

Hydrocephalus Association

Report on Financial Statements

For the year ended December 31, 2018

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, 2018, 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, 2018, 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, appearing to read "Kimbee". The signature is written in a cursive, flowing style with a prominent dot above the first letter.

Richmond, Virginia
May 1, 2019

Hydrocephalus Association

Statement of Financial Position

As of December 31, 2018

Assets

Current assets

Cash and cash equivalents	\$ 1,209,977
Investments	226,409
Receivables:	
Contributions receivable - current portion	440,693
Grant receivable - current portion	211,050
Prepaid expenses	62,386
Inventory	33,709
Total current assets	<u>2,184,224</u>

Investments

91,118

Property and equipment, net

51,836

Contributions receivable, less current portion

486,520

Grant receivable, less current portion

211,050

Deposits

8,344

Total assets

\$ 3,033,092

Liabilities and Net Assets

Current liabilities

Accounts payable and accrued expenses	\$ 437,279
Grant payable	141,420
Note payable	19,950
Capital lease payable, current portion	2,190
Total current liabilities	<u>600,839</u>

Long-term liabilities

Accrued rent expense	13,837
Capital lease payable, less current portion	2,494
Total liabilities	<u>617,170</u>

Net assets

Without donor restrictions	38,656
With donor restrictions	
Permanently endowed	91,118
Other amounts with donor restrictions	2,286,148
Total net assets with donor restrictions	<u>2,377,266</u>
Total net assets	<u>2,415,922</u>
Total liabilities and net assets	<u>\$ 3,033,092</u>

See Notes to Financial Statements

Hydrocephalus Association

Statement of Activities

For the year ended December 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenue			
Grants and contributions	\$ 625,724	\$ 1,697,740	\$ 2,323,464
Special events (net of expenses of \$315,973)	2,057,781	49,078	2,106,859
Conference revenue	82,052	-	82,052
Donated professional services	98,267	-	98,267
Sale of books, publications and other items	11,881	-	11,881
Contract revenue	-	11,283	11,283
Interest and dividends	4,900	1,878	6,778
Net investment loss	(3,731)	(1,422)	(5,153)
Other income	25,790	1,342	27,132
Net assets released from restrictions:			
Purpose accomplished	1,631,418	(1,631,418)	-
Total support and revenue	<u>4,534,082</u>	<u>128,481</u>	<u>4,662,563</u>
Expenses			
Program expenses:			
Research	1,752,798	-	1,752,798
Public support and education	1,074,665	-	1,074,665
Advocacy	49,168	-	49,168
Conferences	624,568	-	624,568
Total program expenses	<u>3,501,199</u>	<u>-</u>	<u>3,501,199</u>
Fundraising:			
Fund development	678,773	-	678,773
Administration	820,277	-	820,277
Total expenses	<u>5,000,249</u>	<u>-</u>	<u>5,000,249</u>
Change in net assets	(466,167)	128,481	(337,686)
Net assets at beginning of period	<u>504,823</u>	<u>2,248,785</u>	<u>2,753,608</u>
Net assets at end of period	<u>\$ 38,656</u>	<u>\$ 2,377,266</u>	<u>\$ 2,415,922</u>

See Notes to Financial Statements

Hydrocephalus Association
Statement of Functional Expenses
For the year ended December 31, 2018

