
FOCUSED ULTRASOUND FOUNDATION
FINANCIAL REPORT
YEAR ENDED DECEMBER 31, 2013

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY CERTIFIED PUBLIC ACCOUNTANTS

CHARLOTTESVILLE □ RICHMOND □ FREDERICKSBURG □ STAUNTON □ BLACKSBURG

FOCUSED ULTRASOUND FOUNDATION

FINANCIAL REPORT

YEAR ENDED DECEMBER 31, 2013

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ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS
FOCUSED ULTRASOUND FOUNDATION
CHARLOTTESVILLE, VIRGINIA

We have audited the accompanying financial statements of Focused Ultrasound Foundation (a nonprofit organization) which comprise the statement of financial position as of December 31, 2013, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Focused Ultrasound Foundation as of December 31, 2013, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Focused Ultrasound Foundation's 2012 financial statements, and our report dated April 24, 2013 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Robinson, Farmer, Co. Associates

Charlottesville, Virginia
May 16, 2014

- Financial Statements -

FOCUSED ULTRASOUND FOUNDATION

Statement of Financial Position
December 31, 2013
(With Comparative Totals for 2012)

	2013	2012
Assets:		
Cash and cash equivalents	\$ 4,205,940	\$ 5,588,016
Restricted cash and cash equivalents	2,222,654	176,800
Accounts receivable	99,614	75,184
Prepaid expenses	65,878	15,345
Rent deposit	7,825	7,825
Unconditional promises to give (Note 4) (net of allowance for uncollectibles):		
Unrestricted	4,881,034	3,219,078
Restricted for fellowship and research	1,251,246	1,143,859
Property and equipment, net of accumulated depreciation (Note 7)	40,530	53,332
Total assets	\$ 12,774,721	\$ 10,279,439
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 77,968	\$ 55,262
Awards payable from restricted funds	-	50,000
Awards payable from unrestricted funds	948,282	1,013,823
Total liabilities	\$ 1,026,250	\$ 1,119,085
Net assets:		
Unrestricted	\$ 8,274,571	\$ 7,889,695
Temporarily restricted	3,473,900	1,270,659
Total net assets	\$ 11,748,471	\$ 9,160,354
Total liabilities and net assets	\$ 12,774,721	\$ 10,279,439

The accompanying notes to financial statements are an integral part of this statement.

FOCUSED ULTRASOUND FOUNDATION

Statement of Activities
For the Year Ended December 31, 2013
(With Comparative Totals for 2012)

	Unrestricted	Temporarily Restricted	Totals	
			2013	2012
Revenues, gains, and other support:				
Contributions	\$ 4,570,373	\$ 2,806,241	\$ 7,376,614	\$ 6,400,547
Contributed services	-	-	-	9,000
Reimbursement activity revenue	224,145	-	224,145	-
Symposium fees	3,525	-	3,525	277,834
Event sponsorship	13,744	-	13,744	-
Miscellaneous	376	-	376	1,783
Investment income (Note 3)	5,706	66	5,772	7,484
Gain (loss) on sale of investments	9,948	-	9,948	(1,976)
Net assets released from restrictions (Note 8):				
Satisfaction of purpose restrictions	603,066	(603,066)	-	-
Total revenues, gains, and other support	<u>\$ 5,430,883</u>	<u>\$ 2,203,241</u>	<u>\$ 7,634,124</u>	<u>\$ 6,694,672</u>
Expenses:				
Program services	\$ 3,766,269	\$ -	\$ 3,766,269	\$ 3,707,287
Supporting Services:				
Management & general	807,706	-	807,706	590,495
Fundraising	472,032	-	472,032	443,082
Total expenses	<u>\$ 5,046,007</u>	<u>\$ -</u>	<u>\$ 5,046,007</u>	<u>\$ 4,740,864</u>
Increase (decrease) in net assets	\$ 384,876	\$ 2,203,241	\$ 2,588,117	\$ 1,953,808
Net assets, beginning of year	<u>7,889,695</u>	<u>1,270,659</u>	<u>9,160,354</u>	<u>7,206,546</u>
Net assets, end of year	<u>\$ 8,274,571</u>	<u>\$ 3,473,900</u>	<u>\$ 11,748,471</u>	<u>\$ 9,160,354</u>

The accompanying notes to financial statements are an integral part of this statement.

