

UNITED HEALTH FOUNDATION

Financial Statements as of and for the
Years Ended December 31, 2019 and 2018
and Independent Auditors' Report

UNITED HEALTH FOUNDATION

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Independent Auditors' Report

To the Board of Directors of
United Health Foundation

We have audited the accompanying financial statements of United Health Foundation (the Foundation), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities and cash flows for the years 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.

Auditors' Responsibility

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 audits 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 auditors' 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 the Foundation as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
June 30, 2020

UNITED HEALTH FOUNDATION

Statements of Financial Position

(in thousands)	December 31, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,895	\$ 4,915
Contribution receivable - UnitedHealth Group	49,000	16,000
Beneficial interest in charitable remainder trust	1,581	-
Total current assets	<u>57,476</u>	<u>20,915</u>
Long-term assets:		
Beneficial interest in charitable remainder trust	-	1,235
Total assets	<u>\$ 57,476</u>	<u>\$ 22,150</u>
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 124	\$ 407
Related party payable	13	-
Grants payable short-term	10,228	5,697
Total current liabilities	<u>10,365</u>	<u>6,104</u>
Net assets:		
Without donor restrictions	(3,534)	(1,253)
With donor restrictions:		
Contribution receivable - UnitedHealth Group	49,000	16,000
Charitable remainder trust	1,581	1,235
Hospice related activity	64	64
Total with donor restrictions	<u>50,645</u>	<u>17,299</u>
Total net assets	<u>47,111</u>	<u>16,046</u>
Total liabilities and net assets	<u>\$ 57,476</u>	<u>\$ 22,150</u>

See Notes to the Financial Statements

UNITED HEALTH FOUNDATION

Statements of Activities

(in thousands)	For the Years Ended December 31,	
	2019	2018
Net assets without donor restrictions		
Revenues and support:		
Contributions - UnitedHealth Group	\$ 28,265	\$ 35,837
Investment income - net	139	63
Net assets released from restrictions	16,000	-
Total revenues and support	44,404	35,900
Expenses:		
Program grants and services		
America's Health Rankings	3,587	3,870
Transforming Health with Communities	8,609	8,581
Future Health Workforce	5,880	3,188
Improving Community Well-Being	28,054	27,708
Total program grants and services	46,130	43,347
General and administrative	555	668
Total expenses	46,685	44,015
Decrease in net assets without donor restrictions	(2,281)	(8,115)
Net assets with donor restrictions		
Contributions - UnitedHealth Group	49,000	16,000
Change in beneficial interest in charitable remainder trust	346	(70)
Net assets released from restrictions	(16,000)	-
Increase in net assets with donor restrictions	33,346	15,930
Increase in net assets	31,065	7,815
Net assets, beginning of year	16,046	8,231
Net assets, end of year	\$ 47,111	\$ 16,046

See Notes to the Financial Statements

UNITED HEALTH FOUNDATION
Statements of Cash Flows

(in thousands)	For the Years Ended December 31,	
	2019	2018
Operating activities:		
Increase in net assets	\$ 31,065	\$ 7,815
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Change in value of beneficial interest in charitable remainder trust	(346)	70
Changes in assets and liabilities:		
Contribution receivable - UnitedHealth Group	(33,000)	(16,000)
Accounts payable and accrued expenses	(283)	(2)
Grants payable short-term	1,227	993
Related party payable	13	-
Cash flows used for operating activities	<u>(1,324)</u>	<u>(7,124)</u>
Financing activities:		
Change in outstanding checks	<u>3,304</u>	<u>(1,048)</u>
Cash flows from (used for) financing activities	<u>3,304</u>	<u>(1,048)</u>
Increase (decrease) in cash and cash equivalents	1,980	(8,172)
Cash and cash equivalents, beginning of period	<u>4,915</u>	<u>13,087</u>
Cash and cash equivalents, end of period	<u><u>\$ 6,895</u></u>	<u><u>\$ 4,915</u></u>

See Notes to the Financial Statements

UNITED HEALTH FOUNDATION Notes to the Financial Statements

1. Description of organization

United Health Foundation (“the Foundation”) is a Minnesota nonprofit corporation formed in 1999 by UnitedHealth Group Incorporated (“UHG”), the Foundation’s sole member. The Foundation operates through receiving donations of facilities and employee time from UHG, and its changes in net assets or financial position could be different from those that would have been obtained if the organization were autonomous. Through collaboration with community partnerships, grants and outreach efforts, the Foundation works to improve the health system, build a diverse and dynamic health workforce and enhance the well-being of local communities.

