
FOCUSED ULTRASOUND FOUNDATION
FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2017

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY CERTIFIED PUBLIC ACCOUNTANTS

CHARLOTTESVILLE □ LOUISA □ RICHMOND □ FREDERICKSBURG □ STAUNTON □ BLACKSBURG

FOCUSED ULTRASOUND FOUNDATION
FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2017

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1-2
Financial Statements:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-12

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, 2017, 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, 2017, 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 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 3, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Robinson, Farnell, Cox Associates

Charlottesville, Virginia

May 21, 2018

- Financial Statements -

FOCUSED ULTRASOUND FOUNDATION

Statement of Financial Position
As of December 31, 2017
(With Comparative Totals for 2016)

	2017	2016
Assets:		
Cash and cash equivalents	\$ 6,340,188	\$ 6,939,285
Restricted cash and cash equivalents	1,374,416	2,086,188
Investments - SAFE (Note 4)	224,119	-
Accounts receivable	302,152	97,261
Prepaid expenses	108,077	26,520
Rent deposit	7,675	7,675
Unconditional promises to give, net of allowance for uncollectibles (Note 5):		
Unrestricted	5,339,490	4,170,485
Restricted for fellowship and research	407,553	281,719
Property and equipment, net of accumulated depreciation (Note 8)	90,061	63,310
Total assets	\$ 14,193,731	\$ 13,672,443
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 135,816	\$ 52,830
Awards payable (Note 10)	1,433,317	1,571,252
Total liabilities	\$ 1,569,133	\$ 1,624,082
Net assets:		
Unrestricted	\$ 10,833,783	\$ 9,680,454
Temporarily restricted	1,790,815	2,367,907
Total net assets	\$ 12,624,598	\$ 12,048,361
Total liabilities and net assets	\$ 14,193,731	\$ 13,672,443

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, 2017
(With Comparative Totals for 2016)

	Unrestricted	Temporarily Restricted	Totals	
			2017	2016
Revenues, gains, and other support:				
Contributions	\$ 5,861,542	\$ 1,082,642	\$ 6,944,184	\$ 5,485,546
Reimbursement activity revenue	-	-	-	49,544
Symposium fees	5,000	-	5,000	262,900
Miscellaneous	6,174	-	6,174	36,458
Investment income (Note 3)	56,590	-	56,590	63,154
Gain (loss) on sale of investments	(7,442)	-	(7,442)	(8,092)
Net assets released from restrictions (Note 9):				
Satisfaction of purpose restrictions	1,659,734	(1,659,734)	-	-
Total revenues, gains, and other support	\$ 7,581,598	\$ (577,092)	\$ 7,004,506	\$ 5,889,510
Expenses:				
Program services				
Research & collaboration of ultrasound	\$ 4,727,638	\$ -	\$ 4,727,638	\$ 4,879,821
Supporting services:				
Management & general	988,202	-	988,202	850,139
Fundraising	712,429	-	712,429	558,603
Total expenses	\$ 6,428,269	\$ -	\$ 6,428,269	\$ 6,288,563
Increase (decrease) in net assets	\$ 1,153,329	\$ (577,092)	\$ 576,237	\$ (399,053)
Net assets, beginning of year	9,680,454	2,367,907	12,048,361	12,447,414
Net assets, end of year	\$ 10,833,783	\$ 1,790,815	\$ 12,624,598	\$ 12,048,361

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, 2017
(With Comparative Totals for 2016)

