HYDROCEPHALUS ASSOCIATION

FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

KWC Certified Public Accountants

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Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
Hydrocephalus Association

Opinion
We have audited the accompanying financial statements of **Hydrocephalus Association** (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements (collectively, the financial statements).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Hydrocephalus Association** as of December 31, 2022, 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.

Basis for Opinion
We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 **Hydrocephalus 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.

Prior Period Financial Statements
The financial statements as of December 31, 2021, were audited by Kimble Certified Public Accountants, who merged with KWC Certified Public Accountants as of July 25, 2022, and whose report dated April 19, 2022, expressed an unmodified opinion on those statements.

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 **Hydrocephalus Association**'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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 generally accepted auditing standards 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.

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Board of Directors
Hydrocephalus Association

In performing an audit in accordance with generally accepted auditing standards, 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 **Hydrocephalus 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 **Hydrocephalus 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.

Kositzka, Wicks and Company

Richmond, Virginia
April 21, 2023

Hydrocephalus Association

Statements of Financial Position

December 31,		2022		2021
Assets				
Current assets				
Cash and cash equivalents	$	1,431,128	$	2,674,977
Investments, general		1,532,380		-
Contributions receivable, current portion		291,400		191,700
Other receivables		185		189
Prepaid expenses		89,047		76,215
Inventory		46,849		28,689
Total current assets		3,390,989		2,971,770
Non-current assets				
Investments, general		652,606		717,400
Investments, endowment fund		79,544		91,318
Property and equipment, net		12,823		12,270
Operating lease right-of-use asset		277,312		-
Contributions receivable, long-term portion, net		103,094		2,766
Total non-current assets		1,125,379		823,754
Total assets	$	4,516,368	$	3,795,524
Liabilities and net assets				
Current liabilities				
Accounts payable and accrued expenses	$	221,391	$	195,406
Grants payable		173,299		149,593
U.S. Small Business Administration (SBA) Loan, current portion		4,044		2,144
Operating lease liability, current portion		121,911		-
Total current liabilities		520,645		347,143
Long-term liabilities				
Accrued rent expense		-		41,608
U.S. Small Business Administration (SBA) Loan		150,000		154,044
Operating lease liability, long-term portion		181,474		-
Total long-term liabilities		331,474		195,652
Total liabilities		852,119		542,795
Net assets				
Without donor restrictions		2,568,262		2,525,456
With donor restrictions				
Purpose and time restrictions		1,016,443		635,955
Perpetually endowed		91,318		91,318
Underwater endowments		(11,774)		-
Total net assets		3,664,249		3,252,729
Total liabilities and net assets	$	4,516,368	$	3,795,524

See accompanying notes and independent auditor's report.

Hydrocephalus Association

Statement of Activities
for the year ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Grants and contributions	$ 791,853	$ 1,459,296	$ 2,251,149
Special events (net of cost of direct benefits to donors of $193,450)	1,778,153	-	1,778,153
Conference fees	63,919	-	63,919
Merchandise sales (net of cost of merchandise of $5,641)	6,765	-	6,765
Miscellaneous income	150	-	150
Interest and dividends	45,442	2,965	48,407
Net investment loss	(104,790)	(14,739)	(119,529)
Net assets released from restrictions	1,078,808	(1,078,808)	-
Total support and revenue	3,660,300	368,714	4,029,014
Expenses			
Program expenses			
Research	1,194,677	-	1,194,677
Public support and education	1,217,696	-	1,217,696
Advocacy	75,575	-	75,575
Conferences	553,160	-	553,160
Total program expenses	3,041,108	-	3,041,108
Fundraising			
Fund development	97,558	-	97,558
Administration	478,828	-	478,828
Total expenses	3,617,494	-	3,617,494
Change in net assets	42,806	368,714	411,520
Net assets, beginning of year	2,525,456	727,273	3,252,729
Net assets, end of year	$ 2,568,262	$ 1,095,987	$ 3,664,249

