

# **Urology Care Foundation, Inc.**

Financial Report  
December 31, 2014

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## Independent Auditor's Report

To the Board of Directors  
Urology Care Foundation, Inc.  
Linthicum, Maryland

### Report on the Financial Statements

We have audited the accompanying financial statements of Urology Care Foundation, Inc. which comprise the statements of financial position as of December 31, 2014 and 2013, 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.

### Auditor's 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 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 Urology Care Foundation, Inc. as of December 31, 2014 and 2013, 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.

*McGladrey LLP*

Baltimore, Maryland  
April 16, 2015

**Urology Care Foundation, Inc.**

**Statements of Financial Position  
December 31, 2014 and 2013**

	2014	2013
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 1,690,374	\$ 1,058,095
Accounts receivable	975,000	1,659,423
Pledges receivable – current, net of allowance for doubtful accounts and present value discount (2014 – \$7,600; 2013 – \$31,541) (Note 3)	376,333	1,501,000
Due from related party (Note 8)	-	210,164
Prepaid expenses and other current assets	12,362	8,669
<b>Total current assets</b>	<b>3,054,069</b>	<b>4,437,351</b>
Noncurrent Assets		
Pledges receivable – noncurrent, net (Note 3)	142,400	1,859
Investments (Notes 2 and 7)	43,424,879	25,961,707
<b>Total assets</b>	<b>\$ 46,621,348</b>	<b>\$ 30,400,917</b>
<b>Liabilities and Net Assets</b>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 112,603	\$ 15,410
Due to related party (Note 8)	37,533	-
Deferred revenue	1,887,260	2,012,760
<b>Total current liabilities</b>	<b>2,037,396</b>	<b>2,028,170</b>
Commitments and Contingency (Note 4)		
Net Assets		
Unrestricted		
Operating	4,221,212	4,498,653
Board Designated	5,647,587	5,602,486
	<b>9,868,799</b>	<b>10,101,139</b>
Temporarily restricted (Notes 5 and 6)	7,465,153	6,771,608
Permanently restricted (Notes 5 and 6)	27,250,000	11,500,000
	<b>44,583,952</b>	<b>28,372,747</b>
<b>Total liabilities and net assets</b>	<b>\$ 46,621,348</b>	<b>\$ 30,400,917</b>

See Notes to Financial Statements.

**Urology Care Foundation, Inc.**

**Statements of Activities**

**Years Ended December 31, 2014 and 2013**

	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Revenue</b>				
Development	\$ 625,226	\$ -	\$ -	\$ 625,226
Education programs	125,501	-	-	125,501
Outreach and awareness campaigns	534,327	-	-	534,327
Research	-	-	-	-
Scholarship program (Note 5)	520,043	86,049	15,750,000	16,356,092
Net dividend income (Note 2)	395,361	927,678	-	1,323,039
Assets released from restriction (Note 5)	783,165	(783,165)	-	-
	<b>2,983,623</b>	<b>230,562</b>	<b>15,750,000</b>	<b>18,964,185</b>
<b>Expenses</b>				
Program services:				
General	403,128	-	-	403,128
Education programs	217,302	-	-	217,302
Outreach and awareness campaigns	420,308	-	-	420,308
Research	430,970	-	-	430,970
Scholarship program (Note 4)	1,037,404	-	-	1,037,404
Supporting services:				
Development	694,560	-	-	694,560
General, administrative and governance	217,288	-	-	217,288
	<b>3,420,960</b>	<b>-</b>	<b>-</b>	<b>3,420,960</b>
<b>Excess (deficiency) of operating revenue over expenses</b>	<b>(437,337)</b>	<b>230,562</b>	<b>15,750,000</b>	<b>15,543,225</b>
Investment Income (Note 2)	204,997	462,983	-	667,980
<b>Change in net assets</b>	<b>(232,340)</b>	<b>693,545</b>	<b>15,750,000</b>	<b>16,211,205</b>
<b>Net Assets</b>				
Beginning	10,101,139	6,771,608	11,500,000	28,372,747
Ending	<b>\$ 9,868,799</b>	<b>\$ 7,465,153</b>	<b>\$ 27,250,000</b>	<b>\$ 44,583,952</b>

See Notes to Financial Statements.

