

Urology Care Foundation, Inc.

Financial Report
December 31, 2018

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Independent Auditor's Report

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

RSM US LLP

Report on the Financial Statements

We have audited the accompanying financial statements of Urology Care Foundation, Inc. (the Foundation), which comprise the statements of financial position as of December 31, 2018 and 2017, the related statements of activities, and cash flows for the years then ended, the statement of functional expenses for the year ended December 31, 2018, 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, 2018 and 2017, 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 8, 2019

Urology Care Foundation, Inc.

Statements of Financial Position
December 31, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	\$ 1,259,560	\$ 121,990
Accounts receivable, net of allowance for doubtful accounts (2018 – \$15,358; 2017 – \$20,259)	94,180	63,822
Pledges receivable (Note 4)	147,115	150,000
Due from related party (Note 10)	-	60,845
Prepaid expenses and other assets	2,003	15,620
Investments (Notes 3 and 9)	51,101,043	55,620,463
Total assets	\$ 52,603,901	\$ 56,032,740
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 86,171	\$ 83,443
Due to related party (Note 10)	1,365,133	-
Deferred revenue	556,257	478,309
Total liabilities	2,007,561	561,752
Commitments and contingency (Note 5)		
Net assets:		
Without donor restrictions:		
Operating	614,506	942,860
Board-designated: Quasi-endowment (Note 7)	8,281,870	9,002,173
Total net assets without donor restrictions	8,896,376	9,945,033
With donor restrictions:		
Purpose and time restricted (Notes 6 and 8)	7,445,706	11,642,697
Invested in perpetuity (Notes 6 and 8)	34,254,258	33,883,258
Total net assets with donor restrictions	41,699,964	45,525,955
Total net assets	50,596,340	55,470,988
Total liabilities and net assets	\$ 52,603,901	\$ 56,032,740

See notes to financial statements.

Urology Care Foundation, Inc.

**Statements of Activities
Years Ended December 31, 2018 and 2017**

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue:						
Development	\$ 477,673	\$ -	\$ 477,673	\$ 633,074	\$ -	\$ 633,074
Education programs	743,209	-	743,209	375,176	200,000	575,176
Outreach and awareness campaigns	258,283	-	258,283	441,461	-	441,461
Scholarship program (Note 5)	208,288	396,163	604,451	299,197	1,391,303	1,690,500
Net dividend income (Note 3)	374,869	1,701,401	2,076,270	363,362	1,500,757	1,864,119
Net assets released from restriction (Note 6)	1,660,036	(1,660,036)	-	1,616,379	(1,616,379)	-
Total revenues	3,722,358	437,528	4,159,886	3,728,649	1,475,681	5,204,330
Expenses:						
Program services:						
General	761,720	-	761,720	752,489	-	752,489
Education programs	287,682	-	287,682	363,284	-	363,284
Total education	1,049,402	-	1,049,402	1,115,773	-	1,115,773
Research	211,584	-	211,584	520,029	-	520,029
Scholarship program (Note 4)	1,483,563	-	1,483,563	1,514,502	-	1,514,502
Total research	1,695,147	-	1,695,147	2,034,531	-	2,034,531
Outreach and awareness campaigns	183,174	-	183,174	274,344	-	274,344
Total program services	2,927,723	-	2,927,723	3,424,648	-	3,424,648
Supporting services:						
Development	648,672	-	648,672	1,044,402	-	1,044,402
General, administrative and governance (Note 10)	249,384	-	249,384	224,089	-	224,089
Total supporting services	898,056	-	898,056	1,268,491	-	1,268,491
Total expenses	3,825,779	-	3,825,779	4,693,139	-	4,693,139
(Deficiency) excess of operating revenue over expenses	(103,421)	437,528	334,107	(964,490)	1,475,681	511,191
Investment (loss) income (Note 3)	(945,236)	(4,263,519)	(5,208,755)	1,205,803	5,009,223	6,215,026
Change in net assets	(1,048,657)	(3,825,991)	(4,874,648)	241,313	6,484,904	6,726,217
Net assets:						
Beginning	9,945,033	45,525,955	55,470,988	9,703,720	39,041,051	48,744,771
Ending	\$ 8,896,376	\$ 41,699,964	\$ 50,596,340	\$ 9,945,033	\$ 45,525,955	\$ 55,470,988

See notes to financial statements.

Urology Care Foundation, Inc.