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 cost of direct benefits to donors of $165,709)	1,780,608	105	1,780,713
Merchandise sales (net of cost of merchandise of $2,876)	16,390	-	16,390
Miscellaneous income	15,129	-	15,129
Interest and dividends	1,966	741	2,707
Net investment gain	2,540	832	3,372
Net assets released from restrictions	656,689	(656,689)	-
Total support and revenue	3,930,205	(19,740)	3,910,465
Expenses			
Program expenses			
Research	791,362	-	791,362
Public support and education	1,191,905	-	1,191,905
Advocacy	84,546	-	84,546
Conferences	105,705	-	105,705
Total program expenses	2,173,518	-	2,173,518
Fundraising			
Fund development	68,956	-	68,956
Administration	499,849	-	499,849
Total expenses	2,742,323	-	2,742,323
Change in net assets	1,187,882	(19,740)	1,168,142
Net assets, beginning of year	1,337,574	747,013	2,084,587
Net assets, end of year	$ 2,525,456	$ 727,273	$ 3,252,729

See accompanying notes and independent auditor's report.

Hydrocephalus Association

Statement of Functional Expenses
for the year ended December 31, 2022

	Program					Fundraising		
	Research	Public Support and Education	Advocacy	Conferences	Total Program	Fund Development	Administration	Total
Expenses								
Grants to others	$ 704,310	$ -	$ -	$ -	$ 704,310	$ -	$ -	$ 704,310
Salaries	258,188	708,906	27,832	180,021	1,174,947	36,351	256,726	1,468,024
Meetings	52,189	37,666	6	150,220	240,081	83	10,643	250,807
Cost of direct benefit to donors	-	-	-	-	-	193,450	-	193,450
Out of town travel	37,026	57,473	248	64,177	158,924	1,727	1,574	162,225
Employee benefits	17,247	70,435	2,645	19,195	109,522	4,402	47,971	161,895
Professional services - other	10,534	40,662	27,929	32,139	111,264	4,853	11,998	128,115
Rent	34,509	43,181	2,642	15,023	95,355	3,736	16,982	116,073
Payroll taxes	19,685	53,427	2,077	14,030	89,219	2,739	16,412	108,370
Software	25,954	46,316	1,931	10,977	85,178	5,806	12,840	103,824
Professional service - technology	2,726	57,600	147	838	61,311	524	948	62,783
Service charges	48	59	4	21	132	5	56,280	56,417
Equipment rental	197	5,628	15	48,937	54,777	21	1,132	55,930
Site expenses	-	32,659	-	-	32,659	132	-	32,791
Printing	4,592	16,394	160	2,734	23,880	5,662	1,711	31,253
Advertising	-	1,026	-	1,742	2,768	19,891	410	23,069
Postage	2,064	8,128	135	5,749	16,076	4,187	939	21,202
Dues and Subscriptions	1,888	4,427	9,249	278	15,842	5,463	624	21,929
Supplies	1,094	9,206	84	4,024	14,408	1,189	1,711	17,308
Prize and award	16,000	636	-	106	16,742	-	302	17,044
Telephone	3,036	7,346	232	1,321	11,935	442	1,493	13,870
Professional service - accounting	-	-	-	-	-	-	12,500	12,500
Scholarships	-	11,000	-	-	11,000	-	-	11,000
Insurance	-	-	-	-	-	-	10,221	10,221
Depreciation and amortization	2,642	3,307	202	1,150	7,301	286	1,300	8,887
Taxes and other fees	19	25	1	8	53	2	7,290	7,345
Cost of merchandise	-	1,623	-	3,729	5,352	116	173	5,641
Interest	-	-	-	-	-	-	3,625	3,625
Bank charges	-	-	-	-	-	-	2,789	2,789
Miscellaneous expense	513	780	21	385	1,699	36	295	2,030
Expendable equipment	196	246	15	85	542	21	97	660
Local travel	-	539	-	-	539	-	15	554
Professional services - legal	-	425	-	-	425	-	-	425
Employee education	20	199	-	-	219	-	-	219
Total expenses by function	1,194,677	1,219,319	75,575	556,889	3,046,460	291,124	479,001	3,816,585
Less expenses included with revenues on the statement of activities								
Cost of direct benefits to donors	-	-	-	-	-	(193,450)	-	(193,450)
Cost of merchandise sold	-	(1,623)	-	(3,729)	(5,352)	(116)	(173)	(5,641)
	$ 1,194,677	$ 1,217,696	$ 75,575	$ 553,160	$ 3,041,108	$ 97,558	$ 478,828	$ 3,617,494

See accompanying notes and independent auditor's report.

