

Hydrocephalus Association

Report on Financial Statements

For the years ended December 31, 2021 and 2020

Hydrocephalus Association

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Independent Auditor's Report

To the Board of Directors
Hydrocephalus Association
Bethesda, Maryland

Opinion

We have audited the financial statements of Hydrocephalus Association (the "Association"), which comprise the statements of financial position as of December 31, 2021 and 2020, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements (collectively, "the financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Association as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for at least twelve months from the date of the accompanying financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Richmond, Virginia
April 19, 2022

Hydrocephalus Association

Statements of Financial Position

As of December 31, 2021 and 2020

Assets	2021	2020
Current assets		
Cash and cash equivalents	\$ 2,698,630	\$ 1,922,483
Investments	-	251,736
Receivables:		
Contributions receivable - current portion	191,700	281,287
Miscellaneous receivables	214	10,025
Prepaid expenses	76,190	82,769
Inventory	28,689	33,170
Total current assets	2,995,423	2,581,470
Investments	785,065	91,318
Property and equipment, net of accumulated depreciation	12,270	17,806
Contributions receivable, less current portion	2,766	60,289
Total assets	<u>\$ 3,795,524</u>	<u>\$ 2,750,883</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 195,406	\$ 169,590
Grant payable	149,593	297,997
Capital lease payable, current portion	-	196
Total current liabilities	344,999	467,783
Long-term liabilities		
Accrued rent expense	41,608	46,450
U.S. Small Business Administration ("SBA") Loan	156,188	152,063
Total liabilities	542,795	666,296
Net assets		
Without donor restrictions	2,525,456	1,337,574
With donor restrictions		
Permanently endowed	91,318	91,318
Other amounts with donor restrictions	635,955	655,695
Total net assets with donor restrictions	727,273	747,013
Total net assets	3,252,729	2,084,587
Total liabilities and net assets	<u>\$ 3,795,524</u>	<u>\$ 2,750,883</u>

See Notes to Financial Statements

Hydrocephalus Association

Statement of Activities

For the year ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Grants and contributions	\$ 859,248	\$ 635,271	\$ 1,494,519
Employee retention credits	316,640	-	316,640
Paycheck Protection Program (PPP) funding	280,995	-	280,995
Special events (net of expenses of \$164,405)	1,780,608	105	1,780,713
Sale of books, publications and other items	19,266	-	19,266
Miscellaneous revenue	15,129	-	15,129
Interest and dividends	1,966	741	2,707
Net investment gain (loss)	2,540	832	3,372
Net assets released from restrictions:			
Purpose accomplished	656,689	(656,689)	-
Total support and revenue	<u>3,933,081</u>	<u>(19,740)</u>	<u>3,913,341</u>
Expenses			
Program expenses:			
Research	791,408	-	791,408
Public support and education	1,194,635	-	1,194,635
Advocacy	84,551	-	84,551
Conferences	105,711	-	105,711
Total program expenses	<u>2,176,305</u>	<u>-</u>	<u>2,176,305</u>
Fundraising:			
Fund development	68,961	-	68,961
Administration	499,933	-	499,933
Total expenses	<u>2,745,199</u>	<u>-</u>	<u>2,745,199</u>
Change in net assets	1,187,882	(19,740)	1,168,142
Net assets at beginning of period	<u>1,337,574</u>	<u>747,013</u>	<u>2,084,587</u>
Net assets at end of period	<u>\$ 2,525,456</u>	<u>\$ 727,273</u>	<u>\$ 3,252,729</u>

See Notes to Financial Statements

Hydrocephalus Association

Statement of Activities

For the year ended December 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
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 Functional Expenses
For the year ended December 31, 2021

