

UnitedHealthcare Children's Foundation, Inc.
Minneapolis, Minnesota

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2015 and 2014

UnitedHealthcare Children's Foundation, Inc.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
UnitedHealthcare Children's Foundation, Inc.
Minnetonka, Minnesota

We have audited the accompanying financial statements of UnitedHealthcare Children's Foundation, Inc. (the "Foundation"), which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities, cash flows and functional expenses 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, 2015 and 2014, 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
April 1, 2016

UnitedHealthcare Children's Foundation, Inc.

STATEMENTS OF FINANCIAL POSITION
As of December 31, 2015 and 2014

	ASSETS	
	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and cash equivalents	\$ 7,045,747	\$ 7,308,577
Contribution receivable, net	30,780	863,313
Prepaid expenses	11,472	60,725
Inventory	<u>287,108</u>	<u>154,286</u>
TOTAL ASSETS	\$ 7,375,107	\$ 8,386,901
	LIABILITIES AND NET ASSETS	
LIABILITIES AND NET ASSETS		
Accounts and grants payable	\$ 2,398,155	\$ 1,924,281
Unrestricted net assets	<u>4,976,952</u>	<u>6,462,620</u>
TOTAL LIABILITIES AND NET ASSETS	\$ 7,375,107	\$ 8,386,901

See accompanying notes to financial statements.

UnitedHealthcare Children's Foundation, Inc.

STATEMENTS OF ACTIVITIES For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
REVENUE		
Contribution revenue	\$ 4,260,157	\$ 1,243,184
Special event revenue, net of costs of direct benefit to donors of \$560,488 and \$251,435, respectively	1,584,854	1,266,899
Interest income	<u>14,469</u>	<u>16,286</u>
Total Revenue	<u>5,859,480</u>	<u>2,526,369</u>
EXPENSES		
Program grants and services	5,155,531	5,611,367
Management and general	72,463	77,107
Fundraising	<u>2,117,154</u>	<u>1,112,908</u>
Total Expenses	<u>7,345,148</u>	<u>6,801,382</u>
CHANGE IN UNRESTRICTED NET ASSETS	(1,485,668)	(4,275,013)
NET ASSETS - Beginning of Year	<u>6,462,620</u>	<u>10,737,633</u>
NET ASSETS - END OF YEAR	<u>\$ 4,976,952</u>	<u>\$ 6,462,620</u>

UnitedHealthcare Children's Foundation, Inc.

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in unrestricted net assets	\$ (1,485,668)	\$ (4,275,013)
Adjustments to reconcile change in unrestricted net assets to net cash flows from operating activities		
Allowance for doubtful accounts	-	(160,000)
Change in contributions receivable	832,533	3,407,494
Change in prepaid expenses	49,253	(60,725)
Change in inventory	(132,822)	(154,286)
Change in accounts and grants payable	<u>473,874</u>	<u>833,966</u>
Net Cash Flows From Operating Activities	<u>(262,830)</u>	<u>(408,564)</u>
Net Change in Cash and Cash Equivalents	(262,830)	(408,564)
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>7,308,577</u>	<u>7,717,141</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 7,045,747</u>	<u>\$ 7,308,577</u>

See accompanying notes to financial statements.

UnitedHealthcare Children's Foundation, Inc.

STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended December 31, 2015 and 2014

	Program Grants and Services	Management and General	Fundraising	2015 Total	Program Grants and Services	Management and General	Fundraising	2014 Total
Salaries and wages donated	\$ 405,725	\$ 72,054	\$ 85,780	\$ 563,559	\$ 330,134	\$ 73,796	\$ 42,269	\$ 446,199
Grants	3,554,361	-	-	3,554,361	4,100,177	-	-	4,100,177
Events	-	-	920,079	920,079	-	-	188,757	188,757
Promotional products	163,791	-	83,850	247,641	233,288	-	263,179	496,467
Professional fees	18,212	-	-	18,212	17,648	-	-	17,648
Information technology	47,017	-	2,498	49,515	71,070	-	8,796	79,866
Bank fees	139,670	-	10,470	150,140	84,342	-	-	84,342
Supplies / printing	124,665	-	64,381	189,046	-	-	-	-
Consultants	566,946	-	902,111	1,469,057	662,710	-	601,752	1,264,462
Miscellaneous	135,144	409	47,985	183,538	111,998	3,311	8,155	123,464
Total Expenses	\$ 5,155,531	\$ 72,463	\$ 2,117,154	\$ 7,345,148	\$ 5,611,367	\$ 77,107	\$ 1,112,908	\$ 6,801,382

UnitedHealthcare Children's Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014

NOTE 1 - Summary of Significant Accounting Policies

UnitedHealthcare Children's Foundation, Inc. (the Foundation) was created to enhance the lives of children, 16 years of age or younger, by awarding grants to those needing medically appropriate health care treatment and/or services that are not fully covered by their current health insurance or other funding. Currently, the Foundation is funded by UnitedHealth Group Incorporated and its employees, as well as contributions from individuals and corporations.

