

Hydrocephalus Association

Report on Financial Statements

For the years ended December 31, 2020 and 2019

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 statements of financial position of the Hydrocephalus Association (the "Association") as of December 31, 2020 and 2019, and the related statements of activities, functional expenses and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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, 2020 and 2019, 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.

A handwritten signature in black ink that reads "Kimbee". The signature is written in a cursive style with a prominent dot above the letter 'i'.

Richmond, Virginia
April 12, 2021

Hydrocephalus Association

Statements of Financial Position

As of December 31, 2020 and 2019

Assets	2020	2019
Current assets		
Cash and cash equivalents	\$ 1,922,483	\$ 1,035,151
Investments	251,736	240,619
Receivables:		
Contributions receivable - current portion	281,287	348,693
Grant receivable	-	211,050
Miscellaneous receivables	10,025	20,056
Prepaid expenses	82,769	45,783
Inventory	33,170	36,320
Total current assets	<u>2,581,470</u>	<u>1,937,672</u>
Investments	91,318	91,118
Property and equipment, net of accumulated depreciation	17,806	30,255
Contributions receivable, less current portion	60,289	297,034
Total assets	<u>\$ 2,750,883</u>	<u>\$ 2,356,079</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 169,590	\$ 185,588
Grant payable	297,997	196,420
Capital lease payable, current portion	196	2,297
Total current liabilities	<u>467,783</u>	<u>384,305</u>
Long-term liabilities		
Accrued rent expense	46,450	497
U.S. Small Business Administration ("SBA") Loan	152,063	-
Capital lease payable, less current portion	-	197
Total liabilities	<u>666,296</u>	<u>384,999</u>
Net assets		
Without donor restrictions	1,337,574	513,989
With donor restrictions		
Permanently endowed	91,318	91,118
Other amounts with donor restrictions	655,695	1,365,973
Total net assets with donor restrictions	<u>747,013</u>	<u>1,457,091</u>
Total net assets	<u>2,084,587</u>	<u>1,971,080</u>
Total liabilities and net assets	<u>\$ 2,750,883</u>	<u>\$ 2,356,079</u>

See Notes to Financial Statements

Hydrocephalus Association

Statement of Activities

For the year ended December 31, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenue			
Grants and contributions	\$ 984,224	\$ 236,148	\$ 1,220,372
Paycheck Protection Program (PPP) funding	273,826	-	273,826
Special events (net of expenses of \$186,275)	1,701,629	18,779	1,720,408
Conference fees	12,990	100	13,090
Donated professional services	93,820	-	93,820
Sale of books, publications and other items	9,378	-	9,378
Contract revenue	-	4,476	4,476
Interest and dividends	4,612	1,617	6,229
Net investment gain	3,769	1,356	5,125
Net assets released from restrictions:			
Purpose accomplished	972,554	(972,554)	-
Total support and revenue	<u>4,056,802</u>	<u>(710,078)</u>	<u>3,346,724</u>
Expenses			
Program expenses:			
Research	1,110,703	-	1,110,703
Public support and education	1,234,186	-	1,234,186
Advocacy	65,847	-	65,847
Conferences	151,027	-	151,027
Total program expenses	<u>2,561,763</u>	<u>-</u>	<u>2,561,763</u>
Fundraising:			
Fund development	103,874	-	103,874
Administration	567,580	-	567,580
Total expenses	<u>3,233,217</u>	<u>-</u>	<u>3,233,217</u>
Change in net assets	823,585	(710,078)	113,507
Net assets at beginning of period	<u>513,989</u>	<u>1,457,091</u>	<u>1,971,080</u>
Net assets at end of period	<u>\$ 1,337,574</u>	<u>\$ 747,013</u>	<u>\$ 2,084,587</u>

See Notes to Financial Statements

Hydrocephalus Association

Statement of Activities

For the year ended December 31, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenue			
Grants and contributions	\$ 679,029	\$ 492,058	\$ 1,171,087
Special events (net of expenses of \$372,099)	2,170,739	25,540	2,196,279
Donated professional services and other in-kind contributions	41,525	-	41,525
Sale of books, publications and other items	13,976	-	13,976
Contract revenue	-	-	-
Interest and dividends	8,000	2,956	10,956
Net investment gain	2,378	906	3,284
Other income	16,150	-	16,150
Net assets released from restrictions:			
Purpose accomplished	1,441,635	(1,441,635)	-
Total support and revenue	<u>4,373,432</u>	<u>(920,175)</u>	<u>3,453,257</u>
Expenses			
Program expenses:			
Research	1,706,748	-	1,706,748
Public support and education	1,182,763	-	1,182,763
Advocacy	54,689	-	54,689
Conferences	75,374	-	75,374
Total program expenses	<u>3,019,574</u>	<u>-</u>	<u>3,019,574</u>
Fundraising:			
Fund development	138,084	-	138,084
Administration	740,441	-	740,441
Total expenses	<u>3,898,099</u>	<u>-</u>	<u>3,898,099</u>
Change in net assets	475,333	(920,175)	(444,842)
Net assets at beginning of period	<u>38,656</u>	<u>2,377,266</u>	<u>2,415,922</u>
Net assets at end of period	<u>\$ 513,989</u>	<u>\$ 1,457,091</u>	<u>\$ 1,971,080</u>