**Statement of Functional Expenses
Year Ended December 31, 2018**

	Compensation and Benefits	Professional Fees and Contract Services	Travel	Grants, Stipends and Awards	Depreciation and Repairs and Maintenance	Office Expenses	Total
Program Services:							
Education	\$ 301,114	\$ 333,952	\$ 22,423	\$ 50,000	\$ 2,447	\$ 339,466	\$ 1,049,402
Research	47,752	-	-	1,647,395	-	-	1,695,147
Outreach and awareness campaigns	35,274	101,245	17,888	-	94	28,673	183,174
Total program services	384,140	435,197	40,311	1,697,395	2,541	368,139	2,927,723
Supporting services:							
Development	453,386	71,317	77,068	-	4,187	42,714	648,672
General and administrative (Note 10)	186,590	13,826	40,493	9	1,333	7,133	249,384
Total supporting services	639,976	85,143	117,561	9	5,520	49,847	898,056
Total	\$ 1,024,116	\$ 520,340	\$ 157,872	\$ 1,697,404	\$ 8,061	\$ 417,986	\$ 3,825,779

See notes to financial statements.

Urology Care Foundation, Inc.

Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ (4,874,648)	\$ 6,726,217
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized depreciation (appreciation) of investments	5,208,755	(6,215,026)
Interest and dividend income reinvested	(1,678,123)	(1,894,597)
Donated stock	(11,212)	-
Decrease in allowance for doubtful accounts	-	(770)
Contributions restricted for endowments	(371,000)	(1,570,000)
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	(30,358)	(24,260)
Pledges receivable	2,885	(150,000)
Due from related party	60,845	(60,845)
Prepaid expenses and current assets	13,617	(560)
(Decrease) increase in liabilities:		
Accounts payable and accrued expenses	2,728	(25,963)
Deferred revenue	77,948	(347,692)
Due to related party	1,365,133	1,224,180
Net cash used in operating activities	(233,430)	(2,339,316)
Cash flows from investing activities:		
Proceeds from sale of investments	1,000,000	3,020,000
Purchases of investments	-	(1,260,306)
Net cash provided by investing activities	1,000,000	1,759,694
Cash flows from financing activities:		
Proceeds from contributions restricted for endowments	371,000	403,333
Net cash provided by financing activities	371,000	403,333
Net increase (decrease) in cash and cash equivalents	1,137,570	(176,289)
Cash and cash equivalents:		
Beginning	121,990	298,279
Ending	\$ 1,259,560	\$ 121,990
Supplemental schedule of noncash investing and financing activities:		
Stock contributions received for long-term endowment deposited directly into investments	\$ -	\$ 1,250,000

See notes to financial statements.

Urology Care Foundation, Inc.

Notes to Financial Statements

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 with over 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 two classes of net assets:

Net assets without donor restrictions: Net assets without donor restrictions are the net assets that are neither invested in perpetuity, nor purpose or time 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.

Net assets with donor restrictions: Net assets with donor restrictions are the net assets that are contributions and endowment investment earnings subject to donor-imposed stipulations. Some donor-imposed restrictions are temporary in nature that either expire by passage of time or can be fulfilled and removed by actions of the Foundation pursuant to these stipulations. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

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, net assets with donor restrictions are reclassified from net assets with donor restrictions to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

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

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.

Urology Care Foundation, Inc.

Notes to Financial Statements

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

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 donor restricted support. However, if a restriction is fulfilled in the same period in which the contribution is received, the Foundation reports the support as net assets without donor restriction. 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. Fair value is 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. Purchases and sales are reflected on a trade date basis. All transactions that have not been settled or completed, but for which a receivable or an obligation exists, are reflected as investments in the accompanying statements of financial positions. Investment income and realized gains and losses on sales of investments are computed on an average cost method, are recorded on the trade date of the transaction, and are included in investment income in the accompanying statements of activities.

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.

Scholarships: Scholarships are recorded as expenses when payments are made. If the needs of the scholarship 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 under 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

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.

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 2017 amounts have been reclassified to conform to the 2018 presentation. These reclassifications had no effect on the previously reported change in net assets.

Adopted accounting pronouncement adopted: In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundation has adjusted the presentation of these statements accordingly. As permitted by the ASU, the statement of functional expenses and liquidity and availability disclosure (Note 2) are not presented on a comparative basis. As a result of the pronouncement application, net asset classifications have been reduced from three categories to two categories.