2. Basis of presentation, use of estimates and significant accounting policies

Basis of presentation

These Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

Use of estimates

The preparation of Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of 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.

Description of net assets

The Foundation segregates its net assets into the following categories according to the existence or absence of donor-imposed or other restrictions:

Without Donor Restrictions

Net assets that are not subject to donor-imposed stipulations are known as those without donor restrictions.

With Donor Restrictions

Net assets subject to donor-imposed stipulations that will be met by action of the Foundation and/or passage of time are known as those with donor restrictions. Some net assets with donor restrictions include a stipulation that assets provided be maintained permanently (perpetual in nature), while permitting the Foundation to expend the income generated by the assets in accordance with the provisions of additional donor-imposed stipulations or a Board approved spending policy. The Foundation has no net assets with permanent donor restrictions.

Cash and cash equivalents

Cash equivalents consist of highly liquid investments with original maturities of three months or less. Cash balances periodically exceed federally insured limits and are subject to the usual banking risk of funds in excess of those limits.

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received and are reported as increases in the appropriate categories of net assets in accordance with donor restrictions. Expirations of donor-imposed restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Foundation reports the contribution as net assets without donor restrictions. Conditional promises to give - that is, those with a measureable performance or other barrier and a right of return or release from future obligations - are not recognized until the conditions on which depend have been met. Current contributions receivable are expected to be collected during the next year and are recorded at net realizable value. Long term contributions receivable are recorded at net present value.

Deferred giving agreement

The Foundation is the beneficiary of a charitable remainder trust (“the trust”). The value of the trust is recorded at fair value, with changes in the expected present value of future cash flows reported as the change in beneficial interest in charitable remainder trust, included with net assets with donor restrictions in the Statements of Activities.

Tax status

The Foundation is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is generally not subject to income taxes. The Foundation is subject to a 1% to 2% excise tax on investment income.

The Foundation follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the Foundation for uncertain tax positions as of December 31, 2019 and 2018. The Foundation’s tax returns are subject to review and examination by federal and state authorities.

Recently Adopted Pronouncements

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The Foundation adopted ASU 2018-08 as of January 1, 2019. The adoption resulted in no material impact to the Foundation’s statements of financial position, results of operations or cash flows.

The Foundation has determined that there have been no other recently adopted or issued accounting standards that had, or will have, a material impact on its financial statements.

3. Liquidity and availability

Financial assets are considered unavailable when illiquid or not convertible to cash within one year. The following table reflects the Foundation’s financial assets as of December 31, reduced by amounts not available for general expenditures within one year.

<u>(in thousands)</u>	<u>2019</u>	<u>2018</u>
Financial assets:		
Cash and cash equivalents	\$ 6,895	\$ 4,915
Contributions receivable - UnitedHealth Group	49,000	16,000
Beneficial interest in a charitable remainder trust	1,581	1,235
Total financial assets, end of period	<u>57,476</u>	<u>22,150</u>
Less those unavailable for general expenditure within one year:		
Beneficial interest in a charitable remainder trust	-	1,235
Financial assets available to meet cash needs for general purposes within one year	<u>\$ 57,476</u>	<u>\$ 20,915</u>

As of December 31, 2019 and 2018, the Foundation had liquid assets on hand to cover a full year of general and administrative expenses. As part of its liquidity management, the Foundation will only fund grant commitments when sufficient cash has been transferred from UHG to the Foundation. See Note 8 regarding the Foundation's beneficial interest in a charitable remainder trust.

4. Fair value of financial instruments

Fair Value Hierarchy

Fair value is defined in the accounting guidance as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Under this guidance, a three-level hierarchy is used for fair value measurements which are based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date.

