
FOCUSED ULTRASOUND FOUNDATION
FINANCIAL REPORT
YEAR ENDED DECEMBER 31, 2014

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, 2014

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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, 2014, and the related statements of activities, functional expenses and cash flows 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, 2014, 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.

Report on Summarized Comparative Information

We have previously audited Focused Ultrasound Foundation's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 16, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Robinson, Hannul, Cox Associates
Charlottesville, Virginia
May 22, 2015

- Financial Statements -

FOCUSED ULTRASOUND FOUNDATION

**Statement of Financial Position
December 31, 2014
(With Comparative Totals for 2013)**

	2014	2013
Assets:		
Cash and cash equivalents	\$ 4,444,864	\$ 4,205,940
Restricted cash and cash equivalents	1,916,228	2,222,654
Investments	11,881	-
Accounts receivable	95,953	99,614
Prepaid expenses	11,420	65,878
Rent deposit	7,675	7,825
Unconditional promises to give net of allowance for uncollectibles (Note 4):		
Unrestricted	2,787,221	4,881,034
Restricted for fellowship and research	294,869	1,251,246
Property and equipment, net of accumulated depreciation (Note 7)	91,752	40,530
Total assets	\$ 9,661,863	\$ 12,774,721
 Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 56,171	\$ 77,968
Awards payable (Note 9)	852,628	948,282
Total liabilities	\$ 908,799	\$ 1,026,250
 Net assets:		
Unrestricted	\$ 6,541,967	\$ 8,274,571
Temporarily restricted	2,211,097	3,473,900
Total net assets	\$ 8,753,064	\$ 11,748,471
Total liabilities and net assets	\$ 9,661,863	\$ 12,774,721

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, 2014
(With Comparative Totals for 2013)

	Unrestricted	Temporarily Restricted	Totals	
			2014	2013
Revenues, gains, and other support:				
Contributions	\$ 1,235,908	\$ 301,521	\$ 1,537,429	\$ 7,376,614
Reimbursement activity revenue	137,158	-	137,158	224,145
Symposium fees	304,589	-	304,589	3,525
Event sponsorship	-	-	-	13,744
Miscellaneous	33,287	-	33,287	376
Investment income (Note 3)	10,040	15	10,055	5,772
Gain (loss) on sale of investments	1,071	-	1,071	9,948
Net assets released from restrictions (Note 8):				
Satisfaction of purpose restrictions	1,564,339	(1,564,339)	-	-
Total revenues, gains, and other support	\$ 3,286,392	\$ (1,262,803)	\$ 2,023,589	\$ 7,634,124
Expenses:				
Program services	\$ 3,757,130	\$ -	\$ 3,757,130	\$ 3,766,269
Supporting services:				
Management & general	801,473	-	801,473	807,706
Fundraising	460,393	-	460,393	472,032
Total expenses	\$ 5,018,996	\$ -	\$ 5,018,996	\$ 5,046,007
Increase (decrease) in net assets	\$ (1,732,604)	\$ (1,262,803)	\$ (2,995,407)	\$ 2,588,117
Net assets, beginning of year	8,274,571	3,473,900	11,748,471	9,160,354
Net assets, end of year	\$ 6,541,967	\$ 2,211,097	\$ 8,753,064	\$ 11,748,471

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, 2014
(With Comparative Totals for 2013)**

	Program Services	Supporting Services		Totals	
		Management & General	Fundraising	2014	2013
Program awards	\$ 1,192,134	\$ -	\$ -	\$ 1,192,134	\$ 1,370,231
Salaries and wages	1,249,876	327,524	301,689	1,879,089	1,909,435
Payroll taxes and fringe benefits	188,021	53,030	46,545	287,596	278,000
Professional fees	366,328	67,139	4,399	437,866	376,263
Consulting	93,521	-	30,000	123,521	144,039
Copywriting and design	48,181	-	2,684	50,865	52,427
IT support	4,098	7,417	6,745	18,260	27,784
Honorarium	10,000	-	-	10,000	-
Office expenses	69,702	23,894	16,657	110,253	89,183
Travel and entertainment	50,061	137	22,736	72,934	88,950
Grant related travel and entertainment	83,128	627	7,168	90,923	28,226
Conferences	237,369	4,795	19,703	261,867	59,992
Advertising	8,775	1,216	-	9,991	7,641
Public relations	4,000	-	-	4,000	4,750
List services	5,401	-	-	5,401	3,448
Insurance	-	74,220	-	74,220	50,969
Other expenses	4,527	24,550	2,067	31,144	29,139
Licenses and taxes	-	923	-	923	942
Office rent	-	99,480	-	99,480	96,586
Other rents	-	407	-	407	3,659
Bank charges	-	10,348	-	10,348	2,980
Tenant improvements	-	1,493	-	1,493	15,433
Telecommunications	-	34,753	-	34,753	31,090
Internet/ISP	-	16,153	-	16,153	10,098
Equipment rent and maintenance	-	5,940	-	5,940	4,445
Reimbursement activity expense	113,508	-	-	113,508	267,773
Sponsorships	28,500	-	-	28,500	54,103
Depreciation	-	47,427	-	47,427	38,421
Total	\$ 3,757,130	\$ 801,473	\$ 460,393	\$ 5,018,996	\$ 5,046,007

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, 2014
(With Comparative Totals for 2013)**

