

# **Hydrocephalus Association**

## ***Report on Financial Statements***

***For the year ended December 31, 2015***

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# Hydrocephalus Association

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## Independent Auditor's Report

To the Board of Directors  
Hydrocephalus Association  
Bethesda, Maryland

### Report on the Financial Statements

We have audited the accompanying statement of financial position of the Hydrocephalus Association (the "Association") as of December 31, 2015, and the related statements of activities, functional expenses and cash flows for the year 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 audit. We conducted our audit 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 of 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 the Hydrocephalus Association as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Elliott Davis Decosimo, LLC".

Richmond, Virginia  
June 13, 2016

# Hydrocephalus Association

## Statement of Financial Position

As of December 31, 2015

### Assets

#### Current assets

Cash and cash equivalents	\$ 2,286,295
Investments	223,257
Receivables:	
Pledges receivable	111,583
Grants receivable	200,000
Other receivables	48,758
Prepaid expenses	36,599
Inventory	5,307
Total current assets	<u>2,911,799</u>

**Investments** 81,118

**Property and equipment, net** 16,372

**Deposits** 8,544

Total assets \$ 3,017,833

### Liabilities and Net Assets

#### Current liabilities

Accounts payable and accrued expenses	\$ 50,384
Capital lease payable	1,826
Total current liabilities	<u>52,210</u>

#### Long-term liabilities

Accrued rent expense	17,458
Total liabilities	<u>69,668</u>

#### Net assets

Unrestricted net assets	1,963,303
Temporarily restricted net assets	893,744
Permanently restricted net assets	91,118
Total net assets	<u>2,948,165</u>
Total liabilities and net assets	<u><u>\$ 3,017,833</u></u>

See Notes to Financial Statements

# Hydrocephalus Association

## Statement of Activities

For the year ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Support and revenue</b>				
Grants and contributions	\$ 908,777	\$ 1,075,009	\$ 10,000	\$ 1,993,786
Special events (net of expenses of \$263,294)	1,303,448	-	-	1,303,448
Sale of books, publications and other items	15,903	12,718	-	28,621
Contract revenue	16,906	1,906	-	18,812
Interest and dividends	5,544	1,990	-	7,534
Net investment loss	(5,176)	(1,449)	-	(6,625)
Other income	6,294	-	-	6,294
Net assets released from restrictions:				
Purpose accomplished	1,010,892	(1,010,892)	-	-
Total support and revenue	<u>3,262,588</u>	<u>79,282</u>	<u>10,000</u>	<u>3,351,870</u>
<b>Expenses</b>				
Program expenses:				
Research	1,213,538	-	-	1,213,538
Public support and education	726,655	-	-	726,655
Advocacy	100,466	-	-	100,466
Conferences	53,192	-	-	53,192
Total program expenses	<u>2,093,851</u>	<u>-</u>	<u>-</u>	<u>2,093,851</u>
Fundraising:				
Walks	259,894	-	-	259,894
Fund development	392,127	-	-	392,127
Total fundraising expenses	<u>652,021</u>	<u>-</u>	<u>-</u>	<u>652,021</u>
Administration	533,175	-	-	533,175
Total expenses	<u>3,279,047</u>	<u>-</u>	<u>-</u>	<u>3,279,047</u>
<b>Change in net assets</b>	(16,459)	79,282	10,000	72,823
<b>Net assets at beginning of period</b>	<u>1,979,762</u>	<u>814,462</u>	<u>81,118</u>	<u>2,875,342</u>
<b>Net assets at end of period</b>	<u>\$ 1,963,303</u>	<u>\$ 893,744</u>	<u>\$ 91,118</u>	<u>\$ 2,948,165</u>

