

UNITED HEALTH FOUNDATION

FINANCIAL STATEMENTS
Including Independent Auditors' Report

As of and for the Years Ended December 31, 2017 and 2016

UNITED HEALTH FOUNDATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
United Health Foundation
Minnetonka, Minnesota

We have audited the accompanying financial statements of United Health Foundation (the "Foundation"), which comprise the statements of financial position as of December 31, 2017 and 2016, 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, 2017 and 2016, 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.

Emphasis of Matter

As discussed in Note 8 to the financial statements, the 2016 financial statements have been restated to correct an error in the accounting for grants made by the Foundation to match charitable contributions made by employees to record the grant expense and related grant payable when incurred. Our opinion is not modified with respect to this matter.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
November 15, 2018

UNITED HEALTH FOUNDATION

STATEMENTS OF FINANCIAL POSITION

As of December 31, 2017 and 2016

(in thousands)

		ASSETS	
		2017	(Restated) 2016
		<u>2017</u>	<u>2016</u>
CURRENT ASSETS			
Cash and cash equivalents	\$	13,087	\$ 2,090
Contribution receivable - UnitedHealth Group		<u>-</u>	<u>33,000</u>
Total Current Assets		13,087	35,090
LONG-TERM ASSETS			
Beneficial interest in charitable remainder trust		<u>1,305</u>	<u>1,170</u>
TOTAL ASSETS	\$	<u>14,392</u>	\$ <u>36,260</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	\$	409	\$ 1,140
Related party payable		-	39
Grants payable short-term		<u>5,752</u>	<u>6,104</u>
Total Current Liabilities		6,161	7,283
NET ASSETS			
Unrestricted		6,862	(5,257)
Temporarily restricted			
Contribution receivable - UnitedHealth Group		-	33,000
Charitable remainder trust		1,305	1,170
Hospice related activity		<u>64</u>	<u>64</u>
Total temporarily restricted		<u>1,369</u>	<u>34,234</u>
Total Net Assets		<u>8,231</u>	<u>28,977</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u>14,392</u>	\$ <u>36,260</u>

See accompanying notes to financial statements.

UNITED HEALTH FOUNDATION

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2017 and 2016

(in thousands)

	2017	(Restated) 2016
REVENUES AND SUPPORT		
Contributions - UnitedHealth Group	\$ 23,128	\$ 3,176
Investment income - net	2,950	21
Net assets released from restrictions	<u>33,000</u>	<u>32,000</u>
 Total Revenues and Support	 <u>59,078</u>	 <u>35,197</u>
EXPENSES		
Program grants and services		
America's Health Rankings	3,673	5,124
Transforming Health with Communities	7,460	12,776
Future Health Workforce	4,464	3,065
Improve Community Well-Being	30,228	24,924
Total Program Grants and Services	<u>45,825</u>	<u>45,889</u>
 General and administrative	 <u>1,134</u>	 <u>1,319</u>
 Total Expenses	 <u>46,959</u>	 <u>47,208</u>
 Change in unrestricted net assets	 <u>12,119</u>	 <u>(12,011)</u>
TEMPORARILY RESTRICTED NET ASSETS		
Contributions - UnitedHealth Group	-	25,332
Change in beneficial interest in charitable remainder trust	135	135
Net assets released from restrictions	<u>(33,000)</u>	<u>(32,000)</u>
 Change in temporarily restricted net assets	 <u>(32,865)</u>	 <u>(6,533)</u>
 Change in Net Assets	 (20,746)	 (18,544)
 NET ASSETS - Beginning of Year (As Restated)	 <u>28,977</u>	 <u>47,521</u>
 NET ASSETS - END OF YEAR	 <u>\$ 8,231</u>	 <u>\$ 28,977</u>

See accompanying notes to financial statements.

UNITED HEALTH FOUNDATION

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2017 and 2016

(in thousands)

	2017	(Restated) 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (20,746)	\$ (18,544)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Change in value of beneficial interest in charitable remainder	(135)	(135)
Realized gain on sale of donated stock	(2,856)	
Donated stock	(21,685)	
Changes in assets and liabilities		
Contribution receivable, UnitedHealth Group	33,000	6,668
Accounts payable and accrued expenses	(614)	(552)
Grants payable	(1,189)	(759)
Related party payable	(39)	27
Net Cash Flows From Operating Activities	<u>(14,264)</u>	<u>(13,295)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds received from sale of donated stock	<u>24,541</u>	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in outstanding checks	<u>720</u>	<u>(5,725)</u>
Net Change in Cash and Cash Equivalents	10,997	(19,020)
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>2,090</u>	<u>21,110</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 13,087</u>	<u>\$ 2,090</u>

See accompanying notes to financial statements.