	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ (2,995,407)	\$ 2,588,117
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	47,427	38,421
(Increase) decrease in:		
Accounts receivable	3,661	(24,430)
Prepaid expense	54,458	(50,533)
Rent deposit	150	-
Unconditional promises to give (net)	3,050,190	(1,769,343)
Increase (decrease) in:		
Accounts payable	(21,797)	22,706
Awards payable	(95,654)	(115,541)
Net cash provided by (used for) operating activities	\$ 43,028	\$ 689,397
Cash flows from investing activities:		
Purchase of equipment	\$ (98,649)	\$ (25,619)
Purchase of investments	(11,881)	-
Net cash provided by (used for) investing activities	\$ (110,530)	\$ (25,619)
Net increase (decrease) in cash and cash equivalents	\$ (67,502)	\$ 663,778
Cash and cash equivalents, beginning of year (includes restricted cash amounts of \$2,222,654)	6,428,594	5,764,816
Cash and cash equivalents, end of year (includes restricted cash amounts of \$1,916,228)	\$ 6,361,092	\$ 6,428,594

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

FOCUSED ULTRASOUND FOUNDATION

Notes to Financial Statements As of December 31, 2014

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

Nature of Activities

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, is to accelerate the development and worldwide adoption of focused ultrasound therapies. The Foundation plans to achieve these goals by organizing and funding research, fostering collaboration, building awareness, and cultivating the next generation.

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, 2014 the Foundation had unrestricted net assets of \$6,541,967.

Temporarily restricted net assets: Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation 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, 2014 the Foundation had temporarily restricted net assets of \$2,211,097.

Permanently restricted net assets: Net assets subject to donor-imposed or other legal restrictions requiring that all principal be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned for either general or donor-specific purposes. At December 31, 2014, the Foundation 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 FOUNDATION

Notes to Financial Statements As of December 31, 2014 (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, 2014 and 2013, 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 six months or less from the date of acquisition.

NOTE 2 - CASH AND CASH EQUIVALENTS:

The total cash held by the Foundation at December 31, 2014, includes \$6,180,491 in monies that are not covered by the Federal Deposit Insurance Corporation (FDIC) insurance provided by the federal government. Management does not believe that deposits in excess of FDIC limits present a credit risk to the organization at this time.

FOCUSED ULTRASOUND FOUNDATION

Notes to Financial Statements As of December 31, 2014 (Continued)

NOTE 3 - INVESTMENT RETURN:

As of December 31, 2014, the Foundation had \$11,881 in investments. Investments are composed of equity securities and are carried at fair value.

Investments were sold during the year ended December 31, 2014. The following schedule summarizes the investment return and its classification in the statement of activities for the year ended December 31, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest and dividends	\$ 10,040	\$ 15	\$ 10,055
Realized gains/(losses)	1,071	-	1,071
Total investment return	\$ <u>11,111</u>	\$ <u>15</u>	\$ <u>11,126</u>

NOTE 4 - PROMISES TO GIVE:

Unconditional promises to give consists of the following:

Unrestricted promises	\$ 3,023,378
Restricted to research and fellowship programs	<u>300,000</u>
Gross unconditional promises to give	\$ 3,323,378
Less: Unamortized discount	<u>(241,288)</u>
Net unconditional promises to give	\$ <u>3,082,090</u>
Amount due in:	
Less than one year	\$ 934,686
One to five years	<u>2,388,692</u>
Gross unconditional promises to give	\$ <u>3,323,378</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 FOUNDATION

Notes to Financial Statements As of December 31, 2014 (Continued)

NOTE 5 - CONDITIONAL PROMISES TO GIVE:

The Foundation has conditional promises to give of \$1,110,048 at December 31, 2014, 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:

	Year Ended December 31, 2014
GE Healthcare	\$ 600,000
BIRD Foundation	510,048
Total conditional promises to give	<u>\$ 1,110,048</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.

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:

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

NOTE 7 - PROPERTY AND EQUIPMENT:

The following is a summary of property and equipment as of December 31, 2014:

Equipment	\$ 273,606
Leasehold improvements	9,115
Less accumulated depreciation	<u>(190,969)</u>
Total	<u>\$ 91,752</u>

Depreciation expense for the year ended December 31, 2014 totaled \$47,427, all of which was allocated as a management and general expense.

FOCUSED ULTRASOUND FOUNDATION

Notes to Financial Statements As of December 31, 2014 (Continued)

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS:

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

Research and fellowship programs	\$ <u>2,211,097</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>1,564,339</u>

NOTE 9 - AWARDS PAYABLE:

Awards payable consist of amounts awarded, but not paid, to program participants who have met the conditions of the Awards.

In addition, the Foundation has awarded conditional awards for clinical trials as of December 31, 2014 in the amount of \$772,345. These conditional awards are not recorded in the financial statements because the conditions necessary to make them due and payable have not yet occurred.

NOTE 10 - RELATED PARTY TRANSACTIONS:

During the fiscal year ended December 31, 2014, the Foundation received cash contributions from members of its Board of Directors and their family members in the total amount of \$1,004,000.

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 - FAIR VALUE MEASUREMENTS:

Fair value for investments is determined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The three-level fair value hierarchy prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.

FOCUSED ULTRASOUND FOUNDATION

**Notes to Financial Statements
As of December 31, 2014 (Continued)**

NOTE 12 - FAIR VALUE MEASUREMENTS: (CONTINUED)

- Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The Organization is providing the following information related to its investments:

	Fair Value Measurements at Reporting Date Using			
	<u>12/31/2014</u>	<u>Quoted Prices in Active Markets for Identical Assets</u>	<u>Significant Other Observable Inputs</u>	<u>Significant Unobservable Inputs</u>
		(Level 1)	(Level 2)	(Level 3)
Equity Securities	\$ 11,881	\$ 11,881	\$ -	\$ -
Total	<u>\$ 11,881</u>	<u>\$ 11,881</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 13 - SUBSEQUENT EVENTS:

In preparing the financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through May 22, 2015, the date that the financial statements were available to be issued.