See Notes to Financial Statements

**Hydrocephalus Association**  
**Statement of Functional Expenses**  
**For the year ended December 31, 2015**

	Program						Fundraising				
	Research	Public Support and Education	Advocacy	Conferences		Total Program	Fund Development	Walks	Total Fundraising	Administration	Total
				Hydrocephalus Conference	Research Conference						
Salaries	\$ 120,774	\$ 245,294	\$ 31,781	\$ 25,641	\$ 57	\$ 423,547	\$ 161,304	\$ 156,323	\$ 317,627	\$ 175,076	\$ 916,250
Payroll taxes	9,096	18,601	2,439	1,945	4	32,085	12,246	11,769	24,015	12,984	69,084
Employee benefits	14,439	36,790	3,412	3,628	3	58,272	17,883	27,200	45,083	23,903	127,258
Professional services - accounting	-	-	-	-	-	-	-	-	-	61,520	61,520
Professional services - legal	1,296	1,014	96	-	-	2,406	-	239	239	205	2,850
Professional services - temporary	1,383	1,559	246	110	-	3,298	575	199	774	1,022	5,094
Professional services - technology	7,466	21,572	5,783	4,279	1	39,101	47,627	1,211	48,838	6,363	94,302
Advertising	364	3,206	356	3	-	3,929	62	1,276	1,338	24	5,291
Professional services - other	52,762	57,699	19,323	6,821	2	136,607	37,549	5,723	43,272	134,594	314,473
Rent	28,708	37,284	5,004	2,196	2	73,194	11,436	4,229	15,665	20,329	109,188
Expendable equipment	1,224	1,985	247	22	-	3,478	112	536	648	199	4,325
Supplies	2,506	18,816	1,471	126	-	22,919	2,666	7,496	10,162	3,510	36,591
Software	267	691	48	21	-	1,027	111	38	149	435	1,611
Cost of merchandise	396	4,360	529	-	-	5,285	-	1,321	1,321	-	6,606
Equipment repairs	14	156	19	-	-	189	-	47	47	1,974	2,210
Equipment rental	100	3,615	134	-	-	3,849	-	514	514	3,482	7,845
Insurance	1,440	8,659	873	72	-	11,044	377	1,910	2,287	15,044	28,375
Telephone	1,304	2,891	270	102	-	4,567	1,063	292	1,355	1,482	7,404
Postage	3,944	16,958	1,303	1,458	-	23,663	11,963	3,339	15,302	2,772	41,737
Printing	8,045	23,606	2,452	1,969	-	36,072	22,180	2,576	24,756	1,443	62,271
Out of town travel	33,402	63,041	7,646	3,699	-	107,788	40,458	10,830	51,288	44,882	203,958
Local travel	524	2,952	582	23	-	4,081	1,751	1,787	3,538	2,873	10,492
Food, meals & catering	2,267	9,965	165	64	-	12,461	1,216	548	1,764	5,854	20,079
Conference registration	37	404	49	-	-	490	8	122	130	-	620
Site expenses	9,978	25,164	305	-	-	35,447	-	1,981	1,981	2,522	39,950
Employee education	14	193	18	150	-	375	-	45	45	299	719
Scholarships	-	1,000	-	-	-	1,000	-	-	-	-	1,000
Prize/award	315	2,096	61	25	-	2,497	2,922	59	2,981	392	5,870
Grants to others	894,253	51,417	-	-	-	945,670	-	-	-	-	945,670
Dues & subscriptions	3,874	2,188	7,965	108	-	14,135	3,130	330	3,460	1,415	19,010
Taxes & other fees	765	878	138	80	-	1,861	9,369	115	9,484	2,178	13,523
Bank charges	33	391	38	95	-	557	477	105	582	452	1,591
Service charges	7,262	56,250	6,772	63	-	70,347	3,444	16,974	20,418	1,677	92,442
Interest	-	-	-	-	-	-	-	-	-	238	238
Depreciation expense	5,286	5,960	941	422	1	12,610	2,198	760	2,958	3,908	19,476
Miscellaneous expense	-	-	-	-	-	-	-	-	-	124	124
Total expenses	\$ 1,213,538	\$ 726,655	\$ 100,466	\$ 53,122	\$ 70	\$ 2,093,851	\$ 392,127	\$ 259,894	\$ 652,021	\$ 533,175	\$ 3,279,047