Hydrocephalus Association

Statement of Functional Expenses
for the year ended December 31, 2021

	Program					Fundraising		
	Research	Public Support and Education	Advocacy	Conferences	Total Program	Fund Development	Administration	Total
Expenses								
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
Cost of direct benefit to donors	-	-	-	-	-	165,709	-	165,709
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 and amortization	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 by function	791,408	1,194,635	84,551	105,711	2,176,305	234,670	499,933	2,910,908
Less expenses included with revenues on the statement of activities								
Cost of direct benefits to donors	-	-	-	-	-	(165,709)	-	(165,709)
Cost of merchandise sold	(46)	(2,730)	(5)	(6)	(2,787)	(5)	(84)	(2,876)
	$ 791,362	$ 1,191,905	$ 84,546	$ 105,705	$ 2,173,518	$ 68,956	$ 499,849	$ 2,742,323

See accompanying notes and independent auditor's report.

Hydrocephalus Association

Statements of Cash Flows
for the years ended December 31

	2022	2021
Cash flows from operating activities		
Change in net assets	$ 411,520	$ 1,168,142
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	8,887	7,852
Amortization of discount on contributions receivable	11,972	(2,277)
Loss on uncollectible contributions receivable	5,000	9,000
Interest payments on U.S. Small Business Administration (SBA) Loan	(2,144)	-
Net investment loss (gain)	71,122	(3,372)
Donated securities	(640,569)	(52,418)
Gain on sale of property and equipment	-	(129)
Change in operating lease liability	26,073	-
(Increase) decrease in operating assets:		
Contributions receivable	(217,000)	140,387
Other receivables	4	9,811
Prepaid expenses	(12,832)	6,579
Inventory	(18,160)	4,481
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	25,985	29,941
Grants payable	23,706	(148,404)
Accrued rent expense	(41,608)	(4,842)
Net cash provided by operating activities	(348,044)	1,164,751
Cash flows from investing activities		
Purchases of investments, general	(1,829,092)	(803,067)
Proceeds from sale of investments, general	942,727	393,193
Purchases of property and equipment	(9,440)	(2,887)
Proceeds from sale of fixed assets	-	700
Net cash used in investing activities	(895,805)	(412,061)
Cash flows from financing activities		
Repayments on capital leases	-	(196)
Net cash used in financing activities	-	(196)
Net change in cash and cash equivalents	(1,243,849)	752,494
Cash and cash equivalents - beginning of year	2,674,977	1,922,483
Cash and cash equivalents - end of year	$ 1,431,128	$ 2,674,977
Supplemental disclosure of cash flow information		
Interest paid	$ 2,144	$ -
Cash paid for U.S. Treasuries, to be converted to cash and cash equivalents within one year	$ 1,518,725	$ -

See accompanying notes and independent auditor's report.

1. Organization

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 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.

The Association is supported through grants, contributions, special events, and investment earnings.

2. Summary of significant accounting policies

Basis of presentation
The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principals generally accepted in the United States of America (U.S. GAAP).

Net assets, revenues, gains, and losses are classified based on the existence or absence of restrictions imposed by donors or grantors. Accordingly, net assets and changes therein are classified and reported in two categories as described below.

Net assets without donor restrictions are net assets available for use in general operations and not subject to donor restrictions.

Net assets with donor restrictions are net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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

Cash and cash equivalents
For the purpose of the statements 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. Cash and cash equivalents held in investment accounts are excluded from cash and cash equivalents.

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. The Association’s cash balances exceeded the FDIC insured limit by $1,000,738 and $2,141,063 at December 31, 2022 and 2021, respectively.

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.

Credit risk associated with other receivables and contributions receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from Board members and donors supportive of the Association's mission.

Investments
Investments are valued at fair value, accounted for on the trade date basis and classified as current or non-current assets based on the board's intended use of the funds and the nature of any restrictions placed on the investments. 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
Contributions receivable represent unconditional promises to give that are expected to be collected over time. Contributions receivable that are expected to be collected within one year are recorded at net realizable value. 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.

Other receivables consist of sponsor accounts that are expected to be collected within one year and are recorded at net realizable value.

