

# **Urology Care Foundation, Inc.**

Financial Report  
December 31, 2016

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RSM US LLP

## 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, 2016 and 2015, 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, 2016 and 2015, 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.

*RSM US LLP*

Baltimore, Maryland  
April 21, 2017

**Urology Care Foundation, Inc.**

**Statements of Financial Position  
December 31, 2016 and 2015**

	2016	2015
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 298,279	\$ 697,670
Accounts receivable, net of allowance for doubtful accounts (2016 – \$21,029; 2015 – \$18,554)	38,792	331,997
Pledges receivable (Note 3)	83,333	227,333
Due from related party (Note 8)	-	179,930
Prepaid expenses and other current assets	15,060	7,333
<b>Total current assets</b>	<b>435,464</b>	<b>1,444,263</b>
Noncurrent assets:		
Pledges receivable – noncurrent, net (2016 – \$0; 2015 – \$3,205) (Note 3)	-	80,128
Investments (Notes 2 and 7)	49,270,534	44,427,456
<b>Total assets</b>	<b>\$ 49,705,998</b>	<b>\$ 45,951,847</b>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 109,406	\$ 70,964
Due to related party (Note 8)	25,820	-
Deferred revenue	826,001	1,201,501
<b>Total current liabilities</b>	<b>961,227</b>	<b>1,272,465</b>
Commitments and contingency (Note 4)		
Net assets:		
Unrestricted:		
Operating	1,477,951	1,280,596
Board-designated	8,225,769	8,046,239
	<b>9,703,720</b>	<b>9,326,835</b>
Temporarily restricted (Notes 5 and 6)	6,727,793	6,552,547
Permanently restricted (Notes 5 and 6)	32,313,258	28,800,000
	<b>48,744,771</b>	<b>44,679,382</b>
<b>Total liabilities and net assets</b>	<b>\$ 49,705,998</b>	<b>\$ 45,951,847</b>

See notes to financial statements.

**Urology Care Foundation, Inc.**

**Statements of Activities  
Years Ended December 31, 2016 and 2015**

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Revenue:</b>				
Development	\$ 730,669	\$ -	\$ -	\$ 730,669
Education programs	591,125	-	-	591,125
Outreach and awareness campaigns	395,312	-	-	395,312
Scholarship program (Note 5)	440,500	2,100	2,513,258	2,955,858
Net dividend income (Note 2)	311,445	1,216,648	-	1,528,093
Change in donor intent (Note 5)	-	(1,000,000)	1,000,000	-
Net assets released from restriction (Note 5)	1,336,715	(1,336,715)	-	-
	<b>3,805,766</b>	<b>(1,117,967)</b>	<b>3,513,258</b>	<b>6,201,057</b>
<b>Expenses:</b>				
Program services:				
General	396,108	-	-	396,108
Education programs	510,454	-	-	510,454
Outreach and awareness campaigns	220,005	-	-	220,005
Research	509,528	-	-	509,528
Scholarship program (Note 4)	1,405,833	-	-	1,405,833
Supporting services:				
Development	745,312	-	-	745,312
General, administrative and governance	129,508	-	-	129,508
	<b>3,916,748</b>	<b>-</b>	<b>-</b>	<b>3,916,748</b>
<b>Excess (deficiency) of operating revenue over expenses</b>	<b>(110,982)</b>	<b>(1,117,967)</b>	<b>3,513,258</b>	<b>2,284,309</b>
Investment income (loss) (Note 2)	487,867	1,293,213	-	1,781,080
<b>Change in net assets</b>	<b>376,885</b>	<b>175,246</b>	<b>3,513,258</b>	<b>4,065,389</b>
<b>Net assets:</b>				
Beginning	9,326,835	6,552,547	28,800,000	44,679,382
Ending	<b>\$ 9,703,720</b>	<b>\$ 6,727,793</b>	<b>\$ 32,313,258</b>	<b>\$ 48,744,771</b>

See notes to financial statements.