See Notes to Financial Statements

Hydrocephalus Association
Statement of Functional Expenses
For the year ended December 31, 2020

	Program				Total Program	Fundraising		
	Research	Public Support and Education		Conferences		Fund Development	Administration	Total
		Advocacy						
Grants to others	\$ 830,505	\$ -	\$ -	\$ -	\$ 830,505	\$ -	\$ -	\$ 830,505
Salaries	163,393	751,669	26,630	77,903	1,019,595	38,455	258,956	1,317,006
Employee benefits	17,071	104,301	3,124	10,940	135,436	6,841	39,370	181,647
Rent	29,397	53,069	2,779	6,708	91,953	3,635	20,247	115,835
Professional services - other	8,475	22,706	24,168	27,452	82,801	13,362	13,355	109,518
Software	21,472	49,629	1,949	6,690	79,740	5,317	14,647	99,704
Payroll taxes	12,250	56,836	2,024	6,066	77,176	2,881	19,254	99,311
Professional services - legal	-	-	-	-	-	-	93,820	93,820
Service charges	-	35	-	-	35	1,413	54,311	55,759
Professional services - technology	1,569	45,592	148	358	47,667	1,014	1,081	49,762
Out of town travel	313	32,207	298	1,326	34,144	2,996	1,941	39,081
Printing	191	18,814	18	43	19,066	4,569	2,525	26,160
Site expenses	-	22,434	-	-	22,434	1,000	-	23,434
Postage	1,791	12,218	146	486	14,641	4,082	1,752	20,475
Depreciation expense	4,500	8,123	425	1,027	14,075	604	3,100	17,779
Professional services - accounting	-	-	-	-	-	-	17,500	17,500
Equipment rental	1,309	3,034	124	10,924	15,391	175	902	16,468
Meetings	254	15,865	140	1	16,260	161	2	16,423
Advertising	-	3,919	-	100	4,019	10,101	-	14,120
Telephone	2,805	8,013	265	640	11,723	377	1,972	14,072
Prize and award	13,000	45	-	-	13,045	498	25	13,568
Dues and subscriptions	1,985	1,729	3,569	168	7,451	3,324	2,501	13,276
Supplies	282	9,363	27	163	9,835	2,411	605	12,851
Scholarships	-	12,000	-	-	12,000	-	-	12,000
Insurance	-	127	-	-	127	-	8,326	8,453
Bank charges	25	46	2	6	79	3	6,341	6,423
Taxes and other fees	-	-	-	-	-	-	2,572	2,572
Interest	-	-	-	-	-	-	2,185	2,185
Cost of merchandise	-	1,530	-	-	1,530	-	-	1,530
Miscellaneous expense	116	479	11	26	632	447	290	1,369
Local travel	-	245	-	-	245	208	-	453
Employee education	-	99	-	-	99	-	-	99
Conference registration	-	59	-	-	59	-	-	59
Total expenses	\$ 1,110,703	\$ 1,234,186	\$ 65,847	\$ 151,027	\$ 2,561,763	\$ 103,874	\$ 567,580	\$ 3,233,217

See Notes to Financial Statements

Hydrocephalus Association
Statement of Functional Expenses
For the year ended December 31, 2019