	Program				Total Program	Fundraising		
	Public		Advocacy	Conferences		Fund Development	Administration	Total
	Research	Support and Education		Hydrocephalus Conference				
Grants to others	\$ 1,359,480	\$ 1,559	\$ -	\$ -	\$ 1,361,039	\$ -	\$ -	\$ 1,361,039
Salaries	166,221	580,879	17,888	111,304	876,292	183,967	333,332	1,393,591
Payroll taxes	12,114	41,683	1,276	8,289	63,362	12,844	24,090	100,296
Employee benefits	17,703	71,934	1,840	10,922	102,399	16,962	50,013	169,374
Prof serv - accounting	-	-	-	-	-	-	75,416	75,416
Prof serv - legal	-	-	-	-	-	67	98,267	98,334
Prof serv - temp	7,944	6,840	291	3,117	18,192	3,635	8,068	29,895
Prof serv - technology	6,840	10,472	149	1,594	19,055	1,959	3,333	24,347
Advertising	514	1,265	441	4,258	6,478	938	253	7,669
Prof serv - communication	37,420	28,957	18,500	88,699	173,576	58,017	12,301	243,894
Rent	33,089	28,493	1,214	12,986	75,782	15,221	19,086	110,089
Expendable equipment	-	1,794	-	-	1,794	42	-	1,836
Supplies	1,111	19,398	41	5,166	25,716	7,025	2,496	35,237
Software	38,783	35,139	1,415	15,132	90,469	17,941	22,499	130,909
Cost of merchandise	-	14,407	-	4,095	18,502	12,210	337	31,049
Equipment repair and maintenance	-	200	-	-	200	-	-	200
Equipment rental	485	10,627	18	54,371	65,501	549	280	66,330
Insurance	-	6,737	-	-	6,737	165	12,609	19,511
Telephone	3,803	6,858	140	1,492	12,293	1,740	2,343	16,376
Postage	3,208	21,346	104	7,696	32,354	10,850	3,291	46,495
Printing	2,617	35,755	76	12,334	50,782	71,942	2,965	125,689
Out of town travel	8,336	69,704	2	99,173	177,215	68,825	37,345	283,385
Local travel	370	1,355	193	226	2,144	2,024	1,073	5,241
Meetings	17,119	32,142	4	173,458	222,723	157,078	6,473	386,274
Conference registration	908	277	-	1,442	2,627	150	-	2,777
Site expenses	-	15,664	-	-	15,664	5,865	-	21,529
Employee education	11	889	-	4	904	94	6	1,004
Scholarships	-	11,000	-	-	11,000	-	-	11,000
Prize and award	15,000	1,247	200	-	16,447	1,683	342	18,472
Dues and Subscriptions	3,349	1,175	4,775	264	9,563	16,047	1,415	27,025
Taxes and other fees	386	673	14	152	1,225	577	1,369	3,171
Bank charges	-	-	-	248	248	-	6,712	6,960
Service charges	482	901	18	2,061	3,462	1,935	66,255	71,652
Interest	-	-	-	-	-	-	19,183	19,183
Depreciation expense	12,432	10,705	456	4,879	28,472	5,688	7,171	41,331
Miscellaneous expense	3,073	4,590	113	1,206	8,982	2,733	1,954	13,669
Total expenses	\$ 1,752,798	\$ 1,074,665	\$ 49,168	\$ 624,568	\$ 3,501,199	\$ 678,773	\$ 820,277	\$ 5,000,249

See Notes to Financial Statements

Hydrocephalus Association

Statement of Cash Flows

For the year ended December 31, 2018

Cash flows from operating activities

Change in net assets	\$ (337,686)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	41,331
Net investment gain	5,153
Change in fair value of contributions receivable	28,456
Change in operating assets and liabilities:	
Contributions receivable	91,775
Grant receivable	(422,100)
Prepaid expenses	14,541
Inventory	(12,840)
Accounts payable and accrued expenses	293,617
Grant payable	(69,669)
Accrued rent expense	(10,328)
Net used in operating activities	<u>(377,750)</u>

Cash flows from investing activities

Purchases of investments	<u>(6,778)</u>
Net cash used in investing activities	<u>(6,778)</u>

Cash flows from financing activities

Principal payments on note payable	(19,950)
Principal payments on capital leases	(2,085)
Borrowings on line of credit	500,000
Principal payments on line of credit	<u>(500,000)</u>
Net cash used in financing activities	<u>(22,035)</u>
Net decrease in cash and cash equivalents	(406,563)

Cash and cash equivalents at beginning of year

1,616,540

Cash and cash equivalents at end of year

\$ 1,209,977

Supplemental disclosure of cash flow information

Interest paid during the year	<u>\$ 19,183</u>
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See Notes to Financial Statements

Hydrocephalus Association

Notes to Financial Statements

December 31, 2018

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. The Association is headquartered in 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, revenues and support when earned and payables and expenditures when they are incurred.

Basis of presentation:

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) which require the Association to report information regarding its financial position and activities according to two classes of net assets – with and without donor restrictions, as follows:

Without donor restrictions: Represents net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Association. These net assets may be used at the discretion of management and the board of directors.

With donor restrictions: Represents net assets subject to stipulations imposed by donors and grantors. Some restrictions are temporary in nature and will be met by actions of the Association or the passage of time. Other donor restrictions are permanent in nature and generally exist because the donor has stipulated that funds be maintained in perpetuity.

Grants and donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

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, 2018

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

Concentration of credit risk:

Financial instruments that potentially subject the Association to concentration of credit risk consist principally of cash and cash equivalents. The Association maintains cash on deposit with financial institutions located in the United States of America. The Federal Deposit Insurance Corporation (FDIC) provides insurance coverage for up to \$250,000 of cash held in each separate FDIC insured bank and savings institution. From time to time, the Association may have amounts on deposit in excess of the insured limits.

The Association also invests in various investment securities that are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect account balances and the amounts reported in the statement of financial position.

Investments:

Investments are valued at fair value and accounted for on the trade date. Realized gains and losses on investments sold are computed using the average historical cost of the investments sold as of the trade date.