2013

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 642,471	\$ -	\$ -	\$ 642,471
71,100	-	-	71,100
414,545	-	-	414,545
31,500	-	-	31,500
1,279,949	107,379	4,500,000	5,887,328
322,758	447,681	-	770,439
595,707	(595,707)	-	-
3,358,030	(40,647)	4,500,000	7,817,383
390,048	-	-	390,048
152,179	-	-	152,179
401,567	-	-	401,567
431,500	-	-	431,500
943,600	-	-	943,600
541,254	-	-	541,254
165,862	-	-	165,862
3,026,010	-	-	3,026,010
332,020	(40,647)	4,500,000	4,791,373
1,364,348	1,866,882	-	3,231,230
1,696,368	1,826,235	4,500,000	8,022,603
8,404,771	4,945,373	7,000,000	20,350,144
\$ 10,101,139	\$ 6,771,608	\$ 11,500,000	\$ 28,372,747

**Urology Care Foundation, Inc.**

**Statements of Cash Flows**  
**Years Ended December 31, 2014 and 2013**

	2014	2013
Cash Flows From Operating Activities		
Change in net assets	\$ 16,211,205	\$ 8,022,603
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized appreciation of investments	(667,980)	(3,231,230)
Interest and dividend income reinvested	(1,345,192)	(786,930)
(Decrease) increase in allowance for doubtful pledges and present value discount on pledges	(23,941)	19,000
Contributions restricted for endowments	(15,750,000)	(4,500,000)
Changes in assets and liabilities:		
Decrease (increase) in assets:		
Accounts receivable	684,423	(1,384,423)
Pledges receivable	33,067	891
Due from related party	(1,252,303)	595,288
Prepaid expenses and other current assets	(3,693)	(8,669)
(Decrease) increase in liabilities:		
Accounts payable and accrued expenses	97,193	(147,880)
Deferred revenue	(125,500)	1,401,500
<b>Net cash used in operating activities</b>	<b>(2,142,721)</b>	<b>(19,850)</b>
Cash Flows From Investing Activities		
Proceeds from sale of investments	8,379,943	173,196
Purchases of investments	(9,579,943)	(2,013,983)
<b>Net cash used in investing activities</b>	<b>(1,200,000)</b>	<b>(1,840,787)</b>
Cash Flows From Financing Activities		
Proceeds from contributions restricted for endowments	3,975,000	1,500,000
<b>Net cash provided by financing activities</b>	<b>3,975,000</b>	<b>1,500,000</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>632,279</b>	<b>(360,637)</b>
Cash and Cash Equivalents		
Beginning	1,058,095	1,418,732
Ending	\$ 1,690,374	\$ 1,058,095
Supplemental Schedule of Noncash Investing and Financing Activities		
Stock contributions received for long-term endowment	\$ 14,250,000	\$ -

See Notes to Financial Statements.



## Urology Care Foundation, Inc.

### Notes to Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies

**Nature of activities:** Urology Care Foundation, Inc. (the Foundation) is a non-profit foundation established to support and promote research, patient/public education and advocacy to improve prevention, detection and treatment of and, ultimately, cure urologic diseases. The Foundation was established in July 2005 as the official foundation of the American Urological Association, Inc. (AUA). The Foundation's unique relationship with the AUA, the professional organization of approximately 20,000 members, provides the Foundation with resources and professional expertise of the AUA and its members to address the information and education needs of patients, caregivers and the public. The Foundation is tax-exempt under Section 501(c)(3) of the Internal Revenue Code (IRC).

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

**Basis of accounting:** The accompanying financial statements are presented in accordance with the accrual basis of accounting, whereby revenue is recognized when earned, and expenses are recognized when incurred.

**Basis of presentation:** The financial statements of the Foundation are prepared on the accrual basis in accordance with the Non-Profit Entities topic of the Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC), *Financial Statements of Not-for-Profit Organizations*.