Management determines an allowance for uncollectible contributions receivable and other receivables based on historical experience, an assessment of economic conditions, and a review of subsequent collection. At December 31, 2022 and 2021, based on management's assessment, no allowance for doubtful accounts was required.

Inventory
Inventory is stated at lower of cost or market and consists of books, Hydrocephalus Association merchandise, and other resources.

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. Unused vacation pay is accrued when incurred and is recorded in accounts payable and accrued expenses in the statements of financial position (approximately $76,000 and $75,000 at December 31, 2022 and 2021, respectively).

Endowment funds
The Association's endowment consists of nine individual funds established for academic scholarships as stipulated by the donors. As required by U.S. GAAP, net assets associated with these endowment funds are classified as perpetually restricted and reported as net assets with donor restrictions 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 perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and the (c) accumulations to the perpetual 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.

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, contributions and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The Association reports gifts of cash and other assets as restricted support, if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Donor restricted grants and contributions whose restrictions are met in the same reporting period are reported as support without donor 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. The Association obtained full forgiveness of this funding from the U.S. Small Business Administration during the year ended December 31, 2021.

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 program.

Special events revenue is comprised of an exchange element based upon the direct benefits donors receive and a contribution element for the difference. The Association recognizes special events revenue equal to the fair value of direct benefits to donors when the special event takes place. The Association recognizes the contribution element of special event revenue immediately, unless there is a right of return if the special event does not take place.

Conference fee revenue derived from the Association's bi-annual conference is recognized at the time of purchase and presented net of registration fees.

Contributed services
The Association recognizes the value of contributed services in the statements 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 Association had no contributed services recognized during the years ended December 31, 2022 or 2021.

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, 2022. Fiscal years ending on or after 2019 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 statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis and allocated ratably and/or directly by function benefited.

Advertising
Advertising costs are expensed as incurred. During the years ended December 31, 2022 and 2021, advertising costs totaled $23,069 and $8,226, respectively.

Fair value of financial assets and liabilities
Financial assets with carrying values approximating fair value include cash and cash equivalents, investments, contributions receivable, other receivables, and prepaid expenses. Financial liabilities with carrying values approximating fair value include accounts payable and accrued expenses and grants payable. The carrying value of these financial assets and liabilities approximates fair value due to their short maturities and any associated interest rates approximate current market rates.

Recently adopted accounting pronouncements
The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires not-for-profits to present contributed nonfinancial assets as a separate line item in the statements of activities and provide additional disclosures about contributions of nonfinancial assets.

Contributed nonfinancial assets, commonly referred to as gifts-in-kind, include fixed assets (such as land, buildings and equipment), use of fixed assets or utilities, materials and supplies, intangible assets, services, and unconditional promises to those assets. The ASU is effective for annual periods beginning after June 15, 2021 with a retroactive application. The Association adopted the standard on January 1, 2022 with no impact on net assets. The Association did not receive any contributed nonfinancial assets during the years ended December 31, 2022 or 2021; therefore, there was no impact on the accompanying financial statements.

The FASB issued ASU 2016-02, *Leases*, which requires lessees to recognize on the statement of financial position the assets and liabilities for the rights and obligations created by leases with terms greater than 12 months. ASU 2016-02 is effective for private companies for annual reporting periods beginning after December 15, 2021. The Association adopted the standard on its effective date, which for the Association was January 1, 2022, using a modified retrospective approach. The Association has elected to utilize the package of practical expedients that allows entities to not reassess (1) the classification of leases existing at the date of adoption, (2) the initial direct costs for any existing leases, and (3) whether any expired or existing contracts are or contain leases.

As a result of the adoption of the new lease accounting guidance, the Association recognized on January 1, 2022, a lease liability of $420,309, which represents the present value of the remaining operating lease payments of $430,127, discounted using the risk free rate of 1.37%, and a right-of-use asset of $420,309.

The standard had a material impact on the statement of financial position for the recognition of the Association’s operating right-of-use (ROU) asset and lease liability, but did not have a significant impact on the statements of activities nor cash flows.