Donated assets:

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

Receivables:

Grants and contributions receivable represent unconditional promises to give that are expected to be collected over time. Contributions that are expected to be collected within one year are recorded at net realizable value. Contributions expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. Amortization of the discount is included in contribution revenue in the statement of activities.

Management determines an allowance for uncollectible promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collection. At December 31, 2018, management determined an allowance for uncollectible contributions receivable was not necessary.

Inventory:

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

Hydrocephalus Association

Notes to Financial Statements

December 31, 2018

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 nine individual funds established for academic scholarships stipulated by donors. As required by generally accepted accounting principles (GAAP), net assets associated with these endowment funds are classified based on the existence of donor-imposed restrictions.

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 donor 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.

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%.

Hydrocephalus Association

Notes to Financial Statements

December 31, 2018

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.

Grants and contributions:

Grants and contributions are recorded as net assets, with or without donor restrictions, depending on the existence and/or nature of donor-imposed restrictions. Grants and contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other grants and donor restricted contributions are reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Contributed services:

The Organization recognizes the value of contributed services in the statement of activities if the services either (a) create or enhance a nonfinancial asset or (b) require specialized skills, provided by individuals possessing those skills, which would have been purchased if not contributed. The Organization recognized approximately \$98,000 in the statement of activities for the value of contributed legal services.

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.

Hydrocephalus Association

Notes to Financial Statements

December 31, 2018

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

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, 2018. Fiscal years ending on or after 2015 remain subject to examination by federal and state tax authorities.

Functional 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.

Use of estimates:

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Recently issued accounting standards:

In August 2016, the Financial Accounting Standards Board (FASB) issued an accounting standards update (ASU) that required changes to the net asset classification and additional 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 Association has adjusted for these changes in the presentation of the accompanying financial statements.

In May 2014, the FASB issued an ASU that replaces all existing revenue recognition guidance in current GAAP. The core principle of the guidance is that an entity should recognize 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 standard achieves this through a five step process. The ASU is effective for annual reporting periods beginning after December 15, 2018 (the Association's 2019 financial statements) and is not expected to have a significant impact on the Association's future financial statements.

In February 2016, the FASB issued an ASU that requires lessees to recognize right-of-use assets and lease liabilities for all leases other than those that meet the definition of short-term leases. This change will result in lessees recognizing right-of-use assets and lease liabilities for most leases currently accounted for as operating leases under GAAP. The new lease guidance is effective for fiscal years beginning after December 15, 2019 (the Association's 2020 financial statements).

Hydrocephalus Association

Notes to Financial Statements

December 31, 2018

Note 2. Fair Value Measurements

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. Pledges valued using the income approach based on discounted cash flows are measured as a Level 3.

The table below sets forth a summary of changes in the fair value of the Association's level 3 assets for 2018:

	Contributions Receivable
Balance-January 1, 2018	\$ 1,047,444
New pledges receivable	526,225
Pledge payments	(618,000)
Change in fair value	<u>(28,456)</u>
Balance-December 31, 2018	<u>\$ 927,213</u>

Note 3. Investments

At December 31, 2018, investments are stated at fair value and consist of a low duration bond fund as follows:

	Fair Value	Cost
Low duration bond fund	<u>\$ 317,527</u>	<u>\$ 335,179</u>

Hydrocephalus Association

Notes to Financial Statements

December 31, 2018

Note 3. Investments, Continued

The following table presents investment income for the year ended December 31, 2018. 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	\$ 6,778
Unrealized loss	<u>(5,153)</u>
Total investment income	<u>\$ 1,625</u>

Permanently restricted investments are classified as a non-current asset in the statement of financial position.

Note 4. Contributions Receivable

Unconditional contributions receivable consist of the following at December 31, 2018:

Due within one year	\$ 440,693
Due within two-five years	<u>533,525</u>
	974,218
Discount at 3.57%	<u>(47,005)</u>
Total unconditional contributions	<u>\$ 927,213</u>

Note 5. Property and Equipment

Property and equipment, net, at December 31, 2018 consisted of:

Office furniture and equipment	\$ 60,658
Computer software	117,595
Accumulated depreciation	<u>(126,417)</u>
	<u>\$ 51,836</u>

Depreciation expense totaled \$41,331 for the year ended December 31, 2018.

Note 6. Capital Lease Payable

In 2016, the Association purchased a copier under a capital lease agreement. The lease expires January 2021. The liability represents the present value of future minimum lease payments. The balance on the capital lease was \$4,684 at December 31, 2018. The leased asset is amortized over its estimated productive life. Amortization of this asset under the capital lease is included in depreciation expense. The net book value of assets purchased under the capital lease amounts to \$3,500 at December 31, 2018.

Aggregate future minimum lease payments due under the capital lease obligation as of December 31, 2018 are \$2,190 in 2019, \$2,297 in 2020 and \$196 in 2021.

