

HYDROCEPHALUS ASSOCIATION

FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022



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 statements of financial position as of December 31, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to 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, 2023 and 2022, 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.

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.

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.

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

Glen Allen, Virginia
April 22, 2024

Hydrocephalus Association

Statements of Financial Position December 31,

2023
2022
Assets
Current assets

Cash and cash equivalents	\$ 1,206,278	\$ 1,431,128
Investments, general	1,446,626	1,532,380
Contributions receivable, current portion	80,500	291,400
Other receivables	-	185
Prepaid expenses	97,903	89,047
Inventory	40,324	46,849
Total current assets	<u>2,871,631</u>	<u>3,390,989</u>

Non-current assets

Investments, general	991,633	652,606
Investments, endowment fund	91,318	79,544
Property and equipment, net	15,330	12,823
Operating lease right-of-use asset	163,777	277,312
Intangible assets, net	51,627	-
Contributions receivable, long-term portion, net	173,886	103,094
Total non-current assets	<u>1,487,571</u>	<u>1,125,379</u>
Total assets	<u>\$ 4,359,202</u>	<u>\$ 4,516,368</u>

Liabilities and net assets
Current liabilities

Accounts payable and accrued expenses	\$ 280,022	\$ 221,391
Grants payable	-	173,299
U.S. Small Business Administration (SBA) Loan, current portion	3,540	4,044
Operating lease liability, current portion	127,059	121,911
Total current liabilities	<u>410,621</u>	<u>520,645</u>

Long-term liabilities

U.S. Small Business Administration (SBA) Loan	147,386	150,000
Operating lease liability, long-term portion	54,415	181,474
Total long-term liabilities	<u>201,801</u>	<u>331,474</u>
Total liabilities	612,422	852,119

Net assets

Without donor restrictions	2,532,659	2,568,262
With donor restrictions		
Purpose and time restrictions	1,122,803	1,016,443
Perpetually endowed	91,318	91,318
Underwater endowments	-	(11,774)
Total net assets	<u>3,746,780</u>	<u>3,664,249</u>
Total liabilities and net assets	<u>\$ 4,359,202</u>	<u>\$ 4,516,368</u>

See accompanying notes and independent auditor's report.

Hydrocephalus Association

Statement of Activities for the year ended December 31, 2023

	Without donor restrictions	With donor restrictions	Total
Support and revenue			
Grants and contributions	\$ 543,918	\$ 549,457	\$ 1,093,375
Special events (net of direct benefits to donors of \$331,577)	1,995,981	165,652	2,161,633
Conference fees	5,055	-	5,055
In-kind contributions	4,067	-	4,067
Merchandise sales (net of cost of merchandise of \$1,029)	2,228	-	2,228
Miscellaneous income	15,300	-	15,300
Interest and dividends	134,134	3,293	137,427
Net investment gain	74,473	9,331	83,804
Net assets released from restrictions	609,599	(609,599)	-
Total support and revenue	<u>3,384,755</u>	<u>118,134</u>	<u>3,502,889</u>
Expenses			
Program expenses			
Research	829,732	-	829,732
Public support and education	1,528,519	-	1,528,519
Advocacy	145,260	-	145,260
Conferences	119,806	-	119,806
Total program expenses	<u>2,623,317</u>	<u>-</u>	<u>2,623,317</u>
Fundraising			
Fund development	199,405	-	199,405
Administration	597,636	-	597,636
Total expenses	<u>3,420,358</u>	<u>-</u>	<u>3,420,358</u>
Change in net assets	(35,603)	118,134	82,531
Net assets, beginning of year	<u>2,568,262</u>	<u>1,095,987</u>	<u>3,664,249</u>
Net assets, end of year	<u>\$ 2,532,659</u>	<u>\$ 1,214,121</u>	<u>\$ 3,746,780</u>

See accompanying notes and independent auditor's report.