	Program				Total Program	Fundraising		
	Research	Public Support and Education	Advocacy	Conferences		Fund Development	Administration	Total
Grants to others	\$ 456,771	\$ -	\$ -	\$ -	\$ 456,771	\$ -	\$ -	\$ 456,771
Salaries	207,081	730,104	35,291	64,737	1,037,213	30,534	282,099	1,349,846
Employee benefits	14,052	89,511	3,578	7,486	114,627	3,957	40,898	159,482
Rent	31,351	54,192	3,776	4,287	93,606	3,141	23,679	120,426
Professional services - other	4,816	55,649	30,846	16,681	107,992	1,508	10,166	119,666
Software	21,885	52,110	2,573	2,921	79,489	8,709	16,573	104,771
Payroll taxes	15,911	55,823	2,700	4,790	79,224	2,326	21,993	103,543
Service charges	33	96	4	5	138	147	53,978	54,263
Site expenses	-	35,742	-	-	35,742	-	-	35,742
Professional services - technology	647	30,235	3,316	87	34,285	466	495	35,246
Supplies	138	22,208	17	19	22,382	5,337	779	28,498
Meetings	23,583	2,121	9	11	25,724	12	331	26,067
Dues and Subscriptions	2,502	2,347	1,435	146	6,430	2,232	8,814	17,476
Postage	1,738	8,660	204	231	10,833	3,676	1,450	15,959
Printing	3,175	6,717	53	473	10,418	4,762	545	15,725
Professional services - accounting	-	-	-	-	-	-	15,533	15,533
Telephone	3,072	8,719	370	420	12,581	316	2,320	15,217
Out of town travel	-	9,155	-	2,939	12,094	993	977	14,064
Scholarships	-	13,000	-	-	13,000	-	-	13,000
Insurance	-	-	-	-	-	-	8,569	8,569
Advertising	-	8,226	-	-	8,226	-	-	8,226
Depreciation expense	2,044	3,533	246	279	6,102	205	1,545	7,852
Equipment rental	571	2,172	69	78	2,890	586	431	3,907
Cost of merchandise	46	2,730	5	6	2,787	5	84	2,876
Bank charges	26	45	3	4	78	3	2,601	2,682
Interest	-	-	-	-	-	-	4,074	4,074
Prize and award	1,500	207	-	-	1,707	-	34	1,741
Expendable equipment	408	706	49	56	1,219	41	308	1,568
Taxes and other fees	34	58	4	5	101	3	1,252	1,356
Miscellaneous expense	24	41	3	3	71	2	357	430
Local travel	-	318	-	47	365	-	13	378
Employee education	-	210	-	-	210	-	-	210
Equipment repair and maintenance	-	-	-	-	-	-	35	35
Total expenses	\$ 791,408	\$ 1,194,635	\$ 84,551	\$ 105,711	\$ 2,176,305	\$ 68,961	\$ 499,933	\$ 2,745,199

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	Advocacy	Conferences		Fund Development	Administration	Total
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

Statements of Cash Flows

For the years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<i>Cash flows from operating activities</i>		
Change in net assets	\$ 1,168,142	\$ 113,507
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Uncollectible pledges	9,000	60,425
Depreciation	7,852	17,779
Net investment gain	(3,372)	(5,125)
Donated securities	(52,418)	-
Gain on sale of equipment	(129)	-
Change in fair value of contributions receivable	(2,277)	(13,380)
Change in operating assets and liabilities:		
Contributions receivable	140,387	257,106
Grant receivable	-	211,050
Miscellaneous receivables	9,811	10,031
Prepaid expenses	6,579	(36,986)
Inventory	4,481	3,150
Accounts payable and accrued expenses	29,941	(13,935)
Grant payable	(148,404)	101,577
Accrued rent expense	(4,842)	45,953
Net cash provided by operating activities	<u>1,164,751</u>	<u>751,152</u>
<i>Cash flows from investing activities</i>		
Purchases of investments	(779,414)	(6,192)
Proceeds from sale of investments	393,193	
Purchases of property and equipment	(2,887)	(5,330)
Proceeds from sale of fixed assets	700	-
Net cash used in investing activities	<u>(388,408)</u>	<u>(11,522)</u>
<i>Cash flows from financing activities</i>		
U.S. Small Business Administration ("SBA") Loan	-	150,000
Principal payments on capital leases	(196)	(2,298)
Net cash provided by (used in) financing activities	<u>(196)</u>	<u>147,702</u>
Net change in cash and cash equivalents	776,147	887,332
<i>Cash and cash equivalents at beginning of year</i>	<u>1,922,483</u>	<u>1,035,151</u>
<i>Cash and cash equivalents at end of year</i>	<u>\$ 2,698,630</u>	<u>\$ 1,922,483</u>