Financial instruments measured and reported at fair value are classified and disclosed in one of the following three categories:

Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

Level 2 – Represents inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or market-corroborated inputs.

Level 3 – Inputs are unobservable for the asset or liability. Unobservable inputs reflect the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk) using the best information available in the circumstances, which may include using the reporting entity's own data.

Valuation Techniques and Inputs

Level 1 – Level 1 assets include investments in cash equivalents, consisting of money market funds, for which quoted prices are readily available.

Level 3 – Level 3 assets include an investment in a beneficial interest in charitable remainder trust for which quoted prices are not readily available. The fair value is estimated using an income approach by calculating the present value of the future distributions expected to be received based on a combination of Level 2 inputs (interest rates and yield curves) and significant unobservable inputs (entity specific estimates of cash flows).

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. The schedules within this note are not intended to indicate the volatility of the investments.

While the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table presents information about the Foundation's assets measured at fair value on a recurring basis as of December 31, 2019 and 2018 based upon the three-tier hierarchy:

<u>(in thousands)</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
December 31, 2019				
Cash and cash equivalents	\$ 6,895	\$ -	\$ -	\$ 6,895
Beneficial interest in charitable remainder trust	-	-	1,581	1,581
Total assets at fair value	<u>\$ 6,895</u>	<u>\$ -</u>	<u>\$ 1,581</u>	<u>\$ 8,476</u>
December 31, 2018				
Cash and cash equivalents	\$ 4,915	\$ -	\$ -	\$ 4,915
Beneficial interest in charitable remainder trust	-	-	1,235	1,235
Total assets at fair value	<u>\$ 4,915</u>	<u>\$ -</u>	<u>\$ 1,235</u>	<u>\$ 6,150</u>

The following table presents a reconciliation of the statement of financial position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2019 and 2018:

<u>(in thousands)</u>	<u>Unobservable Inputs (Level 3)</u>
January 1, 2018	\$ 1,305
Change in beneficial interest in charitable remainder trust	<u>(70)</u>
December 31, 2018	1,235
Change in beneficial interest in charitable remainder trust	<u>346</u>
December 31, 2019	<u>\$ 1,581</u>

5. Contributions and contributions receivable

In 2018, UHG made five separate contributions totaling \$49 million, of which \$33 million was fully received in cash in 2018, with the remainder received in 2019. In 2019, UHG made two contributions totaling \$65 million and \$10 million, of which \$16 million and \$10 million were received in cash, respectfully. In both 2019 and 2018, all of the Foundation's contributions were received from UHG and its affiliates. If UHG and its affiliates did not contribute to the Foundation, there could be potential negative impacts on the Foundation's operations.

The Foundation has \$49 million and \$16 million of contributions receivable as of December 31, 2019 and 2018, respectively. All of the \$49 million has been received in cash in 2020.

6. Expenses

For the year ended December 31, 2019, the Foundation incurred the following expenses:

(in thousands)	America's Health Rankings	Transforming Health with Communities	Future Health Workforce	Improving Community Well-being	General and Administrative	Total
Charitable contributions	\$ 81	\$ 8,244	\$ 4,630	\$ 27,633	\$ -	\$ 40,588
Printing and marketing	53	5	-	6	-	64
Legal, consulting, and audit	2,889	6	334	-	67	3,296
Payroll expense	535	336	531	393	362	2,157
Miscellaneous	29	18	385	22	126	580
	<u>\$ 3,587</u>	<u>\$ 8,609</u>	<u>\$ 5,880</u>	<u>\$ 28,054</u>	<u>\$ 555</u>	<u>\$ 46,685</u>

For the year ended December 31, 2018, the Foundation incurred the following expenses:

(in thousands)	America's Health Rankings	Transforming Health with Communities	Future Health Workforce	Improving Community Well-being	General and Administrative	Total
Charitable contributions	\$ 124	\$ 7,985	\$ 1,943	\$ 27,059	\$ -	\$ 37,111
Printing and marketing	-	-	-	-	36	36
Legal, consulting, and audit	3,144	20	303	-	91	3,558
Payroll expense	578	522	574	649	425	2,748
Miscellaneous	24	54	368	-	116	562
	<u>\$ 3,870</u>	<u>\$ 8,581</u>	<u>\$ 3,188</u>	<u>\$ 27,708</u>	<u>\$ 668</u>	<u>\$ 44,015</u>

Program activities during 2019 and 2018 principally included the following:

America's Health Rankings®

The Foundation conducts the America's Health Rankings®, which is a state-by-state analysis of the nation's health. America's Health Rankings® has served as a call to action for healthier people and their communities for 30 years, and has grown to include reports that examine the health of seniors aged 65+, women and children, and those who have served in the U.S. Armed Forces.