The Foundation reports information regarding its financial position and activities according to the following three classes of net assets:

***Unrestricted net assets:*** Unrestricted net assets are the net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

- Operating – Represents resources available for support of projects.
- Board Designated – Represents reserved funds designated by the Foundation's Board of Directors to support research scholars and patient education.

***Temporarily restricted net assets:*** Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Foundation pursuant to these stipulations. Net assets may be temporarily restricted for various purposes, such as use in future periods or use for specified purposes.

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. 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 statements of activities as net assets released from restrictions.

***Permanently restricted net assets:*** Permanently restricted net assets result from contributions whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by the Foundation's actions.

**Cash and cash equivalents:** The Foundation considers cash and investments with an original maturity of three months or less to be cash equivalents.

## Urology Care Foundation, Inc.

### Notes to Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Accounts receivable:** Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying specific uncollectible accounts and by using historical experience. Accounts receivable are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

**Pledges receivable:** Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same period in which the contribution is received, the Foundation reports the support as unrestricted. Pledges receivable are carried at the present value of expected future cash flows, net of unamortized discounts. Management determines the allowance for uncollectible pledges receivable by identifying specific uncollectible accounts and by using historical experience. Pledges receivable are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

**Prepaid expenses:** Cash outlays for direct expenses and direct expenses related to programs to be held in future years are included in prepaid expenses. These amounts are recognized as expense during the subsequent year when the programs are held.

**Investments:** Investments are recorded at fair value. The Foundation invests in a professionally managed portfolio that contains equity and fixed income mutual funds. Such investments are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to the changes in value of such investments, it is at least reasonably possible that changes in risks in the near-term would materially affect investment balances and the amounts reported in the financial statements.

**Revenue and deferred revenue:** Registration fees and grants received in advance are included in deferred revenue and are recognized during the subsequent year when the programs are held.

**Grants:** Grants are recorded as expenses and grants payable when approved by the Board of Directors. If the needs of the grant programs are less than the amount approved, or if the grantee fails to meet routine requirements specified at the time of approval, the grants, in part or in whole, may be cancelled or refunded. These cancellations or refunds are recognized in the year in which they occur.

**Contributed services:** A number of unpaid volunteers have made contributions of their time to develop and administer the Foundation's programs. The value of this contributed time is not reflected in the financial statements because it does not meet the criteria for recognition as defined by accounting standards.

**Income taxes:** The Foundation is generally exempt from federal income tax under Section 501(c)(3) of the IRC. In addition, the Foundation qualifies for charitable contributions deductions under Section 170(b)(1)(A) and has been classified as a Foundation that is not a private foundation under Section 509(a)(1). Income, which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes.

## Urology Care Foundation, Inc.

### Notes to Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

The Foundation has adopted the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Foundation may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by tax authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods.

Management evaluated the Foundation's tax positions and concluded that the Foundation had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. Generally, the Foundation is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2011.

**Credit risk:** The Foundation has deposits in financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC). The Foundation has not experienced any losses on such accounts, and management does not believe the Foundation is exposed to significant credit risk on cash.

**Financial risk:** Investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the risk associated with the Foundation's investments, it is reasonably possible that changes in the values of the Foundation's investments will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

**Use of estimates:** The preparation of financial statements 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 revenue and expenses during the reporting period. Actual results could vary from those estimates.

**Reclassifications:** Certain 2013 amounts have been reclassified to conform to the 2014 presentation. These reclassifications had no effect on the previously reported change in net assets or net assets.

**Subsequent events:** The Foundation evaluated subsequent events through April 16, 2015, which is the date the financial statements were available to be issued.

#### Note 2. Investments

The Foundation maintains investment accounts with The Vanguard Group. The annual rate of return on long-term investments, including unrealized appreciation, was 7.02% and 19.55% for the years ended December 31, 2014 and 2013, respectively.