UNITED HEALTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016
(in thousands)

NOTE 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.

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements are prepared in conformity with accounting principles generally accepted in the United States of America.

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 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:

Unrestricted Net Assets - Unrestricted net assets include all assets, liabilities, and related revenues and expenses arising from the operations of the Foundation, which are not subject to any donor restrictions.

Temporarily Restricted Net Assets - Temporarily restricted net assets consist of unexpended amounts and pledges received that may be used only after a specified date or only for a specified purpose or both. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets will be reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently Restricted Net Assets - Permanently restricted net assets consist of gifts and pledges whose principal balance is required by the donor to remain intact in perpetuity. The Foundation had no permanently restricted net assets as of December 31, 2017 and 2016.

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 is subject to the usual banking risk of funds in excess of those limits.

UNITED HEALTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016
(in thousands)

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

Contributions are recorded as revenue when an unconditional promise to give is received from a donor. The Foundation reports gifts of cash and other assets as additions to temporarily or permanently restricted net assets if they are received with donor stipulations that limit the use of the donations. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Foundation reports the contribution as unrestricted.

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 being reported as the change in beneficial interest in charitable remainder trust in temporarily restricted net assets in the statement 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, 2017 and 2016. The Foundation's tax returns are subject to review and examination by federal and state authorities.

Subsequent Events

The Foundation has evaluated subsequent events through November 15, 2018, which is the date that the financial statements were available to be issued. See Note 4 for disclosure of contributions received subsequent to December 31, 2017.

Recently Issued Accounting Standards

In August 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The new guidance improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The Organization is assessing the impact this standard will have on its financial statements.

UNITED HEALTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016
(in thousands)

NOTE 3 - 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 assets 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 - 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).

There have been no changes in the techniques and inputs used as of December 31, 2017 and 2016.

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.

UNITED HEALTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016
(in thousands)

NOTE 3 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following table presents information about the Foundation's assets measured at fair value on a recurring basis as of December 31, 2017 based upon the three-tier hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
Cash and cash equivalents	\$ 13,087	\$ -	\$ -	\$ 13,087
Beneficial interest in charitable remainder trust	<u>-</u>	<u>-</u>	<u>1,305</u>	<u>1,305</u>
Total Assets at fair value	<u>\$ 13,087</u>	<u>\$ -</u>	<u>\$ 1,305</u>	<u>\$ 14,392</u>

The following table presents information about the Foundation's assets measured at fair value on a recurring basis as of December 31, 2016 based upon the three-tier hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
Cash and cash equivalents	\$ 2,090	\$ -	\$ -	\$ 2,090
Beneficial interest in charitable remainder trust	<u>-</u>	<u>-</u>	<u>1,170</u>	<u>1,170</u>
Total Assets at fair value	<u>\$ 2,090</u>	<u>\$ -</u>	<u>\$ 1,170</u>	<u>\$ 3,260</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, 2017 and 2016:

Balances, January 1, 2016	\$ 1,035
Change in beneficial interest in charitable remainder trust	<u>135</u>
Balances, December 31, 2016	1,170
Change in beneficial interest in charitable remainder trust	<u>135</u>
Balances, December 31, 2017	<u>\$ 1,305</u>

UNITED HEALTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016
(in thousands)

NOTE 4 - CONTRIBUTIONS AND CONTRIBUTIONS RECEIVABLE

In June 2014, UHG made an \$80,000 contribution to the Foundation. The balance of this contribution of \$8,000 was recorded as a contribution receivable at December 31, 2016. In September 2016, UHG made a \$25,000 contribution to the Foundation. The balance of this contribution of \$25,000 was recorded as contribution receivable at December 31, 2016. Both contributions were fully received during 2017 with \$21,685 payments made in stock and \$11,315 payments made in cash. The stock received was subsequently sold by the Foundation and a realized gain of \$2,856 was recorded, as well as a related tax liability of \$393 recorded within general administrative expenses. UHG made an additional \$20,000 contribution pledged in September 2017, which was fully received in cash in November 2017. In both 2017 and 2016, substantially 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.

As of December 31, 2017, there are no contributions receivable. Contributions receivable as of December 31, 2016 included unconditional promises to give of \$33,000 due from UHG.

In 2018, through November 15, 2018, UHG has contributed an additional \$9,000 in cash contributions and has pledged an additional \$40,000, of which \$14,000 has been received.