2015

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 803,007	\$ -	\$ -	\$ 803,007
239,501	-	-	239,501
965,142	-	-	965,142
530,000	144,923	1,550,000	2,224,923
334,369	1,191,211	-	1,525,580
-	-	-	-
976,964	(976,964)	-	-
<u>3,848,983</u>	<u>359,170</u>	<u>1,550,000</u>	<u>5,758,153</u>
460,467	-	-	460,467
315,958	-	-	315,958
450,420	-	-	450,420
428,449	-	-	428,449
1,171,988	-	-	1,171,988
798,522	-	-	798,522
236,364	-	-	236,364
<u>3,862,168</u>	<u>-</u>	<u>-</u>	<u>3,862,168</u>
(13,185)	359,170	1,550,000	1,895,985
<u>(528,778)</u>	<u>(1,271,777)</u>	<u>-</u>	<u>(1,800,555)</u>
(541,963)	(912,607)	1,550,000	95,430
<u>9,868,798</u>	<u>7,465,154</u>	<u>27,250,000</u>	<u>44,583,952</u>
<u>\$ 9,326,835</u>	<u>\$ 6,552,547</u>	<u>\$ 28,800,000</u>	<u>\$ 44,679,382</u>

**Urology Care Foundation, Inc.**

**Statements of Cash Flows**  
**Years Ended December 31, 2016 and 2015**

	2016	2015
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 4,065,389	\$ 95,430
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized (appreciation) depreciation of investments	(1,781,080)	1,800,555
Interest and dividend income reinvested	(1,561,998)	(1,553,132)
Increase in allowance for doubtful accounts	2,475	18,554
Decrease in present value discount on pledges	(3,205)	(4,395)
Contributions restricted for endowments	(2,513,258)	(1,550,000)
Changes in assets and liabilities:		
Decrease (increase) in assets:		
Accounts receivable	290,730	624,449
Pledges receivable	-	1,333
Due from related party	179,930	(179,930)
Prepaid expenses and other current assets	(7,727)	5,029
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	38,442	(41,639)
Deferred revenue	(375,500)	(685,759)
Due to related party	1,025,820	(37,533)
<b>Net cash used in operating activities</b>	<b>(639,982)</b>	<b>(1,507,038)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from contributions restricted for endowments	240,591	514,334
<b>Net cash provided by financing activities</b>	<b>240,591</b>	<b>514,334</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(399,391)</b>	<b>(992,704)</b>
<b>Cash and cash equivalents:</b>		
Beginning	697,670	1,690,374
Ending	\$ 298,279	\$ 697,670
<b>Supplemental schedule of noncash operating and investing activities:</b>		
Proceeds from sale of stock transferred directly from investment portfolio to make payment to related party	\$ 1,000,000	\$ -
<b>Supplemental schedule of noncash investing and financing activities:</b>		
Stock contributions received for long-term endowment deposited directly into investments	\$ 2,500,000	\$ 1,250,000

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 nonprofit 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 22,000 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:** 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 2013.

**Credit risk:** The Foundation has deposits in financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation. 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.

**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.

**Reclassification:** Certain 2015 amounts have been reclassified to conform to the 2016 presentation. These reclassifications had no effect on the previously reported change in net assets.

**Recently issued accounting pronouncements:** In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The amendments in this ASU create Topic 606, *Revenue from Contracts with Customers*, and supersede the revenue requirements in Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the Industry Topics of the ASC. In summary, the core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2018. The impact of adopting ASU No. 2014-09 on the Foundation's financial statements for subsequent periods has not yet been determined.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for Profit Entities*. The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of nonprofit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a nonprofit entity's liquidity, financial performance and cash flows. The amendments in this ASU are effective for the year ending December 31, 2018. Earlier applicable is permitted. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. The Foundation's management has not yet evaluated the impact of this ASU on the financial statements.

**Subsequent events:** The Foundation evaluated subsequent events through April 21, 2017, which is the date the financial statements were available to be issued.

## Urology Care Foundation, Inc.

### Notes to Financial Statements

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#### Note 2. Investments

The Foundation maintains investment accounts with The Vanguard Group. The annual rate of return (loss) on long-term investments, including unrealized appreciation and depreciation, was 7.39% and (0.44)% for the years ended December 31, 2016 and 2015, respectively.