Hydrocephalus Association

Statement of Activities for the year ended December 31, 2022

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Support and revenue			
Grants and contributions	\$ 791,853	\$ 1,459,296	\$ 2,251,149
Special events (net of direct benefits to donors of \$193,450)	1,714,234	-	1,714,234
Conference fees	63,919	-	63,919
Merchandise sales (net of cost of merchandise of \$5,641)	70,684	-	70,684
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	<u>3,660,300</u>	<u>368,714</u>	<u>4,029,014</u>
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	<u>3,041,108</u>	<u>-</u>	<u>3,041,108</u>
Fundraising			
Fund development	97,558	-	97,558
Administration	478,828	-	478,828
Total expenses	<u>3,617,494</u>	<u>-</u>	<u>3,617,494</u>
Change in net assets	42,806	368,714	411,520
Net assets, beginning of year	<u>2,525,456</u>	<u>727,273</u>	<u>3,252,729</u>
Net assets, end of year	<u>\$ 2,568,262</u>	<u>\$ 1,095,987</u>	<u>\$ 3,664,249</u>

See accompanying notes and independent auditor's report.

Hydrocephalus Association

Statement of Functional Expenses for the year ended December 31, 2023

Expenses	Program				Total program	Fundraising		Total
	Research	Public support and education	Advocacy	Conferences		Fund development	Administration	
Grants to others	\$ 344,100	\$ -	\$ -	\$ -	\$ 344,100	\$ -	\$ -	\$ 344,100
Salaries	255,272	869,913	74,818	74,098	1,274,101	81,922	330,633	1,686,656
Cost of direct benefit to donors	-	-	-	-	-	331,577	-	331,577
Employee benefits	15,495	93,082	6,184	7,664	122,425	8,451	53,020	183,896
Out of town travel	32,188	73,711	3,838	2,774	112,511	26,300	8,771	147,582
Professional services - other	8,031	58,262	29,938	19,464	115,695	11,271	11,352	138,318
Software	27,141	70,364	3,772	3,262	104,539	5,567	18,512	128,618
Meetings	67,730	41,680	116	28	109,554	49	17,574	127,177
Rent	31,960	55,642	4,723	4,084	96,409	7,043	22,237	125,689
Payroll taxes	18,466	64,215	5,328	5,424	93,433	6,070	23,056	122,559
Service charges	259	451	38	33	781	5,746	49,819	56,346
Professional service - technology	6,748	41,454	283	645	49,130	1,465	1,333	51,928
Site expenses	-	42,906	-	-	42,906	112	26	43,044
Dues and Subscriptions	2,925	19,091	13,948	214	36,178	4,802	1,395	42,375
Printing	4,388	22,875	194	247	27,704	12,727	344	40,775
Advertising	-	8,559	-	570	9,129	16,909	-	26,038
Supplies	597	18,778	46	40	19,461	2,125	1,373	22,959
Postage	2,135	9,594	175	151	12,055	6,789	1,089	19,933
Professional service - accounting	-	-	-	-	-	-	18,580	18,580
Depreciation and amortization	4,199	7,310	621	537	12,667	925	2,922	16,514
Telephone	3,369	8,981	498	431	13,279	859	2,344	16,482
Insurance	-	-	-	-	-	33	12,208	12,241
Scholarships	-	12,000	-	-	12,000	-	-	12,000
Professional services - legal	-	1,590	-	-	1,590	-	7,707	9,297
Equipment rental	711	5,633	105	91	6,540	157	495	7,192
Bank charges	-	-	-	-	-	-	6,799	6,799
Interest	-	-	-	-	-	-	4,574	4,574
Prize and award	2,000	272	-	-	2,272	-	137	2,409
Conference registration	1,591	-	-	-	1,591	-	-	1,591
Miscellaneous expense	234	721	124	24	1,103	41	192	1,336
Local travel	-	754	482	-	1,236	-	-	1,236
Cost of merchandise	-	1,029	-	-	1,029	-	-	1,029
Taxes and other fees	-	-	-	-	-	-	1,010	1,010
Expendable equipment	193	336	29	25	583	42	134	759
Employee education	-	345	-	-	345	-	-	345
Total expenses by function	829,732	1,529,548	145,260	119,806	2,624,346	530,982	597,636	3,752,964
Less expenses included with revenues on the statement of activities								
Cost of direct benefits to donors	-	-	-	-	-	(331,577)	-	(331,577)
Cost of merchandise sold	-	(1,029)	-	-	(1,029)	-	-	(1,029)
Total expenses	\$ 829,732	\$ 1,528,519	\$ 145,260	\$ 119,806	\$ 2,623,317	\$ 199,405	\$ 597,636	\$ 3,420,358

See accompanying notes and independent auditor's report.