Recently issued accounting pronouncements: In May 2014, the FASB issued 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 the Foundation for the fiscal year ending December 31, 2019. The Foundation has determined there will be no impact of adopting this pronouncement on the financial statements.

Urology Care Foundation, Inc.

Notes to Financial Statements

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

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. It is intended to reduce diversity in the presentation of restricted cash and restricted cash equivalents in the statement. The statement requires that restricted cash and restricted cash equivalents be included as components of total cash and cash equivalents as presented on the statements of cash flows. This pronouncement goes into effect for the Foundation for the fiscal year ending December 31, 2019.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. Where the Foundation is the resource recipient, the ASU is applicable to contributions received within annual period in the year ending December 31, 2019. When the Foundation is the resource provider, the ASU is applicable to contributions made within the annual period in the year ending December 31, 2020. The Foundation has determined there will be no impact of adopting this pronouncement on the financial statements.

Subsequent events: The Foundation evaluated subsequent events through April 8, 2019, which is the date the financial statements were available to be issued.

Note 2. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statements of financial position date, are comprised of the following as of December 31, 2018:

Financial assets, at December 31, 2018*	\$ 52,601,898
Less those unavailable for general expenditures within one year, due to:	
Contractual or donor imposed restrictions:	
Restrictions by donor with time or purpose restriction	(147,715)
Donor-restricted endowments, net of pledges receivable	(41,552,249)
Board designations:	
Board designated appropriations approved for spending in 2019	74,000
Quasi-endowment fund, primarily for long-term investing	(8,281,870)
Financial assets available to meet cash needs	<u>74,000</u>
for general expenditures within one year	<u><u>\$ 2,694,064</u></u>

*Total assets, less nonfinancial assets (prepaid expenses and other assets)

Urology Care Foundation, Inc.

Notes to Financial Statements

Note 2. Liquidity and Availability (Continued)

Endowment funds consist of donor-restricted endowments and board-designated endowments. Income from donor restricted endowments that is restricted for specific purposes is not available for general expenditure. Although the Foundation does not intend to spend from its board-designated endowment (other than amounts appropriated per the Board's appropriations approval), these amounts could be made available if necessary. Appropriations of \$74,000 from the board-designated endowment will be made available within the next year.

Note 3. Investments

The Foundation maintains investment accounts with The Vanguard Group. The annual rate of return on long-term investments, including unrealized (depreciation) appreciation, was (5.74%) and 16.51% for the years ended December 31, 2018 and 2017, respectively.

Cost and fair values of the investments at December 31, 2018 and 2017, are as follows:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Investments:				
Vanguard equity funds	\$ 28,865,310	\$ 32,648,273	\$ 28,330,262	\$ 37,192,993
Vanguard fixed income funds	18,774,690	18,452,770	18,343,832	18,427,470
	<u>\$ 47,640,000</u>	<u>\$ 51,101,043</u>	<u>\$ 46,674,094</u>	<u>\$ 55,620,463</u>

Investment income (loss) from all sources, including checking accounts, consists of the following for the years ended December 31, 2018 and 2017:

	2018	2017
Net unrealized (depreciation) appreciation	\$ (5,491,163)	\$ 5,469,314
Net realized gain	282,408	745,712
	<u>(5,208,755)</u>	<u>6,215,026</u>
Interest and dividend income, net of fees	2,076,270	1,864,119
	<u>\$ (3,132,485)</u>	<u>\$ 8,079,145</u>

Note 4. Pledges Receivable

Pledges receivable are due from donors to fund research and scholars programs and totaled \$150,000 as of December 31, 2018 and 2017.

Pledges receivable are carried at the present value of expected future cash flows, net of a present value discount. As of December 31, 2018 and 2017, the present value discount recorded was \$2,885 and \$0, respectively. No reserve for uncollectible amounts was recorded based on management's evaluation of the collectability of pledges receivable.

The Foundation expects to collect pledges receivable at December 31, 2018, through payments of \$150,000 in 2019.

Urology Care Foundation, Inc.

Notes to Financial Statements

Note 5. Commitments and Contingency

Scholar commitments: The Research Scholars Program provides support to young men and women who are interested in pursuing careers 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. Since a reorganization in 2005, the AUA Foundation (now the Urology Care Foundation, Inc.) has administered the program. To date, over 650 researchers have been granted financial support through the Research Scholars Program, with another 200 receiving scholarships and awards through other Urology Care Foundation research programs and fellowships. For the Research Scholars Program, MD and PhD applicants are supported for one- or two-year fellowships during their clinical fellowships, postdoctoral research fellowships, or within the first five years of their junior faculty appointments.