Hydrocephalus Association

Notes to Financial Statements

December 31, 2018

Note 7. Note Payable

During 2016, the Association entered into a promissory note for \$59,850 to fund the purchase of software. The note is non-interest bearing and requires monthly payments of \$1,662. The note is secured by the software. The balance on the note was \$19,950 at December 31, 2018.

Note 8. Line of Credit

During 2017, the Association entered into a line of credit with a financial institution. The line of credit provides for maximum borrowings of \$500,000, maturing on August 1, 2019. The line of credit bears interest at a floating rate equal to the prime rate plus 1.0%. The line of credit is secured by all inventory, accounts receivable and equipment. At December 31, 2018, there was no outstanding balance on the line of credit.

Note 9. Restricted Net Assets

Donor restricted net assets are as follows at December 31, 2018:

Research	\$ 876,867
Time restricted pledges and grant receivable	1,349,313
Support and education	59,968
Endowment	<u>91,118</u>
Total restricted net assets	<u>\$ 2,377,266</u>

Note 10. 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, 2018:

Research	\$ 1,225,095
Support and education	130,026
Fund development	215,297
Time restricted pledges and grants	<u>61,000</u>
Total released net assets	<u>\$ 1,631,418</u>

Note 11. Endowment Funds

Permanently restricted net assets consist of donor-restricted endowment funds totaling \$91,118 at December 31, 2018. Earnings on the perpetual endowment funds are used for academic scholarships as stipulated by donors.

A summary of the activity in endowment funds for the year ended December 31, 2018 is as follows:

Endowment net assets, beginning of year	\$ 91,118
Investment return, net	456
Contributions	-
Amounts appropriated for expenditure	<u>(456)</u>
Endowment net assets, end of year	<u>\$ 91,118</u>

Hydrocephalus Association

Notes to Financial Statements

December 31, 2018

Note 12. Management of Liquidity

The following represents the Association's financial assets available to meet cash needs for general expenditures through December 31, 2019. Due to the nature of the restrictions from contributions received from donors, the Association has omitted all restricted contributions:

Total assets at end of year – December 31, 2018	\$ 3,033,092
Less amounts not available to be used within one year due to illiquidity:	
Prepaid expenses	(62,386)
Inventory	(33,709)
Property and equipment, net	(51,836)
Deposits	<u>(8,344)</u>
	<u>2,876,817</u>
Less amounts not available to be used within one year due to donor imposed restrictions:	
Contributions and grant receivables – long term	(697,570)
Purpose restrictions	
Research	(876,867)
Support and education	(59,968)
Permanent endowment	(91,118)
Financial assets available to meet cash needs for general expenditures through December 31, 2019:	<u>\$ 1,151,294</u>

The Association receives various contributions with purpose or time restrictions from donors. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Association must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure.

As part of the Association's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, research grants to other, liabilities, and other obligations come due. The Association also invests cash in excess of daily requirements in short-term investments.

The Association has over \$1.1 million of financial assets available on December 31, 2018 to meet cash needs for general expenditures through December 31, 2019. Financial assets include cash, short term investments and the current portion of unrestricted contributions receivable. The unrestricted contributions receivable are subject to implied time restrictions but are expected to be collected within one year.

The Association believes that these financials assets, along with \$500,000 of borrowings available under a line of credit (as discussed in Note 8) and revenue to be generated from 2019 activities, are adequate to cover expected general operating expenses which are budgeted at approximately \$235,000 per month in 2019. In addition, the Association has budgeted to award approximately 75% of the purpose restricted research grants referred to above in 2019.

Hydrocephalus Association

Notes to Financial Statements

December 31, 2018

Note 13. 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, 2018, matching contributions totaled \$32,364.

Note 14. Operating Leases

The Association has entered into a non-cancelable lease agreement for its Bethesda, Maryland headquarters office. The base rent is adjusted annually for inflation 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, 2018, rent expense was \$110,089. Future minimum lease payments to be made under the lease agreement are \$120,457 for 2019.

Note 15. Related Party Transactions

Members of the Association's Board of Directors and staff made contributions totaling approximately \$717,000 during 2018. Team Hydro, an affiliate group to the Association, made contributions totaling \$50,000 during 2018.

Note 16. Subsequent Events

The Association has evaluated subsequent events through May 1, 2019, the date which the financial statements were available to be issued.

On February 1, 2019, the Association was incorporated as a nonprofit corporation under the laws of the State of Delaware through merger of the California corporation into the surviving Delaware corporation. The merger is not expected to have a significant effect on the Association's financial statements.

On April 25, 2019, the Association amended the lease agreement discussed in Note 14 to extend the term of the lease to May 31, 2025 and provide for certain improvements to be made to the premises.