FOCUSED ULTRASOUND FOUNDATION

Statement of Functional Expenses
For the Year Ended December 31, 2013
(With Comparative Totals for 2012)

	Program Services	Supporting Services		Totals	
		Management & General	Fundraising	2013	2012
Program awards	\$ 1,370,231	\$ -	\$ -	\$ 1,370,231	\$ 1,319,265
Salaries and wages	1,209,043	339,494	360,898	1,909,435	1,657,062
Payroll taxes and fringe benefits	177,362	47,174	53,464	278,000	247,958
Professional fees	296,719	76,919	2,625	376,263	412,695
Consulting	139,539	4,500	-	144,039	262,016
Copywriting and design	51,396	1,031	-	52,427	7,036
IT support	5,953	17,749	4,082	27,784	29,237
Office expenses	50,703	24,406	14,074	89,183	91,234
Travel and entertainment	64,084	13,273	11,593	88,950	84,504
Grant related travel and entertainment	27,425	201	600	28,226	64,547
Conferences	32,221	5,122	22,649	59,992	221,176
Advertising	7,591	50	-	7,641	17,458
Public relations	4,750	-	-	4,750	10,875
List services	3,417	-	31	3,448	1,816
Insurance	-	50,969	-	50,969	48,970
Other expenses	3,959	23,164	2,016	29,139	6,035
Licenses and taxes	-	942	-	942	893
Office rent	-	96,586	-	96,586	90,830
Other rents	-	3,659	-	3,659	352
Bank charges	-	2,980	-	2,980	10,650
Tenant improvements	-	15,433	-	15,433	1,712
Telecommunications	-	31,090	-	31,090	29,499
Internet/ISP	-	10,098	-	10,098	8,439
Equipment rent and maintenance	-	4,445	-	4,445	3,084
Reimbursement activity expense	267,773	-	-	267,773	-
Sponsorships	54,103	-	-	54,103	27,146
Donated services	-	-	-	-	44,200
Depreciation	-	38,421	-	38,421	42,175
Total	\$ 3,766,269	\$ 807,706	\$ 472,032	\$ 5,046,007	\$ 4,740,864

The accompanying notes to financial statements are an integral part of this statement.

FOCUSED ULTRASOUND FOUNDATION

Statement of Cash Flows
For the Year Ended December 31, 2013
(With Comparative Totals for 2012)

	2013	2012
Cash flows from operating activities:		
Change in net assets	\$ 2,588,117	\$ 1,953,808
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	38,421	42,175
Net realized and unrealized (gain) loss on investments	-	1,976
(Increase) decrease in:		
Accounts receivable	(24,430)	(71,684)
Prepaid expense	(50,533)	(6,332)
Unconditional promises to give (net)	(1,769,343)	921,478
Increase (decrease) in:		
Accounts payable	22,706	7,143
Awards payable	(115,541)	278,988
Net cash provided by (used for) operating activities	\$ 689,397	\$ 3,127,552
Cash flows from investing activities:		
Purchase of equipment	\$ (25,619)	\$ (23,563)
Purchase of investments	-	(300,104)
Proceeds from sale of investments	-	298,105
Net cash provided by (used for) investing activities	\$ (25,619)	\$ (25,562)
Net increase (decrease) in cash and cash equivalents	\$ 663,778	\$ 3,101,990
Cash and cash equivalents, beginning of year (includes restricted cash amounts of \$176,800)	5,764,816	2,662,826
Cash and cash equivalents, end of year (includes restricted cash amounts of \$2,222,654)	\$ 6,428,594	\$ 5,764,816

The accompanying notes to financial statements are an integral part of this statement.

FOCUSED ULTRASOUND FOUNDATION

Notes to Financial Statements As of December 31, 2013

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Activities

The Focused Ultrasound Foundation (the Foundation) is a nonprofit organization established exclusively for charitable, educational, and scientific purposes. The mission of the Foundation, in regards to focused ultrasound surgery, is to shorten the time from technology development to the patients' bedside, develop new applications, and accelerate the worldwide adoption of these techniques. The Foundation plans to achieve these goals by engaging in educational activities, translation and clinical research, and by establishing research and development centers.

Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation

The Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets: Net assets that are not subject to donor-imposed stipulations. At December 31, 2013 the Organization had unrestricted net assets of \$8,274,571.

Temporarily restricted net assets: Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. At December 31, 2013 the Organization had temporarily restricted net assets of \$3,473,900.

Permanently restricted net assets: Net assets subject to donor-imposed or other legal restrictions requiring that all principal be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned for either general or donor-specific purposes. At December 31, 2013, the Organization had no permanently restricted net assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property and Equipment

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over useful lives of three to ten years. The Foundation recognizes any gain or loss on the disposition of property and equipment in the year of disposal.

FOCUSED ULTRASOUND SURGERY FOUNDATION

Notes to Financial Statements As of December 31, 2013 (Continued)

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated Services

The Foundation receives a substantial amount of services donated by its members in carrying out its mission. No amounts have been reflected in the financial statements for those services. The Foundation generally pays for services requiring specific expertise.

Income Taxes

The Foundation is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3).