Hydrocephalus Association

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

	Program				Total program	Fundraising		Total
	Research	Public support and education	Advocacy	Conferences		Fund development	Administration	
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)
Total expenses	\$ 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

Statements of Cash Flows

for the years ended December 31,

2023

2022

Cash flows from operating activities

Change in net assets	\$	82,531	\$	411,520
Adjustments to reconcile change in net assets to net cash from operating activities:				
Depreciation of property and equipment		8,796		8,887
Amortization of intangible assets		7,718		-
Amortization of discount on contributions receivable		4,210		11,972
Loss on uncollectible contributions receivable		3,600		5,000
Realized and unrealized (gains) losses on investments		(221,231)		71,122
Donated securities		(78,209)		(640,569)
Change in operating lease liability		(8,376)		26,073
(Increase) decrease in operating assets:				
Contributions receivable		132,298		(217,000)
Other receivables		185		4
Prepaid expenses		(8,856)		(12,832)
Inventory		6,525		(18,160)
Increase (decrease) in operating liabilities:				
Accounts payable and accrued expenses		58,631		25,985
Grants payable		(173,299)		23,706
Accrued rent expense		-		(41,608)
Accrued interest on U.S. Small Business Administration (SBA) Loan		(3,118)		(2,144)
Net cash used in operating activities		<u>(188,595)</u>		<u>(348,044)</u>

Cash flows from investing activities

Purchases of investments, general		(2,247,639)		(1,829,092)
Proceeds from sale of investments, general		2,282,032		942,727
Purchases of property and equipment		(11,303)		(9,440)
Purchases of intangible assets		(59,345)		-
Net cash used in investing activities		<u>(36,255)</u>		<u>(895,805)</u>

Net change in cash and cash equivalents

(224,850) (1,243,849)

Cash and cash equivalents - beginning of year

1,431,128 2,674,977

Cash and cash equivalents - end of year

\$ 1,206,278 \$ 1,431,128

Supplemental disclosure of cash flow information

Interest paid	\$	<u>7,692</u>	\$	<u>5,769</u>
Cash paid for U.S. Treasuries, to be converted to cash and cash equivalents within one year	\$	<u>1,408,482</u>	\$	<u>1,520,819</u>

See accompanying notes and independent auditor's report.

Hydrocephalus Association

Notes to Financial Statements December 31, 2023 and 2022

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 accounting and presentation

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles 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.

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.

See independent auditor's report.

Hydrocephalus Association

Notes to Financial Statements December 31, 2023 and 2022

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 statements of activities.

Other receivables consist of amounts 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 current economic conditions, reasonable and supportable forecasts of future events, and a review of subsequent collection. At December 31, 2023 and 2022, based on management's assessment, no allowance for doubtful accounts was required.

Receivables are written off when there is information that indicates there is no possibility of recovery. Balances that are deemed entirely uncollectible are written off through a charge to the allowance or bad debt expense and a credit to the respective receivable account. If any recoveries are made from any accounts previously written off, such will be recognized in income or an offset to bad debt expense in the year of recovery, in accordance with management's accounting policy election. The total amount of contributions receivable write-offs totaled \$3,600 and \$5,000 during the years ended December 31, 2023 and 2022, respectively.

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.