See Notes to Financial Statements

Hydrocephalus Association

Notes to Financial Statements

December 31, 2021 and 2020

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 re-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, 2021 and 2020

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, accounted for on the trade date basis and classified as current or long-term assets based on the board's intended use of the funds. 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, 2021 and 2020, 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, 2021 and 2020

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 \$75,000 and \$70,000 at December 31, 2021 and 2020, respectively).

Endowment funds:

The Association's endowment consists of nine individual funds established for academic scholarships stipulated by donors. As required by 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 an investment policy, approved by the Board of Directors in August 2021, the endowment funds are invested in a manner parallel to the Association's other investment accounts which are managed to generate annual dividend income and capital appreciation of 5-6% through a conservative mix of dividend focused equity instruments and investment grade fixed income instruments.

Hydrocephalus Association

Notes to Financial Statements

December 31, 2021 and 2020

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 utilizes conservative mix of dividend focused equity instruments and investment grade fixed income instruments 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, 2021, the Association received \$280,995 of direct federal assistance from the U.S. federal government's Paycheck Protection Program ("PPP"; \$273,826 received in 2020). 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 has met the conditions and obtained 100% forgiveness of both loans from the U.S. Small Business Administration ("SBA").

During the year ended December 31, 2021, the Association also qualified for and received \$316,640 of support from the U.S. federal government's Employee Retention Credit ("ERC") program.

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 in the statement of activities for the value of contributed legal services during the year ended December 31, 2020 (none in 2021).

Hydrocephalus Association

Notes to Financial Statements

December 31, 2021 and 2020

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, 2021. Fiscal years ending on or after 2018 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 Association's future financial statements.

Note 2. Risks and Uncertainties

Beginning 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 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 and Uncertainties, Continued

As discussed in Note 1, the Association received approximately \$598,000 of direct federal assistance from the PPP and ERC programs which partially mitigated the financial impact from the COVID-19 disruption during the year ending December 31, 2021 (\$274,000 in 2020). 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 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:

	<u>Contributions Receivable</u>	
	<u>2021</u>	<u>2020</u>
Balance, beginning of year	\$ 341,576	\$ 645,727
New pledges receivable	125,000	99,887
Pledge payments	(265,387)	(356,993)
Adjustments for write-offs	(9,000)	(60,425)
Change in fair value	<u>2,277</u>	<u>13,380</u>
Balance, end of year	<u>\$ 194,466</u>	<u>\$ 341,576</u>

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Note 4. Investments

At December 31, investments are stated at fair value and consist of equity and debt securities as follows:

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Equity funds and common securities	\$ 477,935	\$ 485,671	-	-
Preferred equity securities	138,610	139,223	-	-
Bond funds	160,000	160,171	-	-
Low duration bond fund	-	-	352,301	343,054
Total investments	<u>\$ 776,545</u>	<u>\$ 785,065</u>	<u>\$ 352,301</u>	<u>\$ 343,054</u>

The following table presents investment income for the years ended December 31, 2021 and 2020.

	2021	2020
Interest and dividend income	2,707	6,229
Unrealized gain	3,372	5,125
Total investment income	<u>\$ 6,079</u>	<u>\$ 11,354</u>

Investments are classified as a current or long-term asset in the statement of financial position based on the board's intended use of the funds and the nature of any restrictions placed on the investments.