The Foundation has incurred the following scholar commitments as of December 31, 2018:

Years ending December 31:	
2019	\$ 1,378,000
2020	924,000
2021	303,500
2022	127,000
2023	75,000
Thereafter	37,500
Total scholar commitments	<u>\$ 2,845,000</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, 2018, the indebtedness of AUAER for the revenue bonds and term note amounted to \$5,255,000 and \$1,820,907, respectively.

Urology Care Foundation, Inc.

Notes to Financial Statements

Note 6. Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods as of December 31:

	2018	2017
Subject to expenditure for specific purpose:		
Innovative Research Funds	\$ 1,849,654	\$ 2,100,102
Sexual Dysfunction Fund	821,318	921,089
Prostate Funds	716,440	804,612
Victor Politano Award	583,698	515,314
Pediatric Funds	300,801	330,770
	<u>4,271,911</u>	<u>4,671,887</u>
Subject to the Foundation's spending policy and appropriation:		
Investment in perpetuity (including amounts above original gift amount of \$34,254,258 and \$33,883,258, respectively), the income from which is expendable to support:		
AUA Section Research Scholar Funds	\$ 16,307,349	\$ 17,991,049
Specialty Society Research Scholar Funds	16,104,220	17,664,552
Rising Star in Urology Research Award Program	3,247,305	3,555,076
Chesapeake Urology Associates Research Scholarship	1,116,782	1,237,619
	<u>36,775,656</u>	<u>40,448,296</u>
Subject to appropriation and expenditure when a specific event occurs:		
Endowments requiring income to be added to original gift until value reaches funding requirement	652,397	405,772
	<u>37,428,053</u>	<u>40,854,068</u>
Total net assets with donor restrictions	<u>\$ 41,699,964</u>	<u>\$ 45,525,955</u>

During the year ended December 31, 2017, AUAER provided \$1,250,000 to the Foundation that was 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.

Urology Care Foundation, Inc.

Notes to Financial Statements

Note 6. Net Assets With Donor Restrictions (Continued)

Net assets released from restrictions consisted of the following for the years ended December 31:

	2018	2017
Specific purpose restrictions accomplished:		
Innovative Research Funds	\$ 133,766	\$ 131,492
Prostate Funds	98,070	98,708
Sexual Dysfunction Fund	48,296	49,304
Victor Politano Award	13,312	14,199
Pediatric Funds	10,788	11,589
	<u>304,232</u>	<u>305,292</u>
Release of appropriations subject to the Foundation's spending policy:		
Specialty Society Research Scholar Funds	562,669	670,748
AUA Section Research Scholar Funds	684,357	518,429
Rising Star in Urology Research Award Program	106,801	121,910
Patient Education Endowment: UHExtra fund	1,977	-
	<u>1,355,804</u>	<u>1,311,087</u>
Total restrictions released	<u>\$ 1,660,036</u>	<u>\$ 1,616,379</u>

Note 7. Net Assets Without Donor Restrictions

The Foundation's governing board has designated net assets without donor restrictions for purposes of a board-designated endowment in the amount of \$8,281,870 and \$9,002,173 as of December 31, 2018 and 2017, respectively.

Note 8. Endowment

The Foundation's endowment consists primarily of a donor-restricted endowment that generates earnings to support scholarships and awards. In addition, the board of directors has chosen to internally designate funds from resources without donor restrictions to support the same purposes. Net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Urology Care Foundation, Inc.

Notes to Financial Statements

Note 8. 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 net assets with donor restrictions: (a) the original value of gifts donated to the endowment and (b) the original value of subsequent gifts to the endowment. The remaining portion of the donor-restricted endowment fund is classified in net assets with donor restrictions 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.

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. There were no deficiencies of this nature as of December 31, 2018 and 2017.

Endowment net asset composition by type of fund is as follows as of December 31, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 8,281,870	\$ -	\$ 8,281,870
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	34,254,258	34,254,258
Accumulated investment gains	-	7,445,706	7,445,706
Total	<u>\$ 8,281,870</u>	<u>\$ 41,699,964</u>	<u>\$ 49,981,834</u>

Urology Care Foundation, Inc.