See Notes to Financial Statements

# Hydrocephalus Association

## Statement of Cash Flows

For the year ended December 31, 2015

### **Cash flows from operating activities**

Change in net assets	\$ 72,823
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	19,476
Net investment loss	6,625
Change in operating assets and liabilities:	
Pledges receivable	110,905
Grants receivable	32,500
Other receivables	(38,738)
Prepaid expenses	(2,158)
Deposits	1,764
Accounts payable and accrued expenses	(275,744)
Net cash used in operating activities	<u>(72,547)</u>

### **Cash flows from investing activities**

Proceeds from sale of investments	6,480
Purchase of property and equipment	(1,464)
Net cash provided by investing activities	<u>5,016</u>

### **Cash flows from financing activities**

Principal payments on capital leases	(4,001)
Net decrease in cash and cash equivalents	<u>(71,532)</u>

**Cash and cash equivalents at beginning of year**

2,357,827

**Cash and cash equivalents at end of year**

\$ 2,286,295

### **Supplemental disclosure of cash flow information**

Interest paid during the year	<u>\$ 238</u>
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See Notes to Financial Statements

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# Hydrocephalus Association

## Notes to Financial Statements

December 31, 2015

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

#### Nature of activities:

The Hydrocephalus Association (the "Association") was incorporated in 1986 as a nonprofit corporation under the laws of the State of California. Hydrocephalus is an abnormal accumulation of cerebrospinal fluid (CSF) within cavities of the brain called ventricles. The mission of the Association is to promote a cure for hydrocephalus and improve the lives of those affected by the condition by collaborating with patients, caregivers, researchers and industry, raising awareness, and funding innovative, high-impact research to prevent, treat and ultimately cure hydrocephalus. During 2012, the Association moved their operations from San Francisco, California to Bethesda, Maryland.

#### Basis of accounting:

The financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles and, accordingly, reflect all significant receivables, payables and recognized revenues and support when earned and expenditures when they are incurred.

#### Basis of presentation:

The Association prepares its financial statements in accordance with the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC). The Association is required to report information regarding its financial position and activities according to three classes of net assets. Accordingly, net assets of the Association and changes therein are classified and reported as follows:

*Unrestricted net assets* – Net assets that are not subject to donor-imposed stipulations.

*Temporarily restricted net assets* – Net assets subject to 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 statement of activities as net assets released from restrictions.

*Permanently restricted net assets* – Net assets, subject to donor-imposed stipulations, that are maintained permanently by the Association. Generally, earnings from endowed contributions and investments are restricted for specific purposes.

#### Cash and cash equivalents:

For the purpose of the statement of cash flows, cash and cash equivalents include demand deposit accounts and short term and highly liquid investments with an initial maturity of three months or less.



# Hydrocephalus Association

## Notes to Financial Statements

December 31, 2015

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### Note 1. Nature of Activities and Summary of Significant Accounting Policies, Continued

#### Fair value of investments:

Accounting standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Association has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Substantially all of the investments in the statement of financial position are reported at the value at the closing price reported on the active market on which the individual securities are traded. The resulting value is a Level 1 measure.

Investment return in the statement of activities consists of the net realized gains or losses and the unrealized appreciation (depreciation) on those investments.

#### Donated assets:

Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair values at the date of donation.

#### Grants and pledges receivable:

Grants and pledges receivable consists of a variety of grants from private donors and contributions. Management periodically reviews the status of all grants and pledges receivable for collectability. Each balance is assessed based on management's knowledge of and relationship with the donor and the age of the receivable balance. At December 31, 2015, management determined an allowance for uncollectible grants and pledges was not necessary.

#### Inventory:

Inventory is stated at lower of cost or market and consists of books and resources.

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## Hydrocephalus Association

### *Notes to Financial Statements*

*December 31, 2015*

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#### **Note 1. Nature of Activities and Summary of Significant Accounting Policies, Continued**

##### Property and equipment:

The Association capitalizes all expenditures in excess of \$1,000 as property and equipment with an extended useful life. Property is recorded at cost, or if donated, at fair market value on the date received. Major improvements are capitalized and depreciated; maintenance and repairs which do not significantly improve or extend the life of respective assets are expensed. Upon sale or retirement, the cost and related accumulated depreciation are removed from the accounts, and any gain or loss is reflected in other income in the statement of activities. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, generally four years.