	Program				Total Program	Fundraising		
	Research	Public Support and Education		Conferences		Fund Development	Administration	Total
		Advocacy						
Grants to others	\$ 1,345,197	\$ 1,040	\$ -	\$ -	\$ 1,346,237	\$ -	\$ -	\$ 1,346,237
Salaries	149,917	672,142	19,210	46,339	887,608	39,326	357,781	1,284,715
Employee benefits	18,226	85,992	2,156	6,325	112,699	5,517	67,100	185,316
Rent	29,531	39,565	1,778	2,170	73,044	4,651	36,251	113,946
Software	33,919	57,223	2,010	2,453	95,605	10,256	32,745	138,606
Payroll taxes	11,447	49,529	1,397	3,408	65,781	3,534	26,782	96,097
Out of town travel	10,078	54,414	(21)	305	64,776	13,415	16,914	95,105
Meetings	45,736	35,086	1,190	7	82,019	3,421	8,290	93,730
Professional services - other	8,754	25,038	20,443	11,515	65,750	7,539	9,126	82,415
Service charges	-	-	-	-	-	1,592	78,468	80,060
Professional services - technology	21,924	42,416	74	90	64,504	1,091	1,137	66,732
Professional services - legal	-	-	-	-	-	-	45,050	45,050
Depreciation expense	12,355	16,516	744	908	30,523	2,000	11,467	43,990
Printing	4,933	15,094	181	1,148	21,356	11,062	3,205	35,623
Postage	3,524	16,651	181	221	20,577	5,847	3,688	30,112
Dues and Subscriptions	3,569	2,461	4,564	79	10,673	12,163	3,396	26,232
Site expenses	-	22,580	-	-	22,580	2,294	-	24,874
Supplies	534	10,108	29	35	10,706	9,252	843	20,801
Telephone	3,209	7,561	193	236	11,199	520	2,978	14,697
Professional services - accounting	-	-	-	-	-	-	14,306	14,306
Scholarships	-	12,000	-	-	12,000	-	-	12,000
Equipment rental	1,244	7,501	75	91	8,911	201	1,155	10,267
Bank charges	-	-	-	-	-	-	8,815	8,815
Prize and award	2,056	1,851	3	4	3,914	892	53	4,859
Insurance	-	165	-	-	165	-	4,642	4,807
Miscellaneous expense	258	1,003	16	19	1,296	1,534	1,333	4,163
Local travel	74	1,501	450	2	2,027	1,571	563	4,161
Taxes and other fees	-	-	-	-	-	22	3,152	3,174
Cost of merchandise	-	2,418	-	-	2,418	236	-	2,654
Advertising	250	1,585	15	18	1,868	146	323	2,337
Expendable equipment	-	737	-	-	737	-	688	1,425
Professional services - temporary	-	225	-	-	225	-	-	225
Equipment repair and maintenance	-	199	-	-	199	-	-	199
Conference registration	13	162	1	1	177	2	12	191
Interest	-	-	-	-	-	-	178	178
Total expenses	\$ 1,706,748	\$ 1,182,763	\$ 54,689	\$ 75,374	\$ 3,019,574	\$ 138,084	\$ 740,441	\$ 3,898,099

See Notes to Financial Statements

Hydrocephalus Association

Statements of Cash Flows

For the years ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<i>Cash flows from operating activities</i>		
Change in net assets	\$ 113,507	\$ (444,842)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Uncollectible pledges	60,425	-
Depreciation	17,779	43,990
Net investment gain	(5,125)	(3,284)
Change in fair value of contributions receivable	(13,380)	(31,214)
Change in operating assets and liabilities:		
Contributions receivable	257,106	312,700
Grant receivable	211,050	211,050
Miscellaneous receivables	10,031	(20,056)
Prepaid expenses	(36,986)	24,947
Inventory	3,150	(2,611)
Accounts payable and accrued expenses	(13,935)	(251,691)
Grant payable	101,577	55,000
Accrued rent expense	45,953	(13,340)
Net cash provided by (used in) operating activities	<u>751,152</u>	<u>(119,351)</u>
<i>Cash flows from investing activities</i>		
Purchases of investments	(6,192)	(10,926)
Purchases of property and equipment	(5,330)	(22,409)
Net cash used in investing activities	<u>(11,522)</u>	<u>(33,335)</u>
<i>Cash flows from financing activities</i>		
U.S. Small Business Administration ("SBA") Loan	150,000	-
Principal payments on note payable	-	(19,950)
Principal payments on capital leases	(2,298)	(2,190)
Net cash provided by (used in) financing activities	<u>147,702</u>	<u>(22,140)</u>
Net change in cash and cash equivalents	887,332	(174,826)
<i>Cash and cash equivalents at beginning of year</i>	<u>1,035,151</u>	<u>1,209,977</u>
<i>Cash and cash equivalents at end of year</i>	<u>\$ 1,922,483</u>	<u>\$ 1,035,151</u>

See Notes to Financial Statements

Hydrocephalus Association

Notes to Financial Statements

December 31, 2020 and 2019

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. 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.

Hydrocephalus is an abnormal accumulation of cerebrospinal fluid (CSF) within cavities of the brain called ventricles. The mission of the Association is to find a cure for hydrocephalus and improve the lives of those impacted 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 (endowments) 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, 2020 and 2019

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. Grants and contributions receivable that are expected to be collected within one year are recorded at net realizable value. Grants and contributions receivable expected to be collected in future years are recorded at the present value of the estimated future cash flows. The discounts on these amounts are computed using risk-adjusted discount rates applicable to the years in which the receivables are expected to be collected. 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, 2020 and 2019, 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 other resources.