The Foundation limits its fund grants to 85% of the available funds at any time. During a 12-month period, individual grants are limited to the lesser of \$5,000 or 85% of available funds. Generally, grants are paid within one year. The grant recipients are required to submit applications and financial information. The applications are reviewed and approved by the Board of Directors.

A summary of the Foundation's significant accounting policies follows:

Financial Statement Presentation

Net assets, support, revenue, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. They are those resources over which the Board of Directors has discretionary control.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those stipulations. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Foundation currently has no temporarily restricted net assets.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. The Foundation currently has no permanently restricted net assets.

Cash and Cash Equivalents

The Foundation defines cash and cash equivalents as highly liquid, short-term investments with a maturity at the date of acquisition of three months or less. Cash on deposit in excess of FDIC insurance coverages is subject to the usual banking risks of funds in excess of those limits.

Inventory

Inventory, which consists of stuffed animals and books used for awareness and fundraising activities, are stated at the lower of cost or market, with cost determined on the first-in, first-out basis.

UnitedHealthcare Children's Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Contribution Revenue and Contributions Receivable

Contribution revenues are recorded when the unconditional contribution is made to the Foundation. Current contributions receivable are expected to be collected during the next year and are recorded at net realizable value. No restricted contributions have been received to date.

Contributions receivable are shown net of an allowance for uncollectible contributions. The allowance for uncollectible promises to give is determined based on the Foundation's historical collections experience. There was no allowance for uncollectible contributions deemed necessary as of December 31, 2015 and 2014, respectively.

Grant Commitments

The Foundation's Board of Directors approves grants contingent upon the Foundation receiving detailed supporting financial information. Upon receipt of such information, the grant payable and corresponding program expense is recorded. Contingent grants outstanding at December 31, 2015 and 2014, respectively, are approximately \$2,365,000 and \$3,103,000 and are excluded from these financial statements.

Income Tax Status

The Internal Revenue Service has determined that the Foundation is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is not subject to federal or state income taxes. However, any unrelated income may be subject to taxation.

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, 2015 and 2014. The Foundation's tax returns are subject to review and examination by federal and state authorities.

Estimates and Assumptions

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 Expense

The costs of providing program services and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among programs and supporting services benefited based on actual time spent and the best estimates of management.

UnitedHealthcare Children's Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2015 and 2014

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Subsequent Events

In preparing these financial statements, the Foundation has considered events and transactions for potential disclosure through April 1, 2016 which is the date that the financial statements were available to be issued.

New Accounting Pronouncements

In April 2013, the Financial Accounting Standards Board issued Accounting Standards Update 2013-06. The amendments in this Update require a recipient not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. However, if measuring a service received from personnel of an affiliate at cost will significantly overstate or understate the value of the service received, the recipient not-for-profit entity may elect to recognize that service received at either (1) the cost recognized by the affiliate for the personnel providing that service or (2) the fair value of that service. The Foundation adopted the provisions of this ASU on January 1, 2015, and the impact was not material to the financial statements.

NOTE 2 - Related Party Transactions

UnitedHealth Group provides certain administrative, overhead, and accounting services at no charge to the Foundation. The fair value of these services was approximately \$398,000 and \$446,000 for the years ended December 31, 2015 and 2014, respectively. The Foundation has recorded these amounts as contribution revenue and program, general and administrative and fundraising expense on the statements of activities. Beginning in 2014, the Foundation now pays UnitedHealth Group for a portion of the services provided to the Foundation. The total amount of these services billed to the Foundation was approximately \$796,000 and \$795,000 for the year ended December 31, 2015 and 2014 respectively and is included in consulting expense on the statement of functional expenses. This amount is also owed to UnitedHealth Group at December 31, 2015 and 2014 and is included in accounts payable on the statement of financial position.

At December 31, 2015 and 2014, substantially all of contributions receivable are from UnitedHealth Group and its employees. Employee contributions are generally collected by UnitedHealth Group through their payroll deduction program and are matched dollar for dollar by UnitedHealth Group. Contributions revenues recognized from UnitedHealth Group employees and the corresponding UnitedHealth Group match was approximately \$2,779,000 and \$724,000 for the years ended December 31, 2015 and 2014, respectively. The contribution revenue from UnitedHealth Group employees declined in 2014 due to a change in the giving program. Previously, all contributions that were given by the employees met the recognition criteria to be accounted for as pledges in accordance with generally accepted accounting principles in the United States of America and were recognized as contribution revenue in the year that the pledge was made. In the fall of 2014, the giving campaign changed and rather than the employee completing an annual pledge form, the employee completed an online giving form noting what their payroll deduction donation would be, which caused the one-time significant contribution revenue decline in 2015 when compared to 2014. This donation amount can be changed at any time; thus, in accordance with the accounting standards, donations are now recorded when they are deducted from the employee's pay as they are no longer completing annual pledges.

The Foundation's cash equivalents are held in a savings account at Optum Bank. Optum Bank is a related party under common control of UnitedHealth Group. At ended December 31, 2015 and 2014 there was \$5,737,567 and \$6,523,100 in the savings account, respectively.