Leases

The Association determines if an arrangement is a lease at inception. Operating and/or finance lease right-of-use (ROU) assets are included in non-current assets and lease liabilities are included in current and long-term liabilities on the statements of financial position when lease capitalization criteria is met. ROU assets represent the Association's right to use, or control the use of, a specified asset for the lease term. Lease liabilities represent the obligation to make lease payments arising from a lease and are measured on a discounted basis. Lease ROU assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term on the commencement date. The Association includes in the determination of the ROU assets and lease liabilities any renewal options when the options are reasonably certain to be exercised.

See independent auditor's report.

Hydrocephalus Association

Notes to Financial Statements December 31, 2023 and 2022

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.

As of December 31, 2023 and 2022, the Association has no finance leases.

Intangible assets

Intangible assets consist of capitalized development costs of the Association's mobile application, HydroAssist. HydroAssist was developed by an adult neurologist, a pediatric neurosurgeon, and a representative from the Association and is free to its users. Amounts are recorded at cost less accumulated amortization. Expenditures for maintenance and technical support are charged to expense as incurred and costs to further develop and significantly enhance the application are capitalized. Amortization is computed using the straight-line method over an estimated useful life of 3 years. HydroAssist development costs capitalized during the years ended December 31, 2023 and 2022 totaled \$59,345 and \$0, respectively.

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 totaling \$86,347 and \$75,621 at December 31, 2023 and 2022, 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.

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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.

Support and 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.

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.

In-kind contributions

Contributed nonfinancial assets in excess of \$1,000 are recorded at the respective fair values of the goods and services received. Contributed nonfinancial assets may include donated professional services, donated goods, and other in-kind contributions. In addition to contributed nonfinancial assets, volunteers contribute significant amounts of time to program and supporting services; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by U.S. GAAP. Contributed goods are recorded at fair value at the date of donation. The Association does not sell donated gifts-in-kind.

During the years ended December 31, 2023 and 2022, the Association received donated goods valued at \$4,067 and \$0, respectively. All donated goods were utilized by the Association's programs and there were no donor-imposed restrictions associated with the donated goods. The Association had no contributed services recognized during the years ended December 31, 2023 or 2022.

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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, 2023. Fiscal years ending on or after 2020 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, 2023 and 2022, advertising costs totaled \$26,038 and \$23,069, 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 Association has adopted the Financial Accounting Standards Board (FASB) Accounting Standard Codification – *Financial Instruments-Credit Losses* (ASC 326) which significantly changed how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through changes in net assets. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Under the standard, disclosures are required to provide users of the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. The Association does not currently hold any financial assets that are subject to the guidance in FASB ASC 326 and the impact of the adoption was not considered material to the financial statements.

Concentration of credit risk

The Association is exposed to concentrations of credit and market risk through its cash and cash equivalents and investments. Cash held in federally insured institutions may, at times, exceed federally insured limits. FDIC insurance on interest bearing accounts is \$250,000 per depositor, per insured bank. The Association manages its risk by placing funds in various FDIC-insured institutions. The Association's cash balances exceeded the FDIC insured limit by \$703,011 and \$1,000,738 at December 31, 2023 and 2022, respectively. The Association has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk.

In general, investments are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect amounts reported in future statements of activities. Management believes that the Association's investments do not represent significant concentrations of market risk, as its investment portfolio is adequately diversified among issuers.

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Credit risk associated with 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.

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. Money markets and cash equivalents, equities, corporate bonds, and U.S. Treasuries are 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:

	2023		2022	
	Cost	Fair value (Level 1)	Cost	Fair value (Level 1)
Money markets and cash equivalents	\$ 76,321	\$ 76,321	\$ 56,840	\$ 56,840
Equity funds and common securities	610,279	642,794	475,841	412,223
Preferred equity securities	191,737	171,225	154,292	122,704
Bond funds	210,000	192,611	160,000	140,384
U.S. Treasuries	1,408,482	1,446,626	1,520,819	1,532,380
Total investments	<u>\$ 2,496,819</u>	<u>\$ 2,529,577</u>	<u>\$ 2,367,793</u>	<u>\$ 2,264,530</u>

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4. Contributions receivable

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

	<u>2023</u>	<u>2022</u>
Within one year	\$ 80,500	\$ 291,400
Within one to four years	<u>190,202</u>	<u>115,200</u>
	270,702	406,600
Less discount to net present value at 4.00% for 2023 and 4.27% for 2022	<u>(16,316)</u>	<u>(12,106)</u>
Total contributions receivable	<u>\$ 254,386</u>	<u>\$ 394,494</u>

At December 31, 2023, three donors accounted for 77% of total contributions receivable; of these donors, one is a related party and comprises 18% of total contributions receivable (see Note 14). 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.