Hydrocephalus Association

Notes to Financial Statements

December 31, 2020 and 2019

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 (approximately \$70,000 at both December 31, 2020 and 2019).

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 Delaware 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, 2020 and 2019

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:

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.

During the year ended December 31, 2020, the Association received \$273,826 of direct federal assistance from the U.S. federal government's Paycheck Protection Program ("PPP"), a \$10,000 Economic Injury Disaster Loan ("EIDL") grant, and a \$50,000 grant from the Maryland Department of Housing and Community Development Nonprofit Recovery Initiative. PPP funds were reported as a conditional contribution and recognized as revenue when the Association used the funds to meet payroll and other authorized obligations. The Association met the conditions for 100% forgiveness and obtained such forgiveness from the U.S. Small Business Administration ("SBA") in the year ended December 31, 2020. The EIDL grant and state grant do not require repayment and were recognized as revenue in the period awarded.

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 \$94,000 and \$37,000 in the statement of activities for the value of contributed legal services for the years ended December 31, 2020 and 2019, respectively.

Hydrocephalus Association

Notes to Financial Statements

December 31, 2020 and 2019

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

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 Delaware, 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, 2020. Fiscal years ending on or after 2017 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 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, 2021 (the Association's 2022 financial statements) and is not expected to have a significant impact on the Company's future financial statements.

Note 2. Risks & Uncertainties

In March 2020, many citizens were advised, and in some cases required, to remain in their homes to reduce the risk of spreading COVID-19. These actions have caused significant disruption to the economy as businesses and other public places were closed, the stock markets declined, and general activities slowed as priority was on restricting the spread of COVID-19. The federal and state governments enacted legislation to provide economic stimulus in an effort to maintain the flow of economic activities within the United States.

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Note 2. Risks & Uncertainties, Continued

As discussed in Note 1, the Association received \$333,826 of direct federal assistance and grants which partially mitigated the financial impact from the COVID-19 disruption during the year ending December 31, 2020. The Association also received a loan from the SBA in the amount of \$150,000 to cover normal operating expenses other than costs allowed under the PPP funding. Further disruption may occur depending on the extent of the COVID-19 restrictions and the time required for a complete economic recovery. Management is unable to determine the ultimate impact from COVID-19 and has made no adjustments to these financial statements as a result of this uncertainty.

Note 3. 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.

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 as of December 31:

	Contributions Receivable	
	2020	2019
Balance, beginning of year	\$ 645,727	\$ 927,213
New pledges receivable	99,887	30,000
Pledge payments	(356,993)	(342,700)
Adjustments for write-offs	(60,425)	-
Change in fair value	<u>13,380</u>	<u>31,214</u>
Balance, end of year	<u>\$ 341,576</u>	<u>\$ 645,727</u>

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Note 4. Investments

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

	2020		2019	
	Cost	Fair Value	Cost	Fair Value
Low duration bond fund	\$ 352,301	\$ 343,054	\$ 346,108	\$ 331,737

The following table presents investment income for the years ended December 31, 2020 and 2019. Unrealized losses are considered temporarily impaired as the investments will be held long-term and therefore allowing time for recovery of the losses.

	2020	2019
Interest and dividend income	6,229	10,956
Unrealized gain	5,125	3,284
Total investment income	\$ 11,354	\$ 14,240

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

Note 5. Contributions Receivable

Unconditional contributions receivable consist of the following at December 31:

	2020	2019
Due within one year	\$ 281,287	\$ 348,693
Due within two years	62,700	312,825
	343,987	661,518
Discounts at 1.98% for 2020 and 2.19% for 2019	(2,411)	(15,791)
Total unconditional contributions	\$ 341,576	\$ 645,727

Note 6. Property and Equipment

Property and equipment, net, consists of the following as of December 31:

	2020	2019
Office furniture and equipment	\$ 88,397	\$ 83,067
Computer software	117,595	117,595
Accumulated depreciation	(188,186)	(170,407)
	\$ 17,806	\$ 30,255

Depreciation expense totaled \$17,779 and \$43,990 for the years ended December 31, 2020 and 2019, respectively.

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Note 7. 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 \$196 at December 31, 2020 and \$2,494 at December 31, 2019. The leased asset is amortized over its estimated productive life. Amortization of this asset under the capital lease is included in depreciation expense.

