

UnitedHealthcare Children's Foundation, Inc.
Minneapolis, Minnesota

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2012 and 2011

UnitedHealthcare Children's Foundation, Inc.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
UnitedHealthcare Children's Foundation, Inc.
Minneapolis, Minnesota

Report on the Financial Statements

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, 2012 and 2011, 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, 2012 and 2011, 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
March 19, 2013

UnitedHealthcare Children's Foundation, Inc.

STATEMENTS OF FINANCIAL POSITION
As of December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
ASSETS		
Cash and cash equivalents	\$ 7,650,137	\$ 6,533,344
Contributions receivable, net	<u>3,653,570</u>	<u>3,187,045</u>
TOTAL ASSETS	<u>\$11,303,707</u>	<u>\$ 9,720,389</u>
LIABILITIES AND NET ASSETS		
LIABILITIES AND NET ASSETS		
Accounts and grants payable	\$ 1,198,936	\$ 772,382
Unrestricted net assets	<u>10,104,771</u>	<u>8,948,007</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$11,303,707</u>	<u>\$ 9,720,389</u>

See accompanying notes to financial statements.

UnitedHealthcare Children's Foundation, Inc.

STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
REVENUE		
Contribution revenue	\$ 5,462,515	\$ 4,615,569
Interest income	4,567	2,909
Total Revenue	<u>5,467,082</u>	<u>4,618,478</u>
EXPENSES		
Program grants and services	3,612,561	3,375,342
Management and general	27,478	114,000
Fundraising	670,279	407,227
Total Expenses	<u>4,310,318</u>	<u>3,896,569</u>
CHANGE IN UNRESTRICTED NET ASSETS	1,156,764	721,909
UNRESTRICTED NET ASSETS - Beginning of Year	<u>8,948,007</u>	<u>8,226,098</u>
UNRESTRICTED NET ASSETS - END OF YEAR	<u>\$10,104,771</u>	<u>\$ 8,948,007</u>

See accompanying notes to financial statements.

UnitedHealthcare Children's Foundation, Inc.

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in unrestricted net assets	\$ 1,156,764	\$ 721,909
Adjustments to reconcile change in unrestricted net assets to net cash flows from operating activities		
Allowance for doubtful accounts	(62,000)	53,000
Change in contributions receivable	(404,525)	(325,118)
Change in accounts and grants payable	<u>426,554</u>	<u>312,840</u>
Net Cash Flows Provided By Operating Activities	<u>1,116,793</u>	<u>762,631</u>
Net Increase in Cash and Cash Equivalents	1,116,793	762,631
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>6,533,344</u>	<u>5,770,713</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 7,650,137</u>	<u>\$ 6,533,344</u>

See accompanying notes to financial statements.

UnitedHealthcare Children's Foundation, Inc.

STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended December 31, 2012 and 2011

	Program Grants and Services	Management and General	Fundraising	2012 Total	Program Grants and Services	Management and General	Fundraising	2011 Total
Salaries and wages donated	\$ 363,994	\$ 27,346	\$ 194,321	\$ 585,661	\$ 309,850	\$ 111,400	\$ 95,850	\$ 517,100
Grants	2,782,036	-	-	2,782,036	2,577,507	-	-	2,577,507
Events	-	-	441,137	441,137	-	-	279,813	279,813
Promotional products	243,735	-	-	243,735	213,502	-	-	213,502
Uncollected pledge expense	95,711	-	-	95,711	199,485	-	-	199,485
Software	17,476	-	-	17,476	-	-	-	-
Professional fees	17,632	-	-	17,632	16,342	-	-	16,342
Facilities (donated)	-	-	-	-	7,150	2,600	2,150	11,900
Information technology	14,062	-	-	14,062	28,406	-	-	28,406
Bank fees	26,968	-	-	26,968	15,720	-	-	15,720
Supplies/printing	5,613	-	-	5,613	6,777	-	-	6,777
Consultants	43,750	-	-	43,750	478	-	-	478
Miscellaneous	1,584	132	34,821	36,537	125	-	29,414	29,539
Total Expenses	\$ 3,612,561	\$ 27,478	\$ 670,279	\$ 4,310,318	\$ 3,375,342	\$ 114,000	\$ 407,227	\$ 3,896,569

See accompanying notes to financial statements.

UnitedHealthcare Children's Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2012 and 2011

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 primarily 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.

UnitedHealthcare Children's Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2012 and 2011

NOTE 1 - Summary of Significant Accounting Policies (continued)

Contributions Receivable

Unconditional promises to give made to the Foundation are recorded in the year the pledge is made. 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.

An allowance for uncollectible promises to give is determined based on the Foundation's historical collections experience. Contributions receivable are shown net of an allowance for uncollectible contributions of \$180,000 and \$242,000 for the years ended December 31, 2012 and 2011, 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, 2012 and 2011, respectively, are approximately \$2,055,200 and \$1,887,600 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, 2012 and 2011. The Foundation's tax returns are subject to review and examination by federal and state authorities. The tax returns for the current year as well as fiscal years 2009 and thereafter are open to 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.

UnitedHealthcare Children's Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2012 and 2011

NOTE 1 - Summary of Significant Accounting Policies (continued)

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.

Subsequent Events

In preparing these financial statements, the Foundation has considered events and transactions for potential disclosure through March 19, 2013 which is the date that the financial statements were available to be issued.

NOTE 2 - Related Party Transactions

UnitedHealthcare provides certain administrative, overhead, and accounting services at no charge to the Foundation. The fair value of these services was approximately \$586,000 and \$529,000 for the years ended December 31, 2012 and 2011, respectively. The Foundation has recorded these amounts as contribution revenue and program, general and administrative and fundraising expense on the statements of activities.

UnitedHealthcare also provides a dollar for dollar match for any employee contribution to the Foundation. UnitedHealthcare match contributions totaled approximately \$1,498,000 and \$1,375,000 for the years ended December 31, 2012 and 2011, respectively.

At year end, substantially all of contributions receivable are from UnitedHealthcare and its employees. Employee contributions are generally collected by UnitedHealthcare through their payroll deduction program.

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.

UnitedHealthcare Children's Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2012 and 2011

Note 3 - Fair Value of Financial Instruments (continued)

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.

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 inputs that are derived principally from or corroborated by observable market data.

Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances.

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.

There were no changes in fair value valuation methodologies used by the Foundation in 2012 or 2011.

The following table presents information about the Foundation's assets measured at fair value on a recurring basis as of December 31, 2012 based on the three-tier hierarchy:

	<u>Level 1</u>
ASSETS	
Cash equivalents	<u>\$ 7,581,496</u>

The following table presents information about the Foundation's assets measured at fair value on a recurring basis as of December 31, 2011 based on the three-tier hierarchy:

	<u>Level 1</u>
ASSETS	
Cash equivalents	<u>\$ 6,157,053</u>