Note 5. Contributions Receivable

Unconditional contributions receivable consist of the following at December 31:

	2021	2020
Due within one year	\$ 191,700	\$ 281,287
Due within two years	2,900	62,700
	194,600	343,987
Discounts at 2.76% for 2021 and 1.98% for 2020	(134)	(2,411)
Total unconditional contributions	<u>\$ 194,466</u>	<u>\$ 341,576</u>

Note 6. Property and Equipment

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

	2021	2020
Office furniture and equipment	\$ 89,913	\$ 88,397
Computer software	105,495	117,595
Accumulated depreciation	(195,238)	(188,186)
	<u>\$ 12,270</u>	<u>\$ 17,806</u>

Depreciation expense totaled \$7,852 and \$17,779 for the years ended December 31, 2021 and 2020, respectively.

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Note 7. U.S. Small Business Administration Loan

In June 2020, the Association received a loan for \$150,000 from the SBA. The loan is collateralized by substantially all of the Association'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, 2021, the outstanding balance due on the loan, including accrued interest, was \$156,188.

Note 8. 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, 2021.

Note 9. Restricted Net Assets

Donor restricted net assets are as follows at December 31:

	<u>2021</u>	<u>2020</u>
Research	\$ 402,274	\$ 290,261
Time restricted pledges and grant receivable	194,466	341,576
Support and education	39,215	23,858
Endowment	<u>91,318</u>	<u>91,318</u>
Total restricted net assets	<u>\$ 727,273</u>	<u>\$ 747,013</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 years ended December 31:

	<u>2021</u>	<u>2020</u>
Research	\$ 501,868	\$ 761,517
Support and education	99,821	161,037
Time restricted pledges and grants	<u>55,000</u>	<u>50,000</u>
Total restricted net assets	<u>\$ 656,689</u>	<u>\$ 972,554</u>

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Note 11. Endowment Funds

Permanently restricted net assets consist of donor-restricted endowment funds totaling \$91,318 at December 31, 2021 and 2020. 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>2021</u>	<u>2020</u>
Endowment net assets, beginning of year	\$ 91,318	\$ 91,118
Contribution	-	200
Investment return, net	1,573	2,973
Amounts appropriated for expenditure	<u>(1,573)</u>	<u>(2,973)</u>
Endowment net assets, end of year	<u>\$ 91,318</u>	<u>\$ 91,318</u>

Note 12. Management of Liquidity

The following represents the Association's financial assets available to meet cash needs for general expenditures through 2022. 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, 2021	\$ 3,795,524
Less amounts not available to be used within one year due to illiquidity:	
Prepaid expenses	(76,190)
Inventory	(28,689)
Property and equipment, net	<u>(12,270)</u>
	3,678,375
Less amounts not available to be used within one year due to donor-imposed restrictions:	
Contributions receivable – long term	(2,766)
Purpose restrictions	
Research	(402,274)
Support and education	(39,215)
Permanent endowment	(91,318)
Financial assets available to meet cash needs for general expenditures through 2022:	<u>\$ 3,142,802</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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Note 12. Management of Liquidity, Continued

The Association has over \$3.1 million of financial assets available on December 31, 2021 to meet cash needs for general expenditures through December 31, 2022. 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 2022 activities, are adequate to cover expected general operating expenses which are budgeted at approximately \$340,000 per month in 2022.

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 years ended December 31, 2021 and 2020, matching contributions totaled \$42,487 and \$40,984, respectively.

Note 14. 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 included 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, 2021 and 2020, rent expense was \$120,426 and \$115,835, respectively. Future minimum lease payments to be made under the lease agreement as of December 31, 2021 are as follows:

2022	\$	121,815
2023		125,165
2024		128,607
2025		54,541

Note 15. Related Party Transactions

Members of the Association's Board of Directors and staff made contributions totaling approximately \$191,255 during 2021 (\$119,000 in 2020). Team Hydro, an affiliate group to the Association, made contributions totaling approximately \$50,000 during 2021 (\$75,000 in 2020).

Note 16. Subsequent Events

The Association has evaluated subsequent events through April 19, 2022, the date which the financial statements were available to be issued.