Cost and fair values of the investments at December 31, 2014 and 2013, are as follows:

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Investments				
Vanguard equity funds	\$ 24,688,595	\$ 28,134,642	\$ 12,739,647	\$ 17,199,011
Vanguard fixed income funds	15,182,305	15,290,237	8,776,741	8,762,696
	<u>\$ 39,870,900</u>	<u>\$ 43,424,879</u>	<u>\$ 21,516,388</u>	<u>\$ 25,961,707</u>

## Urology Care Foundation, Inc.

### Notes to Financial Statements

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#### Note 2. Investments (Continued)

Investment income from all sources including checking accounts consists of the following for the years ended December 31, 2014 and 2013:

	2014	2013
Net unrealized appreciation	\$ 247,531	\$ 3,222,910
Net realized gain	420,449	8,320
	<u>667,980</u>	<u>3,231,230</u>
Interest and dividend income, net of fees	1,323,039	770,439
	<u>\$ 1,991,019</u>	<u>\$ 4,001,669</u>

#### Note 3. Pledges Receivable

Pledges receivable are due from donors to fund research and scholars programs and totaled \$526,333 and \$1,534,400 as of December 31, 2014 and 2013, respectively.

Pledges receivable are carried at the present value of expected future cash flows, net of a present value discount. As of December 31, 2014 and 2013, the present value discount was \$7,600 and \$141, respectively. As of December 31, 2014 and 2013, a reserve for uncollectible amounts of \$0 and \$31,400, respectively, was recorded based on management's evaluation of the collectability of pledges receivable.

The scheduled collection of the pledges receivable at December 31, 2014, is as follows:

Less than 1 year	\$ 376,333
1 year	<u>150,000</u>
	526,333
Less unamortized discount to net present value	<u>(7,600)</u>
<b>Pledges receivable, net</b>	<u><u>\$ 518,733</u></u>

#### Note 4. Commitments and Contingency

- (a) **Scholar commitments:** The Research Scholars Program provides support to young men and women who are interested in pursuing a career in urologic research. The AUA started funding research in 1975, and the Research Scholars Program was administered by the American Foundation for Urologic Disease, Inc. from 1987 until 2005. Following reorganization in 2005, the AUA Foundation (now the Urology Care Foundation, Inc.) has administered the program. To date, over 500 researchers have been granted research scholarships and awards through a variety of programs and fellowships. Applicants can choose from one and two year fellowships for MDs and PhDs. Applicants must be within five years of completing residency or doctorate programs.

## Urology Care Foundation, Inc.

### Notes to Financial Statements

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#### Note 4. Commitments and Contingency (Continued)

The Foundation has incurred the following scholar commitments as of December 31, 2014:

Year Ending December 31,

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2015	\$	1,204,000
2016		713,000
2017		159,000
2018		114,000
2019		131,000
Thereafter		389,000
<b>Total scholar commitments</b>	<b>\$</b>	<b>2,710,000</b>

- (b) On September 1, 2012, the Foundation entered into a Guaranty Agreement with a bank, whereby the Foundation was named as a joint guarantor, along with the American Urological Association, Inc. (collectively, the Guarantors), for revenue bonds payable of \$8,275,000 and a term note payable of \$4,326,780 by American Urological Association Education and Research, Inc. Under these agreements, the Guarantors absolutely and unconditionally, jointly and severally, guarantee to the bank the full and prompt payment of all indebtedness, when due, either by acceleration or otherwise. At December 31, 2014, the indebtedness of the American Urological Association Education and Research, Inc. for the revenue bonds and term note amounted to \$7,305,000 and \$3,519,737, respectively.

#### Note 5. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets consist of the following at December 31, 2014 and 2013:

	2014	2013
Innovative Research Funds	\$ 2,023,144	\$ 2,050,846
AUA Section Research Scholar Funds	1,777,226	1,605,654
Prostate Funds	1,697,117	1,512,552
Sexual Dysfunction Fund	865,637	884,760
Victor Politano Award	442,711	429,161
Pediatric Funds	295,646	288,635
Specialty Society Research Scholar Funds	239,211	-
Rising Star in Urology Research Award Program	124,461	-
	<b>\$ 7,465,153</b>	<b>\$ 6,771,608</b>

## Urology Care Foundation, Inc.

### Notes to Financial Statements

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#### Note 5. Temporarily and Permanently Restricted Net Assets (Continued)

Permanently restricted net assets, the income from which is expendable to support the following, are as follows at December 31, 2014 and 2013:

	2014	2013
AUA Section Research Scholar Funds	\$ 13,000,000	\$ 7,000,000
Specialty Society Research Scholar Funds	11,250,000	1,500,000
Rising Star in Urology Research Award Program	3,000,000	3,000,000
	<u>\$ 27,250,000</u>	<u>\$ 11,500,000</u>

During the years ended December 31, 2014 and 2013, American Urological Education and Research, Inc. (AUAER) provided \$12,500,000 and \$2,750,000, respectively, to the Foundation that were used in order to provide matching contributions for the Urology Care Foundation Research Scholars Program. Additionally, during the years ended December 31, 2014 and 2013, individual AUA sections and specialty societies contributed \$3,250,000 and \$1,750,000, respectively, towards this program.

Net assets released from restrictions consisted of the following for the years ended December 31, 2014 and 2013:

	2014	2013
AUA Section Research Scholar Funds	\$ 440,740	\$ 386,926
Innovative Research Funds	143,076	132,313
Rising Star in Urology Research Award Program	59,560	-
Sexual Dysfunction Fund	48,744	28,937
Specialty Society Research Scholar Funds	41,710	-
Prostate Funds	26,143	24,278
Victor Politano Award	12,647	12,407
Pediatric Funds	10,545	10,846
	<u>\$ 783,165</u>	<u>\$ 595,707</u>

#### Note 6. Endowment

The Foundation follows FASB ASC 958, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. The accounting standard provides guidance on the net asset classification of donor restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), in Maryland. The accounting standard also improves disclosures about an organization's endowment funds (both donor-restricted endowment funds and board designated endowment funds), whether or not the organization is subject to UPMIFA.

## Urology Care Foundation, Inc.

### Notes to Financial Statements

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#### Note 6. Endowment (Continued)

**Interpretation of relevant law:** The Foundation has interpreted the state of Maryland's enacted version of UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- a. The duration and preservation of the fund.
- b. The purposes of the Foundation and the donor-restricted endowment fund.
- c. General economic conditions.
- d. The possible effects of inflation and deflation.
- e. The expected total return from income and the appreciation of investments.
- f. Other resources of the Foundation.
- g. The investment policies of the Foundation.

**Return objective and risk parameters:** The long-term goal of the Scholarship and Award endowments is to achieve appreciation of assets without exposure to undue risk. The portfolio is expected to support scholarship and award payments, cover an annual management fee, and provide additional growth to preserve the purchasing power of the endowments over time.

**Spending policy:** Releases from restrictions to cover scholarship and award payments are at the discretion of the Board of Directors and are reviewed in conjunction with the budget process. The prudence factors noted above are evaluated to aid in the determination of the amount to be expended.

Endowment net asset composition by type of fund is as follows as of December 31, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ -	\$ 7,465,153	\$ 27,250,000	\$ 34,715,153

Endowment net asset composition by type of fund is as follows as of December 31, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ -	\$ 6,771,608	\$ 11,500,000	\$ 18,271,608

## Urology Care Foundation, Inc.

### Notes to Financial Statements

#### Note 6. Endowment (Continued)

Changes in endowment net assets are as follows for the fiscal years ended December 31, 2014 and 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2013	\$ -	\$ 4,945,373	\$ 7,000,000	\$ 11,945,373
Net investment income	-	2,314,563	-	2,314,563
Contributions	-	107,379	4,500,000	4,607,379
Endowment draw to operating	-	(595,707)	-	(595,707)
<b>Endowment net assets, December 31, 2013</b>	-	6,771,608	11,500,000	18,271,608
Net investment income	-	1,390,661	-	1,390,661
Contributions	-	86,049	15,750,000	15,836,049
Endowment draw to operating	-	(783,165)	-	(783,165)
<b>Endowment net assets, December 31, 2014</b>	\$ -	\$ 7,465,153	\$ 27,250,000	\$ 34,715,153

#### Note 7. Fair Value Measurements

The Foundation adopted guidance issued by the FASB which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions that market participants would use in pricing an asset or liability. In determining the appropriate levels, the Foundation performs a detailed analysis of the assets and liabilities that are subject to fair value measurement. The three levels of the fair value hierarchy are described below:

- Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The types of investments included in Level 1 include listed equities, mutual funds, and certificates of deposit.
- Level 2 Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly; and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate loans, less liquid, restricted equity securities and certain corporate bonds and over-the-counter derivatives. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.
- Level 3 Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation.