The Foundation implemented Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) 740-10, formerly FIN 48, Accounting for Uncertainty in Income Taxes. The Foundation's policy is to recognize any tax penalties and interest as an expense when incurred. For the years ended December 31, 2013 and 2012, the Foundation did not incur any penalties and interest related to income taxes. The Foundation's tax returns for the past three years remain subject to examination by the Internal Revenue Service.

Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of less than three months from the date of acquisition.

Functional Allocation of Expenses

The costs of providing the various programs and supporting activities have been summarized on a functional basis in the Statements of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE 2 - CASH AND CASH EQUIVALENTS:

The total cash held by the Foundation at December 31, 2013, includes \$383,204 in monies that are not covered by the Federal Deposit Insurance Corporation (FDIC) insurance provided by the federal government. It is the opinion of management that the solvency of the referenced financial institutions is not of particular concern at this time.

FOCUSED ULTRASOUND SURGERY FOUNDATION

Notes to Financial Statements
As of December 31, 2013 (Continued)

NOTE 3 - INVESTMENT RETURN:

As of December 31, 2013, the Foundation does not have any investments.

Investments were sold during the year ended December 31, 2013. The following schedule summarizes the investment return and its classification in the statement of activities for the year ended December 31, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest and dividends	\$ 5,706	\$ 66	\$ 5,772
Realized gains/(losses)	<u>9,948</u>	<u>-</u>	<u>9,948</u>
Total investment return	<u>\$ 15,654</u>	<u>\$ 66</u>	<u>\$ 15,720</u>

NOTE 4 - PROMISES TO GIVE:

Unconditional promises to give consists of the following:

Unrestricted promises	\$ 5,207,219
Restricted to research and fellowship programs	<u>1,278,033</u>
Gross unconditional promises to give	\$ 6,485,252
Less: Unamortized discount	<u>(352,972)</u>
Net unconditional promises to give	<u>\$ 6,132,280</u>
Amount due in:	
Less than one year	\$ 2,764,344
One to five years	<u>3,720,908</u>
Gross unconditional promises to give	<u>\$ 6,485,252</u>

Unconditional promises to give due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of the applicable Treasury bill rate on the date of the pledge plus 1.5%.

The Foundation calculates its allowance for uncollectible promises using specific account analysis.

FOCUSED ULTRASOUND SURGERY FOUNDATION

Notes to Financial Statements As of December 31, 2013 (Continued)

NOTE 5 - CONDITIONAL PROMISES TO GIVE:

The Foundation has conditional promises to give of \$1,156,012 at December 31, 2013, representing funds contingent upon future performances. Both conditional promises to give are dependent upon future research and fellowship participants' funding agreements and are not recorded in the financial statements.

Conditional promises are summarized as follows:

	<u>Year Ended</u> <u>December 31, 2013</u>
GE Healthcare	\$ 600,000
Insightec	<u>556,012</u>
Total conditional promises to give	<u>\$ 1,156,012</u>

NOTE 6 - OPERATING LEASES:

On February 21, 2011, the Foundation entered into a 3 year lease agreement beginning on May 1, 2011, for the use of office space. Total payments made during the year under this agreement were \$96,586.

Subsequent to year end on March 20, 2014, the Foundation extended the lease for an additional three years ending April 30, 2017.

The future minimum lease payments of the next four years are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2014	\$ 99,485
2015	102,469
2016	105,543
2017	<u>35,526</u>
Total	<u>\$ 343,023</u>

NOTE 7 - PROPERTY AND EQUIPMENT:

The following is a summary of property and equipment as of December 31, 2013:

Equipment	\$ 196,472
Leasehold improvements	9,115
Less accumulated depreciation	<u>(165,057)</u>
Total	<u>\$ 40,530</u>

Depreciation expense for the year ended December 31, 2013 totaled \$38,421, all of which was allocated as a management & general expense.

FOCUSED ULTRASOUND SURGERY FOUNDATION

Notes to Financial Statements
As of December 31, 2013 (Continued)

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets are available for the following purposes or periods:

Research and fellowship programs	\$ <u>3,473,900</u>
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Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

Purpose restriction accomplished:	
Research and fellowship programs	\$ <u>603,066</u>

NOTE 9 - AWARDS PAYABLE:

Awards payable consist of amounts awarded, but not paid, to program participants.

NOTE 10 - RELATED PARTY TRANSACTIONS:

During the fiscal year ended December 31, 2013, the Foundation received cash contributions from members of its Board of Directors and their family members in the total amount of \$1,507,500.

NOTE 11 - FUNCTIONAL ALLOCATION OF EXPENSES:

The costs of providing the various programs and supporting activities have been summarized on a functional basis in the statement of activities.

NOTE 12 - SUBSEQUENT EVENTS:

In preparing the financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through May 16, 2014, the date that the financial statements were available to be issued.