Cost and fair values of the investments at December 31, 2016 and 2015, are as follows:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Investments:				
Vanguard equity funds	\$ 29,169,196	\$ 32,646,484	\$ 26,147,295	\$ 28,043,208
Vanguard fixed income funds	16,631,311	16,624,050	16,516,899	16,384,248
	<u>\$ 45,800,507</u>	<u>\$ 49,270,534</u>	<u>\$ 42,664,194</u>	<u>\$ 44,427,456</u>

Investment income (loss) from all sources including checking accounts consists of the following for the years ended December 31, 2016 and 2015:

	2016	2015
Net unrealized appreciation (depreciation)	\$ 1,700,815	\$ (1,800,555)
Net realized gain	80,265	-
	<u>1,781,080</u>	<u>(1,800,555)</u>
Interest and dividend income, net of fees	1,528,093	1,525,580
	<u>\$ 3,309,173</u>	<u>\$ (274,975)</u>

#### Note 3. Pledges Receivable

Pledges receivable are due from donors to fund research and scholars programs and totaled \$83,333 and \$310,666 as of December 31, 2016 and 2015, respectively.

Pledges receivable are carried at the present value of expected future cash flows, net of a present value discount. As of December 31, 2016 and 2015, the present value discount was \$0 and \$3,205, respectively. As of December 31, 2016 and 2015, no reserve for uncollectible amounts was recorded based on management's evaluation of the collectability of pledges receivable.

Pledges receivable at December 31, 2016, are expected to be collected in 2017.

#### Note 4. Commitments and Contingency

**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**

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

The Foundation has incurred the following scholar commitments as of December 31, 2016:

Years ending December 31:		
2017	\$	1,386,000
2018		892,000
2019		292,000
Total scholar commitments	\$	<u>2,570,000</u>

**Guaranty:** 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. (AUAER). 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, 2016, the indebtedness of AUAER for the revenue bonds and term note amounted to \$6,305,000 and \$2,685,057, respectively.

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

Temporarily restricted net assets consist of the following at December 31, 2016 and 2015:

	2016	2015
Innovative Research Funds	\$ 1,921,099	\$ 1,900,547
AUA Section Research Scholar Funds	1,629,462	1,239,521
Sexual Dysfunction Fund	824,593	813,312
Prostate Funds	730,222	721,733
Specialty Society Research Scholar Funds	613,216	63,183
Victor Politano Award	445,043	427,005
Pediatric Funds	293,180	282,746
Rising Star in Urology Research Award Program	158,555	41,951
Chesapeake Urology Associates Research Scholarship	108,923	1,062,549
Chesapeake Urology Associates Community-Based Research to Advance Prostate Cancer Care Fund	3,500	-
	<u>\$ 6,727,793</u>	<u>\$ 6,552,547</u>

Permanently restricted net assets, the income from which is expendable to support the following, are as follows at December 31, 2016 and 2015:

	2016	2015
Specialty Society Research Scholar Funds	\$ 15,000,000	\$ 12,500,000
AUA Section Research Scholar Funds	13,250,000	13,250,000
Rising Star in Urology Research Award Program	3,000,000	3,000,000
Chesapeake Urology Associates Research Scholarship	1,000,000	-
Chesapeake Urology Associates Community-Based Research to Advance Prostate Cancer Care Fund	63,258	50,000
	<u>\$ 32,313,258</u>	<u>\$ 28,800,000</u>

## Urology Care Foundation, Inc.

### Notes to Financial Statements

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

During the year ended December 31, 2016, the Foundation recognized the fulfillment of the Chesapeake Urology Associates Research Scholarship, thereby triggering the reclassification of \$1,000,000 from temporarily restricted net assets to permanently restricted net assets.

During the years ended December 31, 2016 and 2015, AUAER provided \$2,500,000 and \$1,250,000, respectively, to the Foundation that were used in order to provide matching contributions for the Urology Care Foundation Research Scholars Program. Additionally, individual AUA sections and specialty societies contributed towards this program.

Net assets released from restrictions consisted of the following for the years ended December 31, 2016 and 2015:

	2016	2015
AUA Section Research Scholar Funds	\$ 590,298	\$ 507,421
Specialty Society Research Scholar Funds	377,709	176,608
Innovative Research Funds	116,966	111,775
Rising Star in Urology Research Award Program	104,905	63,727
Prostate Funds	75,252	45,023
Sexual Dysfunction Fund	48,329	48,215
Victor Politano Award	13,115	13,057
Pediatric Funds	10,141	11,138
	<u>\$ 1,336,715</u>	<u>\$ 976,964</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 nonprofit 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.