Upcoming accounting pronouncements
The FASB has issued ASU 2016-13 which adopts the current expected credit loss (CECL) model. The CECL model requires a financial asset or a group of financial assets (including trade receivables, contract assets, lease receivables, financial guarantees, loans and loan commitments, and held-to-maturity debt securities) measured at amortized cost basis to be presented at the net amount expected to be collected. The statement of activities will reflect the measurement of credit losses for newly recognized financial assets, as well as the increases or decreases of expected credit losses that have taken place during the period. ASU 2016-13 is effective for annual reporting periods beginning after December 15, 2022 (the Association’s 2023 financial statements). Management is assessing the impact that the standard will have on the financial statements.

3. Fair value measurements and investments

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

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

Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets or identical assets or liabilities in inactive markets.

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

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. Following is a description of the valuation methodologies used for assets measured at fair value.

Money markets and cash equivalents, equities, corporate bonds, and U.S. Treasuries: Valued at the closing price reported on the active market on which the individual securities are traded (level 1).

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Association believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Investments are summarized as follows at December 31:

	2022		2021	
	Cost	Fair Value (Level 1)	Cost	Fair Value (Level 1)
Money markets and cash equivalents	$ 56,840	$ 56,840	$ 23,653	$ 23,653
Equity funds and common securities	475,841	412,223	477,935	485,671
Preferred equity securities	154,292	122,704	138,610	139,223
Bond funds	160,000	140,384	160,000	160,171
U.S. Treasuries	1,520,819	1,532,380	-	-
Total investments	$ 2,367,793	$ 2,264,530	$ 800,198	$ 808,718

4. Contributions Receivable

Unconditional contributions receivable are estimated to be collected as follows at December 31:

	2022	2021
Within one year	$ 291,400	$ 191,700
Within one to four years	115,200	2,900
	406,600	194,600
Less discount to net present value at 4.27% for 2022 and 2.76% for 2021	(12,106)	(134)
Total contributions receivable	$ 394,494	$ 194,466

At December 31, 2022, three donors accounted for 86% of total contributions receivable; of these donors, two are related parties and comprise 66% of total contributions receivable (see Note 14). At December 31, 2021, two donors accounted for 90% of total contributions receivable; of these donors, one is a related party and comprises 51% of total contributions receivable.

During the year ended December 31, 2022, one contributor accounted for approximately 22% of total grants and contributions.

5. Property and equipment

Property and equipment consists of the following at December 31:

	2022	2021
Office furniture and equipment	$ 99,353	$ 89,913
Computer software	105,495	105,495
Website	12,100	12,100
Property and equipment, cost	216,948	207,508
Less accumulated depreciation and amortization	(204,125)	(195,238)
Property and equipment, net	$ 12,823	$ 12,270

Depreciation and amortization expense totaled $8,887 and $7,852 for the years ended December 31, 2022 and 2021, respectively.

6. 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 requires monthly principal and interest payments of $641 through June 2050 (if not repaid sooner) at a fixed rate of 2.75% per year. Payments were deferred until April 2022 and will first be applied to accrued interest. At December 31, 2022 and 2021, the outstanding balances due on the loan, including accrued interest, were $154,044 and $156,188, respectively. Repayment on the principal balance is expected to commence during 2024, with interest only payments until that time.

Future payments of interest and principal on the SBA loan are as follows as of December 31:

	Interest	Principal	Total
2023	$ 7,692	$ -	$ 7,692
2024	5,078	2,614	7,692
2025	4,007	3,685	7,692
2026	3,904	3,788	7,692
2027	3,799	3,893	7,692
Thereafter	50,174	136,020	186,194
	$ 74,654	$ 150,000	$ 224,654

7. 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, 2022 or 2021.

8. Restricted net assets

Donor restricted net assets are as follows at December 31:

	2022	2021
Research	$ 588,082	$ 402,274
Time restricted pledges and grants	394,494	194,466
Support and education	33,867	39,215
Endowment funds	91,318	91,318
Underwater endowments	(11,774)	-
Total restricted net assets	$ 1,095,987	$ 727,273

9. 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:

	2022	2021
Research	$ 805,613	$ 501,868
Support and education	260,195	99,821
Time restricted pledges and grants	13,000	55,000
Total restricted net assets	$ 1,078,808	$ 656,689

10. Endowment funds

Perpetually restricted net assets consist of donor restricted endowment funds with an original gift value totaling $91,318. Earnings on the perpetual endowment funds are to be used for academic scholarships as stipulated by the donors.