During the year ended December 31, 2023, one contributor accounted for approximately 10% of total grants and contributions. During the year ended December 31, 2022, one contributor accounted for approximately 22% of total grants and contributions.

During the year ended December 31, 2023, the Association received a new \$300,000 promise as well as \$209,298 in unspent funds from a grant the Association previously awarded and paid to a grantee in 2013. These funds were applied to the promise leaving a remaining amount of \$90,702 which is included in non-current contributions receivable. In accordance with management's accounting policy, management applied the returned unspent funds as an offset to grants to others expense and only recorded \$90,702 of the promise towards revenue during the year ended December 31, 2023.

5. Property and equipment

Property and equipment consists of the following at December 31:

	<u>2023</u>	<u>2022</u>	<u>Useful lives</u>
Office furniture and equipment	\$ 110,656	\$ 99,353	4 years
Computer software	105,495	105,495	4 years
Website	<u>12,100</u>	<u>12,100</u>	4 years
Property and equipment, cost	228,251	216,948	
Less accumulated depreciation	<u>(212,921)</u>	<u>(204,125)</u>	
Property and equipment, net	<u>\$ 15,330</u>	<u>\$ 12,823</u>	

Depreciation expense totaled \$8,796 and \$8,887 for the years ended December 31, 2023 and 2022, respectively.

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6. Intangible assets

Intangible assets consist of the following at December 31:

	<u>2023</u>	<u>2022</u>	<u>Useful life</u>
Software development costs - HydroAssist	\$ 59,345	\$ -	3 years
Less: accumulated amortization	<u>(7,718)</u>	<u>-</u>	
Intangible assets, net	<u>\$ 51,627</u>	<u>\$ -</u>	

Amortization expense totaled \$7,718 and \$0 for the years ended December 31, 2023 and 2022, respectively.

The following summarizes future expected amortization of the Association's intangible assets during the years ended December 31:

2024	\$ 19,782
2025	19,782
2026	<u>12,063</u>
	<u>\$ 51,627</u>

7. U.S. Small Business Administration loan

In June 2020, the Association received a loan for \$150,000 from the U.S. Small Business Administration (SBA). The loan is collateralized by substantially all of the Association's assets. The note requires monthly principal and interest payments of \$641 through July 2050 (if not repaid sooner) at a fixed rate of 2.75% per year. Payments were deferred until April 2022 and were first applied to accrued interest. At December 31, 2023 and 2022, the outstanding balances due on the loan, including accrued interest, were \$150,926 and \$154,044, respectively; accrued interest totaled \$926 and \$4,044, respectively. Repayment on the principal balance commenced in April 2024, with interest only payments until that time.

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

	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
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
2028	3,690	4,002	7,692
Thereafter	<u>46,515</u>	<u>132,019</u>	<u>178,534</u>
	<u>\$ 66,994</u>	<u>\$ 150,000</u>	<u>\$ 216,994</u>

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8. Line of credit

During 2020, the Association entered into a line of credit with a financial institution. The line of credit provides for maximum borrowings of \$500,000, bearing interest at a floating rate equal to the lender's prime rate plus 1.0% and is secured by all inventory, accounts receivable and equipment. There was no outstanding balance on the line of credit as of December 31, 2023 or 2022.