**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

## Urology Care Foundation, Inc.

### Notes to Financial Statements

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#### Note 6. Endowment (Continued)

- 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.

**Funds with deficiencies:** From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$0 and \$129,598 as of December 31, 2016 and 2015, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and will not affect the Foundation's ability to fund programs and initiatives sponsored by the endowment fund.

Endowment net asset composition by type of fund is as follows as of December 31, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ -	\$ 6,727,793	\$ 32,313,258	\$ 39,041,051

Endowment net asset composition by type of fund is as follows as of December 31, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ (129,598)	\$ 6,552,547	\$ 28,800,000	\$ 35,222,949

## Urology Care Foundation, Inc.

### Notes to Financial Statements

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#### Note 6. Endowment (Continued)

Changes in endowment net assets are as follows for the fiscal years ended December 31, 2016 and 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2015	\$ -	\$ 7,465,154	\$ 27,250,000	\$ 34,715,154
Net investment loss	(129,598)	(80,566)	-	(210,164)
Contributions	-	144,923	1,550,000	1,694,923
Endowment draw to operating	-	(976,964)	-	(976,964)
Endowment net assets, December 31, 2015	(129,598)	6,552,547	28,800,000	35,222,949
Net investment income	129,598	2,509,861	-	2,639,459
Contributions	-	2,100	2,513,258	2,515,358
Change in donor intent	-	(1,000,000)	1,000,000	-
Endowment draw to operating	-	(1,336,715)	-	(1,336,715)
Endowment net assets, December 31, 2016	\$ -	\$ 6,727,793	\$ 32,313,258	\$ 39,041,051

#### 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, 2016 and 2015.

**Level 3:** The Foundation has no Level 3 investments as of December 31, 2016 and 2015.

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, 2016 and 2015:

	2016			
	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Vanguard equity funds:				
Total Stock Market Index	\$ 10,014,850	\$ 10,014,850	\$ -	\$ -
PRIMECAP Fund Admiral	3,472,373	3,472,373	-	-
Windsor II Fund Admiral	3,533,789	3,533,789	-	-
Explorer Fund Admiral	1,518,001	1,518,001	-	-
Strategic Equity Fund	1,601,606	1,601,606	-	-
Institutional Developed Markets Index	10,143,658	10,143,658	-	-
Emerging Markets Stock Index Signal	2,362,207	2,362,207	-	-
Vanguard fixed income funds:				
Total Bond Market Index	4,247,596	4,247,596	-	-
Total International Bond Index Institutional	4,067,484	4,067,484	-	-
Intermediate-Term Invest-Grade Admiral	4,953,397	4,953,397	-	-
Short-Term Invest-Grade Admiral	3,355,573	3,355,573	-	-
	<b>\$ 49,270,534</b>	<b>\$ 49,270,534</b>	<b>\$ -</b>	<b>\$ -</b>

**Urology Care Foundation, Inc.**

**Notes to Financial Statements**

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

	2015			
	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Vanguard equity funds:				
Total Stock Market Index	\$ 8,767,170	\$ 8,767,170	\$ -	\$ -
PRIMECAP Fund Admiral	3,033,556	3,033,556	-	-
Windsor II Fund Admiral	2,855,304	2,855,304	-	-
Explorer Fund Admiral	1,212,105	1,212,105	-	-
Strategic Equity Fund	1,242,432	1,242,432	-	-
Institutional Developed Markets Index	9,045,931	9,045,931	-	-
Emerging Markets Stock Index Signal	1,886,710	1,886,710	-	-
Vanguard fixed income funds:				
Total Bond Market Index	4,198,690	4,198,690	-	-
Total International Bond Index Institutional	4,000,880	4,000,880	-	-
Intermediate-Term Invest-Grade Admiral	4,916,358	4,916,358	-	-
Short-Term Invest-Grade Admiral	3,268,320	3,268,320	-	-
	<u>\$ 44,427,456</u>	<u>\$ 44,427,456</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. Expenses allocated to the Foundation were \$129,508 and \$236,634, for the years ended December 31, 2016 and 2015, respectively.

At December 31, 2016, the Foundation owed \$25,820 to AUAER, and as of December 31, 2015, AUAER owed \$179,930 to the Foundation.