Note 8. U.S. Small Business Administration Loan

As discussed in Note 2, the Association received a loan for \$150,000 from the SBA in June 2020. The loan is collateralized by substantially all of the Company's assets. The note will require monthly principal and interest payments of \$641 through June 2050 (if not repaid sooner) at a fixed rate of 2.75% per year. Payments are deferred until June 2022 and will be applied first to accrued interest. At December 31, 2020, the outstanding balance due on the loan, including accrued interest, was \$152,063.

Note 9. Line of Credit

During 2020, the Association entered into a line of credit with a financial institution. The line of credit provided for maximum borrowings of \$500,000, bearing interest at a floating rate equal to the lender's prime rate plus 1.0% and was secured by all inventory, accounts receivable and equipment. There was no outstanding balance on the line of credit as of December 31, 2020.

Note 10. Restricted Net Assets

Donor restricted net assets are as follows at December 31:

	<u>2020</u>	<u>2019</u>
Research	\$ 290,261	\$ 420,895
Time restricted pledges and grant receivable	341,576	856,777
Support and education	23,858	88,301
Endowment	<u>91,318</u>	<u>91,118</u>
Total restricted net assets	<u>\$ 747,013</u>	<u>\$ 1,457,091</u>

Note 11. Net Assets Released from Restrictions

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

	<u>2020</u>	<u>2019</u>
Research	\$ 761,517	\$ 1,290,807
Support and education	161,037	68,828
Time restricted pledges and grants	<u>50,000</u>	<u>82,000</u>
Total restricted net assets	<u>\$ 972,554</u>	<u>\$ 1,441,635</u>

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Notes to Financial Statements

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Note 12. Endowment Funds

Permanently restricted net assets consist of donor-restricted endowment funds totaling \$91,318 and \$91,118 at December 31, 2020 and 2019, respectively. 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 years ended December 31 follows:

	<u>2020</u>	<u>2019</u>
Endowment net assets, beginning of year	\$ 91,118	\$ 91,118
Contribution	200	-
Investment return, net	2,973	3,862
Amounts appropriated for expenditure	<u>(2,973)</u>	<u>(3,862)</u>
Endowment net assets, end of year	<u>\$ 91,318</u>	<u>\$ 91,118</u>

Note 13. Management of Liquidity

The following represents the Association's financial assets available to meet cash needs for general expenditures through 2021. 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, 2020	\$ 2,750,883
Less amounts not available to be used within one year due to illiquidity:	
Prepaid expenses	(82,769)
Inventory	(33,170)
Property and equipment, net	<u>(17,806)</u>
	2,617,138
Less amounts not available to be used within one year due to donor-imposed restrictions:	
Contributions receivable – long term	(60,289)
Purpose restrictions	
Research	(290,261)
Support and education	(23,858)
Permanent endowment	(91,318)
Financial assets available to meet cash needs for general expenditures through 2021:	<u>\$ 2,151,412</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.

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December 31, 2020 and 2019

Note 13. Management of Liquidity, Continued

The Association has over \$2.1 million of financial assets available on December 31, 2020 to meet cash needs for general expenditures through December 31, 2021. 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 financial assets, along with revenue to be generated from 2020 activities, are adequate to cover expected general operating expenses which are budgeted at approximately \$224,000 per month in 2021. In addition, the Association has budgeted to award approximately 75% of the purpose restricted research grants referred to above in 2021.

Note 14. 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 years ended December 31, 2020 and 2019, matching contributions totaled \$40,984 and \$34,653, respectively.

Note 15. Operating Leases

In April 2019, the Association amended and extended a non-cancelable lease agreement for its Bethesda, Maryland headquarters office through May 2025. The base rent is adjusted annually for inflation at a rate of 2.75% and includes an abatement for five months of rent during 2020. Additionally, real estate taxes are to be paid by the Association as additional rent. For the years ended December 31, 2020 and 2019, rent expense was \$115,835 and \$113,946, respectively. Future minimum lease payments to be made under the lease agreement as of December 31, 2019 are as follows:

2021	\$	118,555
2022		121,815
2023		125,165
2024		128,607
2025		54,541
	\$	<u>548,683</u>

Note 16. Related Party Transactions

Members of the Association's Board of Directors and staff made contributions totaling approximately \$119,000 during 2020 (\$86,000 in 2019). Team Hydro, an affiliate group to the Association, made contributions totaling approximately \$75,000 during 2020.

Note 17. Subsequent Events

The Association has evaluated subsequent events through April 12, 2021, the date which the financial statements were available to be issued.

In March 2021, the Association obtained a second PPP Loan in the amount of \$280,995 to further mitigate the financial impact from the COVID-19 disruption which continues in the year ended December 31, 2021.