**Urology Care Foundation, Inc.**

**Notes to Financial Statements**

**Note 7. Fair Value Measurements (Continued)**

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment. The following section describes the valuation techniques used by the Foundation:

- Level 1 Investments in securities traded on a national securities exchange are stated at the last reported sales price on the day of valuation.
- Level 2 The Foundation has no Level 2 investments as of December 31, 2014 and 2013.
- Level 3 The Foundation has no Level 3 investments as of December 31, 2014 and 2013.

The following tables present the Foundation's fair value hierarchy for those assets measured at fair value on a recurring basis as of December 31, 2014 and 2013:

	2014			
	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
		Level 1	Level 2	Level 3
Vanguard Equity Funds				
Total Stock Market Index	\$ 8,416,763	\$ 8,416,763	\$ -	\$ -
PRIMECAP Fund Admiral	2,955,444	2,955,444	-	-
Windsor II Fund Admiral	2,947,869	2,947,869	-	-
Explorer Fund Admiral	1,264,657	1,264,657	-	-
Strategic Equity Fund	1,260,180	1,260,180	-	-
Institutional Developed Markets Index	9,061,035	9,061,035	-	-
Emerging Markets Stock Index Signal	2,228,694	2,228,694	-	-
Vanguard Fixed Income Funds				
Total Bond Market Index	3,933,599	3,933,599	-	-
Total International Bond Index Institutional	3,706,600	3,706,600	-	-
Intermediate-Term Invest-Grade Admiral	4,592,024	4,592,024	-	-
Short-Term Invest-Grade Admiral	3,058,014	3,058,014	-	-
	<u>\$ 43,424,879</u>	<u>\$ 43,424,879</u>	<u>\$ -</u>	<u>\$ -</u>

**Urology Care Foundation, Inc.**

**Notes to Financial Statements**

**Note 7. Fair Value Measurements (Continued)**

	2013			
	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
		Level 1	Level 2	Level 3
Vanguard Equity Funds				
Total Stock Market Index	\$ 6,944,578	\$ 6,944,578	\$ -	\$ -
PRIMECAP Fund Admiral	2,500,415	2,500,415	-	-
Windsor II Fund Admiral	2,367,829	2,367,829	-	-
Explorer Fund Admiral	1,063,017	1,063,017	-	-
Strategic Equity Fund	1,090,185	1,090,185	-	-
Institutional Developed Markets Index	2,543,689	2,543,689	-	-
Emerging Markets Stock Index Signal	689,298	689,298	-	-
Vanguard Fixed Income Funds				
Total Bond Market Index	4,378,257	4,378,257	-	-
Intermediate-Term Invest-Grade Admiral	2,626,737	2,626,737	-	-
Short-Term Invest-Grade Admiral	1,757,702	1,757,702	-	-
	<u>\$ 25,961,707</u>	<u>\$ 25,961,707</u>	<u>\$ -</u>	<u>\$ -</u>

**Note 8. Related Parties**

The Foundation has a cost-sharing agreement with AUAER and AUA whereby certain joint costs are allocated between AUAER, AUA, and the Foundation based on factors approved by the Board of Directors. This agreement was amended in 2007 and established a general and administrative expense (G&A) that is reported in the statements of activities. These expenses are allocated to the Foundation based on its share of the program expenses.

At December 31, 2014, the Foundation owed \$37,533 to AUAER, and as of December 31, 2013, AUAER owed \$210,164 to the Foundation.

As described in Note 5, AUAER contributed \$12,500,000 and \$2,750,000, respectively, to the Foundation during the years ended December 31, 2014 and 2013.



**Independent Auditor's Report  
on the Supplementary Information**

To the Board of Directors  
Urology Care Foundation, Inc.  
Linthicum, Maryland

We have audited the financial statements of Urology Care Foundation, Inc. as of and for the years ended December 31, 2014 and 2013, and have issued our report thereon which contained an unmodified opinion on those financial statements. See pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole.