Transforming Health with Communities

The Foundation is committed to sourcing, developing and supporting innovative and evidence-based ideas that will help the health system work better. To do this, we identify meaningful partners and initiatives that we believe have the potential to lead to improved access to care, better health outcomes, and healthier communities, and are scalable. As an example, the Foundation partnered with the Cankdeska Cikana Community College, a tribal college in North Dakota, to address high rates of substance abuse in the community. Support from the Foundation funds the renovation of a former group home into the region's only residential substance abuse treatment center, and also provides technical assistance to develop a workforce staffing model that enables culturally-competent care and promotes long-term recovery.

Diverse Scholars Initiative (Future Health Workforce)

This initiative supports the Foundation's commitment to improve health by supporting the healthcare workforce demands and increasing the number of health professionals from multicultural backgrounds. Through this initiative we support hundreds of United Health Foundation Diverse Scholars are working to attain their higher education goals and eventually will start careers in the health industry. These students who often come from lower-income multicultural backgrounds will increase the number of qualified, yet underrepresented, health care professionals entering the workforce.

Improve Community Well being

This initiative supports the Foundation's commitment to the needs of the communities where we live and work. Through this initiative we support the causes our employees are passionate about by providing a 1:1 match for employee donations to nearly all charitable organizations. By investing in our communities, we demonstrate our commitment to make a positive impact around the world.

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. These expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, which is allocated on a square-footage basis, as well as salaries and benefits, which are allocated on the basis of estimates of time and effort.

7. Grants payable

The Foundation has unconditional commitments to grant funds to various not-for-profit organizations as of December 31:

(in thousands)	2019	2018
Less than 1 year	\$ 3,944	\$ 645
1-5 years	-	-
Unconditional grants payable	<u>3,944</u>	<u>645</u>
Matching contributions payable	<u>6,284</u>	<u>5,052</u>
Total grants payable	<u>\$ 10,228</u>	<u>\$ 5,697</u>

The Foundation has made conditional commitments to not-for-profit organizations in the amount of \$48 million. The balance on these conditional commitments was \$20.3 million at December 31, 2019. This amount has been excluded from grants payable above as the payments are conditional upon the not-for-profits achieving certain performance targets as noted in the grant agreement.

8. Transactions with related parties

Transactions with related parties, other than contributions received from UHG and/or its affiliates, as disclosed in Note 5, are described below.

The Foundation utilizes UHG employees to provide certain legal, financial, and professional services. The estimated value of these services was approximately \$2,157 thousand in 2019 and \$2,748 thousand in 2018. Additionally, the Foundation occupies space at the UHG corporate offices in Minnesota. The estimated value of this space was approximately \$107 thousand and \$89 thousand in 2019 and 2018, respectively. Salary and rent amounts are recorded as contributions. Salary expense is allocated to the specific program, with rent being recorded as general and administrative expense in the accompanying Statements of Activities.

Included in net assets with donor restrictions is the Foundation's beneficial interest in the net assets of a charitable remainder trust. The trust was formed in 2000 by United Health Services Inc., a wholly owned subsidiary of UHG, and is held by United Health Insurance Company. The trust terminates in July 2020, at which time the Foundation will receive the remaining net assets. The value of the net assets of the trust approximates \$1,581 thousand and \$1,235 thousand at December 31, 2019 and 2018, respectively.

9. Subsequent events

In preparing these Financial Statements, management has evaluated and disclosed all material subsequent events up to June 30, 2020, the date that these Financial Statements were available to be issued. See Note 5 for disclosure of contributions received subsequent to December 31, 2019.