NOTE 5 - EXPENSES

For the year ended December 31, 2017, the Foundation incurred the following expenses:

	America's Health Rankings	Transforming Health with Communities	Future Health Workforce	Improving Community Well-being	General and Administrative	Total
Charitable contributions	\$ 190	\$ 7,062	\$ 3,374	\$ 29,084	\$ -	\$ 39,710
Printing and marketing	71	1	8	-	8	88
Legal, consulting and audit	2,901	-	211	-	80	3,192
Payroll expense	501	391	482	1,144	527	3,045
Excise tax	-	-	-	-	393	393
Miscellaneous	10	6	389	-	126	531
	<u>\$ 3,673</u>	<u>\$ 7,460</u>	<u>\$ 4,464</u>	<u>\$ 30,228</u>	<u>\$ 1,134</u>	<u>\$ 46,959</u>

For the year ended December 31, 2016, the Foundation incurred the following expenses:

	America's Health Rankings	Transforming Health with Communities	Future Health Workforce	Improving Community Well-being	General and Administrative	Total
Charitable contributions	\$ 5	\$ 12,236	\$ 2,214	\$ 24,027	\$ -	\$ 38,482
Printing and marketing	89	10	14	-	14	127
Legal, consulting and audit	4,366	70	87	-	452	4,975
Payroll expense	642	454	409	892	703	3,100
Miscellaneous	22	6	341	5	150	524
	<u>\$ 5,124</u>	<u>\$ 12,776</u>	<u>\$ 3,065</u>	<u>\$ 24,924</u>	<u>\$ 1,319</u>	<u>\$ 47,208</u>

UNITED HEALTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2017 and 2016 (in thousands)

NOTE 5 - EXPENSES (Continued)

Program activities during 2017 and 2016 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 nearly 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 recently 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 and Community Well-being) – This initiative supports the Foundation's commitment to improve health by increasing the number of health professionals from multicultural backgrounds. 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.

Concentration – For the years ended December 31, 2017 and 2016, approximately 30% and 12%, respectively, of the Foundation's expenses related to charitable contributions made to five organizations.

NOTE 6 - GRANTS PAYABLE

The Foundation has unconditional commitments to grant funds to various not-for-profit organizations through the next five years as of December 31:

	<u>2017</u>	<u>2016</u>
Less than 1 year	\$ 1,688	\$ 1,043
1 - 5 years	<u>-</u>	<u>-</u>
Unconditional grants payable	1,688	1,043
Matching contributions payable	<u>4,064</u>	<u>5,061</u>
Total Grants Payable	<u>\$ 5,752</u>	<u>\$ 6,104</u>

The Foundation has made conditional commitments to not-for-profit organizations in the amount of \$29,644. The balance on these conditional commitments was \$18,444 at December 31, 2017. 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.

UNITED HEALTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016
(in thousands)

NOTE 7 - TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties, other than contributions received from UHG and/or its affiliate, as disclosed in Note 4, are described below.

The Foundation utilizes UHG employees to provide certain legal, financial, and professional services. The estimated value of these services was approximately \$3,045 in 2017 and \$3,099 in 2016. Additionally, the Foundation occupies space at the UHG corporate offices in Minnesota. The estimated value of this space was approximately \$83 and \$76 in 2017 and 2016, 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 statement of activities.

Included in temporarily restricted net assets is the Foundation's beneficial interest in the net assets of a trust. The trust was formed by United Health Services Inc., a wholly owned subsidiary of UHG, during 2000, is held by United Health Insurance Company, and terminates in 2020 at which time the Foundation will receive the remaining net assets. The value of the net assets of the trust approximates \$1,305 and \$1,170 at December 31, 2017 and 2016, respectively.

NOTE 8 - RESTATEMENT OF PRIOR PERIOD AMOUNTS

The Foundation has restated its previously issued financial statements in order to correct an error in the accounting for grants made by the Foundation to match charitable contributions made by employees to record the grant expense and related grant payable when incurred. Prior to the correction, the matching contributions were accounted for on a cash basis.

The following table summarizes the financial statement line items for the financial statements as of and for the year ended December 31, 2016 impacted by the restatement:

	<u>As Previously Reported</u>	<u>Correction</u>	<u>As Restated</u>
Statement of financial position (page 3)			
Grants payable short-term as of December 31, 2016	\$ 1,043	\$ 5,061	\$ 6,104
Unrestricted net assets at December 31, 2016	(196)	(5,061)	(5,257)
Statement of activities (page 4)			
Total program grants and services			
December 31, 2016	42,764	3,125	45,889
Change in net assets	(15,419)	(3,125)	(18,544)
Net Assets – Beginning of Year (January 1, 2016)	49,457	(1,936)	47,521
Statement of cash flows (page 5)			
Change in net assets	(15,419)	(3,125)	(18,544)
Grants payable	(3,884)	3,125	(759)