##### Compensated absences:

It is the Association's policy to permit eligible employees to accumulate earned but unused vacation subject to certain limitations. All unused vacation pay is accrued when incurred and is recorded in accounts payable and accrued expenses in the statement of financial position.

##### Endowment funds:

The Association's endowment consists of approximately nine individual funds established for academic scholarships stipulated by donors.

The Association follows California State Uniform Prudent Management of Institutional Funds Act (UPMIFA). In accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the purpose, duration, and preservation of the endowment fund; expected total return of investments; general economic conditions and the possible effect of inflation or deflation; other resources of the Association.

While UPMIFA does not require it unless the donor instrument contains an express provision, the Association generally requires the preservation of the fair value of the original gift, as of the gift date, of the donor-restricted endowment funds. Following this approach, the Association classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and the (c) accumulations to the permanent endowment made in accordance with the directions of the applicable donor gift instrument, at the time the accumulation is added to the fund. 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 Association in a manner consistent with the standard of prudence prescribed by UPMIFA.

##### Return objectives and risk parameters:

The Association has investment and spending policies for endowment assets that attempt to conservatively yield returns within reasonable levels of risk. Endowment assets include those assets of donor-restricted funds that the Association must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to be conservative through low duration bond funds. The Association's expected rate of return is 1-2%.

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## Hydrocephalus Association

### Notes to Financial Statements

December 31, 2015

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#### Note 1. Nature of Activities and Summary of Significant Accounting Policies, Continued

##### Endowment funds, continued:

###### Strategies employed for achieving objectives:

To satisfy its rate-of-return objectives, the Association relies on a total return strategy in which investment returns are achieved through capital appreciation (realized and unrealized) and current yield (interest and dividends). The Association targets a conservative low duration bond fund to achieve its return objectives.

###### Spending policy and how the investment objectives relate to spending policy:

The Association has a policy of appropriating for distribution each year the earnings on the endowment funds. In establishing the policy and the annual appropriation, the Association considered the expected return on its endowment. Accordingly, the Association expects the current spending policy to show no growth in the endowment as the total growth is appropriated annually for scholarships.

##### Revenue recognition:

All contributions are considered available for the Association's general programs unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor are reported as temporarily or permanently restricted support and increase the respective class of net assets.

Pledges receivable in the accompanying statement of financial position consist of unconditional promises to give, which are recorded at fair value.

##### Operating leases:

The Association recognizes rent expense on a straight-line basis over the term of the lease and, accordingly, records the difference between cash rent payments and the recognition of rent expense as an accrued rent liability.

##### Income tax status:

The Association is a qualifying nonprofit organization as defined in Section 501(c)(3) of the Internal Revenue Code and the tax statutes of California, and therefore is exempt from federal and state income taxes. Accordingly, the accompanying financial statements do not reflect a provision or liability for federal and state income taxes. The Association does not believe it has any uncertain tax positions as of December 31, 2015. Fiscal years ending on or after 2012 remain subject to examination by federal and state tax authorities.

##### Expense allocation:

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of functional expenses and statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

# Hydrocephalus Association

## Notes to Financial Statements

December 31, 2015

### Note 1. Nature of Activities and Summary of Significant Accounting Policies, Continued

#### 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Reclassifications:

Certain prior year amounts have been reclassified to conform to the current year's financial statement presentation. The reclassifications have no impact on the previously reported change in net assets or net assets.

#### Recently issued accounting standards:

In March 2015, the FASB voted to issue a proposed accounting standards update (ASU) that would require changes to the net asset classification and provide better information about a not-for-profit entity's liquidity, financial performance and cash flows. This change is intended to enhance the usefulness of a not-for-profit's financial statements. The proposed effective date is 2017 for public entities and 2018 for nonpublic entities.