Notes to Financial Statements

Note 8. Endowment (Continued)

Endowment net asset composition by type of fund is as follows as of December 31, 2017:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 9,002,173	\$ -	\$ 9,002,173
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	33,883,258	33,883,258
Accumulated investment gains	-	11,642,697	11,642,697
Total	<u>\$ 9,002,173</u>	<u>\$ 45,525,955</u>	<u>\$ 54,528,128</u>

Changes in endowment net assets are as follows for the fiscal years ended December 31, 2018 and 2017:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, December 31, 2016	\$ 8,225,768	\$ 39,041,051	\$ 47,266,819
Net investment income	1,330,260	6,509,980	7,840,240
Contributions	50,076	1,591,303	1,641,379
Appropriations of expenditures	(603,931)	(1,616,379)	(2,220,310)
Endowment net assets, December 31, 2017	<u>9,002,173</u>	<u>45,525,955</u>	<u>54,528,128</u>
Net investment loss	(510,650)	(2,562,118)	(3,072,768)
Contributions	-	396,163	396,163
Appropriations of expenditures	(209,653)	(1,660,036)	(1,869,689)
Endowment net assets, December 31, 2018	<u>\$ 8,281,870</u>	<u>\$ 41,699,964</u>	<u>\$ 49,981,834</u>

Note 9. 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.

Urology Care Foundation, Inc.

Notes to Financial Statements

Note 9. Fair Value Measurements (Continued)

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.

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.

Following is a description of the valuation methodologies used for instruments measured at fair value and their classification in the valuation hierarchy. There have been no changes in methodologies used at December 31, 2018 and 2017.

Equity and fixed income mutual funds — valued using quoted prices for identical assets in active markets on a daily basis.

The following table presents the Foundation's fair value hierarchy for those assets measured at fair value on a recurring basis as of December 31, 2018:

	Fair Value Measurements Using			
	Total	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	\$ 10,268,476	\$ 10,268,476	\$ -	\$ -
Institutional Developed Markets Index	9,937,718	9,937,718	-	-
PRIMECAP Fund Admiral	3,641,314	3,641,314	-	-
Windsor II Fund Admiral	3,430,335	3,430,335	-	-
Emerging Markets Stock Index Signal	2,354,002	2,354,002	-	-
Explorer Fund Admiral	1,587,095	1,587,095	-	-
Strategic Equity Fund	1,429,333	1,429,333	-	-
Vanguard fixed income funds:				
Intermediate-Term Invest-Grade Admiral	5,499,718	5,499,718	-	-
Total Bond Market Index	4,725,422	4,725,422	-	-
Total International Bond Index Institutional	4,521,473	4,521,473	-	-
Short-Term Invest-Grade Admiral	3,706,157	3,706,157	-	-
	<u>\$ 51,101,043</u>	<u>\$ 51,101,043</u>	<u>\$ -</u>	<u>\$ -</u>

Urology Care Foundation, Inc.

Notes to Financial Statements

Note 9. Fair Value Measurements (Continued)

The following table presents the Foundation's fair value hierarchy for those assets measured at fair value on a recurring basis as of December 31, 2017:

	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:				
Institutional Developed Markets Index	\$ 11,919,942	\$ 11,919,942	\$ -	\$ -
Total Stock Market Index	11,166,049	11,166,049	-	-
Windsor II Fund Admiral	3,965,758	3,965,758	-	-
PRIMECAP Fund Admiral	3,894,252	3,894,252	-	-
Emerging Markets Stock Index Signal	2,917,027	2,917,027	-	-
Strategic Equity Fund	1,667,910	1,667,910	-	-
Explorer Fund Admiral	1,662,055	1,662,055	-	-
Vanguard fixed income funds:				
Intermediate-Term Invest-Grade Admiral	5,537,563	5,537,563	-	-
Total Bond Market Index	4,731,722	4,731,722	-	-
Total International Bond Index Institutional	4,478,967	4,478,967	-	-
Short-Term Invest-Grade Admiral	3,679,218	3,679,218	-	-
	<u>\$ 55,620,463</u>	<u>\$ 55,620,463</u>	<u>\$ -</u>	<u>\$ -</u>

Note 10. 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 \$249,384 and \$224,089 for the years ended December 31, 2018 and 2017, respectively.

At December 31, 2018, the Foundation had a liability of \$1,365,133 due to AUAER, and as of December 31, 2017, the Foundation had a receivable asset of \$60,845 due from AUAER.

As described in Note 6, AUAER contributed \$1,250,000 to the Foundation during the year ended December 31, 2017.