As described in Note 5, AUAER contributed \$2,500,000 and \$1,250,000, respectively, to the Foundation during the years ended December 31, 2016 and 2015, respectively.



RSM US LLP

## 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, 2016 and 2015, 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.

*RSM US LLP*

Baltimore, Maryland  
April 21, 2017

Urology Care Foundation, Inc.

**Statement of Activities – Supplemental  
Year Ended December 31, 2016  
(With Comparative Totals for December 31, 2015)**

	2016			Total	2015 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>Revenue:</b>					
Contributions and other	\$ 359,266	\$ 2,100	\$ 2,500,000	\$ 2,861,366	\$ 1,621,430
Grants	1,798,340	-	13,258	1,811,598	2,611,143
Net dividend income	311,445	1,216,648	-	1,528,093	1,525,580
Change in donor intent	-	(1,000,000)	1,000,000	-	-
Net assets released from restrictions	1,336,715	(1,336,715)	-	-	-
	<u>3,805,766</u>	<u>(1,117,967)</u>	<u>3,513,258</u>	<u>6,201,057</u>	<u>5,758,153</u>
<b>Expenses:</b>					
Compensation and benefits	783,486	-	-	783,486	828,265
Stipends and awards	1,965,361	-	-	1,965,361	1,650,437
Contract services	361,924	-	-	361,924	415,606
Travel	126,930	-	-	126,930	160,873
Professional fees	217,838	-	-	217,838	164,472
Occupancy	2,031	-	-	2,031	4,698
Office expenses	329,670	-	-	329,670	401,453
General, administrative and governance	129,508	-	-	129,508	236,364
	<u>3,916,748</u>	<u>-</u>	<u>-</u>	<u>3,916,748</u>	<u>3,862,168</u>
<b>(Deficiency) excess of operating revenue over expenses</b>	<b>(110,982)</b>	<b>(1,117,967)</b>	<b>3,513,258</b>	<b>2,284,309</b>	<b>1,895,985</b>
Net investment income (loss)	487,867	1,293,213	-	1,781,080	(1,800,555)
<b>Change in net assets</b>	<b>376,885</b>	<b>175,246</b>	<b>3,513,258</b>	<b>4,065,389</b>	<b>95,430</b>
<b>Net assets:</b>					
Beginning	9,326,835	6,552,547	28,800,000	44,679,382	44,583,952
Ending	<u>\$ 9,703,720</u>	<u>\$ 6,727,793</u>	<u>\$ 32,313,258</u>	<u>\$ 48,744,771</u>	<u>\$ 44,679,382</u>

**Urology Care Foundation, Inc.**

**Statement of Activities – Supplemental  
Year Ended December 31, 2015**

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Revenue:</b>				
Contributions and other	\$ 369,302	\$ 2,128	\$ 1,250,000	\$ 1,621,430
Grants	2,168,348	142,795	300,000	2,611,143
Net dividend income	334,369	1,191,211	-	1,525,580
Net assets released from restrictions	976,964	(976,964)	-	-
	<u>3,848,983</u>	<u>359,170</u>	<u>1,550,000</u>	<u>5,758,153</u>
<b>Expenses:</b>				
Compensation and benefits	828,265	-	-	828,265
Stipends and awards	1,650,437	-	-	1,650,437
Contract services	415,606	-	-	415,606
Travel	160,873	-	-	160,873
Professional fees	164,472	-	-	164,472
Occupancy	4,698	-	-	4,698
Office expenses	401,453	-	-	401,453
General, administrative and governance	236,364	-	-	236,364
	<u>3,862,168</u>	<u>-</u>	<u>-</u>	<u>3,862,168</u>
<b>(Deficiency) excess of operating revenue over expenses</b>	(13,185)	359,170	1,550,000	1,895,985
Net investment loss	(528,778)	(1,271,777)	-	(1,800,555)
<b>Change in net assets</b>	(541,963)	(912,607)	1,550,000	95,430
<b>Net assets:</b>				
Beginning	9,868,798	7,465,154	27,250,000	44,583,952
Ending	<u>\$ 9,326,835</u>	<u>\$ 6,552,547</u>	<u>\$ 28,800,000</u>	<u>\$ 44,679,382</u>