#### Subsequent events:

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through June 13, 2016, the date the financial statements were available to be issued.

### Note 2. Concentration of Credit Risk

The Association maintains its cash accounts with three financial organizations which are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per bank.

### Note 3. Investments

At December 31, 2015, investments are stated at fair value and consist of a low duration bond fund as follows:

	<u>Fair Value</u>	<u>Cost</u>
Low duration bond fund	\$ 304,375	\$ 316,860

The following table presents investment income for the year ended December 31, 2015. Unrealized losses are considered temporarily impaired as the investments will be held long-term and therefore allowing time for recovery of the losses.

Interest and dividend income	\$ 7,534
Realized loss	(1,118)
Unrealized loss	(5,507)
Total investment income	<u>\$ 909</u>

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## Hydrocephalus Association

### Notes to Financial Statements

December 31, 2015

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#### Note 4. Property and Equipment

Property and equipment, net, at December 31, 2015 consisted of:

Office furniture and equipment	\$ 72,629
Computer software	12,540
Accumulated depreciation	<u>(68,797)</u>
	<u>\$ 16,372</u>

#### Note 5. Capital Lease Payable

In April 2011, the Association purchased a copier under a capital lease agreement expiring April 2016. The liability represents the present value of future minimum lease payments. The leased asset is amortized over its estimated productive life. Amortization of this asset under the capital lease is included in depreciation expense. The cost and accumulated depreciation of assets purchased under the capital lease amounts to \$19,750 at December 31, 2015.

Aggregate future minimum lease payments due under the capital lease obligation as of December 31, 2015 are \$1,826 in 2016.

#### Note 6. Restrictions of Net Assets

Temporarily restricted net assets were available for the following purposes at December 31, 2015:

Fund development	\$ 30,025
Research	813,429
Support and education	<u>50,290</u>
Total temporarily restricted net assets	<u>\$ 893,744</u>

Permanently restricted net assets are endowments that must be invested in perpetuity, the investment return of which is restricted for scholarships. Permanently restricted net assets totaled \$91,118 at December 31, 2015 (see Note 8).

#### Note 7. Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes as follows during the year ended December 31, 2015:

Walks	\$ 30,185
Teens Take Charge program	75,000
Research	773,841
Support and education	109,646
Fund development	7,220
Advocacy	<u>15,000</u>
Total released net assets	<u>\$ 1,010,892</u>

# Hydrocephalus Association

## Notes to Financial Statements

December 31, 2015

### Note 8. Endowment Funds

Endowment net assets consists of donor-restricted endowment funds totaling \$91,118, classified as permanently restricted net assets.

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

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 81,118	\$ 81,118
Contributions	-	10,000	10,000
Net investment income	1,990	-	1,990
Net depreciation	(1,449)	-	(1,449)
Amounts appropriated for expenditure	<u>(250)</u>	<u>-</u>	<u>(250)</u>
Endowment net assets, end of year	<u>\$ 291</u>	<u>\$ 91,118</u>	<u>\$ 91,409</u>

Earnings on the perpetual endowment funds are temporarily restricted to be used for academic scholarships as stipulated by donors.

### Note 9. Retirement Plan

The Association has a contributory 403(b) plan which is funded by voluntary participant salary deferrals and an employer match of 1% for the first 3% of contributions and 1/2% for the next 2% of contributions. For the year ended December 31, 2015, matching contributions totaled \$23,621.

### Note 10. Operating Leases

During 2012, the Association moved to Bethesda, Maryland and entered into a non-cancelable lease agreement for the period October 1, 2012 through September 30, 2017. The base rent for each of the first five lease years is \$100,130 and is adjusted annually for inflation thereafter at a rate of 3%. Additionally, real estate taxes are to be paid by the Association as additional rent. For the fiscal year ended December 31, 2015, rent expense was \$109,188.

A schedule of future lease commitments under the lease obligation is as follows:

2016	\$ 110,235
2017	<u>84,523</u>
Total future minimum lease commitment	<u>\$ 194,758</u>