The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*McGladrey LLP*

Baltimore, Maryland  
April 16, 2015

Urology Care Foundation, Inc.

**Statement of Activities – Supplemental  
Year Ended December 31, 2014  
(With Comparative Totals for December 31, 2013)**

	2014			Total	2013 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>Revenue</b>					
Contributions and other	\$ 310,965	\$ 3,200	\$ 12,500,000	\$ 12,814,165	\$ 3,818,500
Grants	1,494,132	82,849	3,250,000	4,826,981	3,228,444
Investment income	402,306	927,678	-	1,329,984	774,853
Net assets released from restrictions	783,165	(783,165)	-	-	-
	<b>2,990,568</b>	<b>230,562</b>	<b>15,750,000</b>	<b>18,971,130</b>	<b>7,821,797</b>
<b>Expenses</b>					
Compensation and benefits	815,281	-	-	815,281	751,666
Stipends and awards	1,535,374	-	-	1,535,374	1,375,100
Contract services	192,487	-	-	192,487	196,826
Travel	77,030	-	-	77,030	123,246
Professional fees	154,798	-	-	154,798	92,128
Occupancy	7,729	-	-	7,729	9,541
Office expenses	420,973	-	-	420,973	311,641
General, administrative, and governance	217,288	-	-	217,288	165,862
	<b>3,420,960</b>	<b>-</b>	<b>-</b>	<b>3,420,960</b>	<b>3,026,010</b>
<b>Excess (deficiency) of operating revenue over expenses</b>	<b>(430,392)</b>	<b>230,562</b>	<b>15,750,000</b>	<b>15,550,170</b>	<b>4,795,787</b>
Investment Income	198,052	462,983	-	661,035	3,226,816
<b>Change in net assets</b>	<b>(232,340)</b>	<b>693,545</b>	<b>15,750,000</b>	<b>16,211,205</b>	<b>8,022,603</b>
<b>Net Assets</b>					
Beginning	10,101,139	6,771,608	11,500,000	28,372,747	20,350,144
Ending	<b>\$ 9,868,799</b>	<b>\$ 7,465,153</b>	<b>\$ 27,250,000</b>	<b>\$ 44,583,952</b>	<b>\$ 28,372,747</b>

Urology Care Foundation, Inc.

Statement of Activities – Supplemental  
Year Ended December 31, 2013

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Revenue</b>				
Contributions and other	\$ 1,062,587	\$ 5,913	\$ 2,750,000	\$ 3,818,500
Grants	1,376,978	101,466	1,750,000	3,228,444
Investment income	327,172	447,681	-	774,853
Net assets released from restrictions	595,707	(595,707)	-	-
	<u>3,362,444</u>	<u>(40,647)</u>	<u>4,500,000</u>	<u>7,821,797</u>
<b>Expenses</b>				
Compensation and benefits	751,666	-	-	751,666
Stipends and awards	1,375,100	-	-	1,375,100
Contract services	196,826	-	-	196,826
Travel	123,246	-	-	123,246
Professional fees	92,128	-	-	92,128
Occupancy	9,541	-	-	9,541
Office expenses	311,641	-	-	311,641
General, administrative, and governance	165,862	-	-	165,862
	<u>3,026,010</u>	<u>-</u>	<u>-</u>	<u>3,026,010</u>
<b>Excess (deficiency) of operating revenue over expenses</b>	<b>336,434</b>	<b>(40,647)</b>	<b>4,500,000</b>	<b>4,795,787</b>
Investment Income	1,359,934	1,866,882	-	3,226,816
<b>Change in net assets</b>	<b>1,696,368</b>	<b>1,826,235</b>	<b>4,500,000</b>	<b>8,022,603</b>
<b>Net Assets</b>				
Beginning	8,404,771	4,945,373	7,000,000	20,350,144
Ending	<u>\$ 10,101,139</u>	<u>\$ 6,771,608</u>	<u>\$ 11,500,000</u>	<u>\$ 28,372,747</u>