9. Net assets with donor restrictions

Donor-restricted net assets consisted of the following at December 31, 2023:

	2022	Additions /transfers	Releases	2023
Research	\$ 588,082	\$ 792,642	\$ (541,956)	\$ 838,768
Time restricted contributions receivable	394,494	(115,108)	(25,000)	254,386
Support and education	33,867	38,425	(42,643)	29,649
Endowment funds	79,544	11,774	-	91,318
	<u>\$ 1,095,987</u>	<u>\$ 727,733</u>	<u>\$ (609,599)</u>	<u>\$ 1,214,121</u>

Donor-restricted net assets consisted of the following at December 31, 2022:

	2021	Additions /transfers	Releases	2022
Research	\$ 402,274	\$ 991,421	\$ (805,613)	\$ 588,082
Time restricted contributions receivable	194,466	213,028	(13,000)	394,494
Support and education	39,215	254,847	(260,195)	33,867
Endowment funds	91,318	(11,774)	-	79,544
	<u>\$ 727,273</u>	<u>\$ 1,447,522</u>	<u>\$ (1,078,808)</u>	<u>\$ 1,095,987</u>

Time restricted contributions receivable with donor-imposed purpose restrictions are transferred from time restriction to purpose restriction upon collection. Time restricted contributions receivable without donor restrictions are released from time restriction upon collection.

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.

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, resulting in 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. During the year ended December 31, 2023, the endowment fund was restored to its fair value of \$91,318 with no deficiencies as of December 31, 2023.

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

	<u>2023</u>	<u>2022</u>
Endowment funds, beginning of year	\$ 79,544	\$ 91,318
Investment return (loss), net	12,624	(11,774)
Amounts transferred to purpose restriction	(850)	-
Endowment funds, end of year	<u>\$ 91,318</u>	<u>\$ 79,544</u>

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.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, include the following assets as of December 31:

	<u>2023</u>	<u>2022</u>
Financial assets		
Cash and cash equivalents	\$ 1,206,278	\$ 1,431,128
Investments	2,529,577	2,264,530
Contributions receivable, current portion	95,595	291,400
Other receivables	-	185
Total financial assets	<u>3,831,450</u>	<u>3,987,243</u>
Less amounts unavailable for general expenditures within one year due to:		
Donor-imposed purpose restrictions	(868,417)	(621,949)
Perpetual endowment	(91,318)	(79,544)
	<u>(959,735)</u>	<u>(701,493)</u>
Financial assets available to meet cash needed for general expenditures within one year	<u>\$ 2,871,715</u>	<u>\$ 3,285,750</u>

As mentioned in Note 8, the Association also has availability to \$500,000 in its line of credit.

12. 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.

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The Association had the following cash and non-cash activities associated with its operating lease during the years ended December 31:

	<u>2023</u>	<u>2022</u>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 125,165	\$ 121,815
ROU asset recognized in exchange for operating lease liability	\$ -	\$ 420,309

Lease expense was comprised of the following during the years ended December 31:

	<u>2023</u>	<u>2022</u>
Operating lease expense	116,789	116,073
Other short-term lease costs	8,900	-
	<u>\$ 125,689</u>	<u>\$ 116,073</u>

The operating lease term and discount rate was as follows at December 31:

	<u>2023</u>	<u>2022</u>
Weighted-average remaining lease term (in years)	1.42	2.42
Weighted-average discount rate	1.37%	1.37%

The future payments due under the operating lease are as follows during the years ended December 31:

2024	\$ 128,606
2025	54,541
Total undiscounted cash flows	183,147
Less: present value discount	(1,673)
Total lease liabilities	<u>\$ 181,474</u>

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, 2023 and 2022, matching contributions totaled \$55,378 and \$49,844, respectively, and are included in employee benefits in the accompanying statements of functional expenses.

14. Related party transactions

Members of the Association's Board of Directors and staff made contributions totaling approximately \$214,000 and \$168,875 during the years ended December 31, 2023 and 2022, respectively. Team Hydro, an affiliate group to the Association, made contributions totaling approximately \$100,000 and \$200,000 during the years ended December 31, 2023 and 2022, respectively.

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15. Subsequent events

The Association has assessed events occurring subsequent to December 31, 2023 through April 22, 2024, 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.

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