party Transactions (continued)

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 2015.

During 2015, six grants totaling \$3,203 were awarded to organizations in which Foundation Trustees are interested parties.

8. Functional Allocation of Expenses by Priority Area

A summary of how the Foundation's resources were allocated across each Priority Area during 2015 follows:

<u>Priority Area</u>	<u>Grantmaking</u>	<u>Program Expenses</u>	<u>General &amp; Administrative</u>	<u>Total</u>
Value Based Care	\$ 9,445	\$ 392	\$ -	\$ 9,837
Care Integration	3,830	652	-	4,482
Patient Engagement/ Survivor Experience	6,282	405	-	6,687
Domestic Violence Systems	5,905	768	-	6,673
Remaining Uninsured	1,338	67	-	1,405
Emerging Opportunities	3,484	84	-	3,568
Vibrant Organization	75	511	1,208	1,794
In-kind costs	-	2,841	907	3,748
Other	<u>499</u>	<u>-</u>	<u>-</u>	<u>499</u>
Total	<u>\$30,858</u>	<u>\$5,720</u>	<u>\$2,115</u>	<u>\$38,693</u>

General and administrative expenses associated with the Vibrant Organization Priority Area include \$470 of investment-related costs.

9. Subsequent Events

The Foundation has evaluated all subsequent events through May 17, 2016, 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.