Underwater endowment funds
From time to time, the fair value of assets associated with the donor restricted endowment funds may fall below the level that the donor or UPMIFA require the Association to retain as a fund of perpetual duration. Deficiencies of this nature existed in the Association's perpetually restricted endowment funds as a result of unfavorable market fluctuations during the year ended December 31, 2022. The funds have an original gift value of $91,318, a fair value of $79,544, and a deficiency of $11,774 as of December 31, 2022. Although appropriation could have continued under UPMIFA guidelines, no amounts have been appropriated for expenditure during the year ended December 31, 2022.

A summary of the activity in endowment funds for the years ended December 31 follows:

	2022	2021
Endowment funds, beginning of year	$ 91,318	$ 91,318
Investment (loss) return, net	(11,774)	1,573
Amounts appropriated for expenditure	-	(1,573)
Endowment funds, end of year	$ 79,544	$ 91,318

11. Liquidity and availability of resources

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 others, liabilities, and other obligations come due. In addition, the Association invests cash in excess of routine requirements in short-term investments,

and the Association can draw on investments to help manage unanticipated liquidity needs.
The following reflects the Association's financial assets, reduced by amounts not available for general operating expenditures within one year, as of December 31:

	2022	2021
Financial assets		
Cash and cash equivalents	$ 1,606,183	$ 2,674,977
Investments, general	2,184,986	717,400
Contributions receivable, current portion	291,400	191,700
Other receivables	50,185	189
Total financial assets	4,132,754	3,584,266
Less amounts unavailable for general expenditures within one year due to:		
Donor-imposed purpose restrictions	(621,949)	(441,489)
Perpetual endowment	(79,544)	(91,318)
	(701,493)	(532,807)
Financial assets available to meet cash needed for general expenditures within one year	$ 3,431,261	$ 3,051,459

12. 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, 2022 and 2021, matching contributions totaled $49,844 and $42,487, respectively, which are included in employee benefits in the accompanying statements of functional expenses.

13. Operating lease

In April 2019, the Association amended and extended a noncancelable operating lease agreement for its Bethesda, Maryland headquarters office through May 2025. The operating lease provides for increases in future minimum annual rental payments, adjusted annually for inflation at a rate of 2.75%. Additionally, the operating lease agreement requires the Association to pay real estate taxes, insurance, and other operating costs; such non-lease components are expensed as incurred.

The weighted-average discount rate is based on the discount rate implicit in the lease. Management has elected the option to use the risk-free rate determined using a period comparable to the lease terms as the discount rate for leases where the implicit rate is not readily determinable. The risk-free rate has been applied to the Association's office lease asset.

Management has elected the short-term lease exemption for all leases (including equipment rentals for events and other office equipment rentals) with a term of 12 months or less for both existing and ongoing operating leases to not recognize the asset and liability for these leases. Lease payments for short-term leases are recognized on a straight-line basis.

Rent expense for the Association's office space totaled $116,073 and $120,426 during the years ended December 31, 2022 and 2021.

The following summarizes the supplemental cash flow information for the year ended December 31, 2022:

Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$	121,815
ROU asset recognized in exchange for operating lease liability	$	420,309

The following summarizes the weighted-average remaining lease term and weighted-average discount rate:

Weighted-average remaining lease term in years for operating lease	2.42
Weighted-average discount rate for operating lease (risk-free rate)	1.37%

The future minimum lease payments under the Association's noncancelable operating lease are as follows as of December 31:

2023	$	125,165
2024		128,607
2025		54,541
Total undiscounted cash flows		308,313
Less: present value discount		(4,928)
Total lease liabilities	$	303,385

14. Related party transactions

Members of the Association's Board of Directors and staff made contributions totaling approximately $168,875 and $191,255 during the years ended December 31, 2022 and 2021, respectively. Team Hydro, an affiliate group to the Association, made contributions totaling approximately $200,000 and $50,000 during the years ended December 31, 2022 and 2021, respectively.

15. Reclassification of prior year presentation

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

16. Subsequent events

The Association has assessed events occurring subsequent to December 31, 2022 through April 21, 2023, the date the financial statements were available to be issued, for potential recognition and disclosure in the financial statements. No events have occurred that would require adjustment to or disclosure in the financial statements.