	Program Services		Supporting Services		Totals	
	Research and Collaboration of Ultrasound	Management & General	Fundraising	2017	2016	
Program awards	\$ 1,842,036	\$ -	\$ -	\$ 1,842,036	\$ 1,923,218	
Salaries and wages	1,638,329	441,309	522,752	2,602,390	2,240,977	
Payroll taxes and fringe benefits	282,509	77,444	90,282	450,235	341,253	
Professional fees	17,142	27,744	-	44,886	52,163	
Contract labor and other fees	322,651	53,481	2,100	378,232	451,595	
Consulting	35,560	15,575	-	51,135	49,398	
Copywriting and design	7,180	-	-	7,180	10,098	
IT support	55,973	9,745	4,840	70,558	39,496	
Honorarium	96,500	-	-	96,500	55,000	
Office expenses	54,162	45,401	711	100,274	76,759	
Travel and entertainment	82,366	2,808	36,968	122,142	82,690	
Grant related travel and entertainment	81,169	1,003	4,123	86,295	56,832	
Conferences	89,212	16,144	40,915	146,271	298,482	
Advertising	8,499	1,206	399	10,104	19,904	
Public relations	4,000	-	-	4,000	4,000	
List services	4,434	-	54	4,488	4,107	
Insurance	-	45,716	-	45,716	55,480	
Other expenses	174	3,078	1,826	5,078	12,622	
Licenses and taxes	-	2,067	-	2,067	1,714	
Office rent	-	110,136	-	110,136	105,548	
Other rents	125	-	-	125	171	
Bank charges	-	7,389	-	7,389	13,822	
Tenant improvements	-	583	-	583	105	
Telecommunications	-	45,713	-	45,713	45,065	
Internet/ISP	-	15,397	-	15,397	13,261	
Equipment rent and maintenance	-	7,095	-	7,095	6,625	
Reimbursement activity expense	-	-	-	-	28,148	
Sponsorships	40,969	-	-	40,969	36,000	
Printing, book	47,420	8,872	4,694	60,986	132,480	
Postage, book	17,228	2,284	2,765	22,277	79,523	
Depreciation	-	48,012	-	48,012	52,027	
Total	\$ 4,727,638	\$ 988,202	\$ 712,429	\$ 6,428,269	\$ 6,288,563	

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, 2017
(With Comparative Totals for 2016)

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 576,237	\$ (399,053)
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	48,012	52,027
(Increase) decrease in:		
Accounts receivable	(204,891)	(22,868)
Prepaid expense	(81,557)	(17,011)
Unconditional promises to give (net)	(1,294,839)	789,425
Increase (decrease) in:		
Accounts payable	82,986	(3,460)
Awards payable	(137,935)	364,247
Net cash provided by (used for) operating activities	\$ (1,011,987)	\$ 763,307
Cash flows from investing activities:		
Purchase of equipment	\$ (74,947)	\$ (56,637)
Gain/loss from sale of other assets	184	-
Purchase of investments	(224,119)	-
Net cash provided by (used for) investing activities	\$ (298,882)	\$ (56,637)
Net increase (decrease) in cash and cash equivalents	\$ (1,310,869)	\$ 706,670
Cash and cash equivalents, beginning of year (includes restricted cash amounts of \$2,086,188)	9,025,473	8,318,803
Cash and cash equivalents, end of year (includes restricted cash amounts of \$1,374,416)	\$ 7,714,604	\$ 9,025,473

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

FOCUSED ULTRASOUND FOUNDATION

Notes to Financial Statements As of December 31, 2017

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 based on the existence or absence of donor-imposed restrictions: 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, 2017 the Foundation had unrestricted net assets of \$10,833,783.

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, 2017 the Foundation had temporarily restricted net assets of \$1,790,815.

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, 2017, 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, 2017 (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, 2017 and 2016, the Foundation did not incur any penalties and interest related to income taxes.

Cash and Cash Equivalents

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

NOTE 2 - CASH AND CASH EQUIVALENTS:

The total cash held by the Foundation at December 31, 2017, includes \$7,843,283 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, 2017 (Continued)

NOTE 3 - INVESTMENT RETURN:

As of December 31, 2017, the Foundation had no return on their investments.

Investments were sold during the year ended December 31, 2017. The following schedule summarizes the investment return and its classification in the statement of activities for the year ended December 31, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest and dividends	\$ 56,590	\$ -	\$ 56,590
Realized gains/(losses)	(7,442)	-	(7,442)
Total investment return	<u>\$ 49,148</u>	<u>\$ -</u>	<u>\$ 49,148</u>

NOTE 4 - SIMPLE AGREEMENT FOR FUTURE EQUITY INVESTMENTS:

During the year ended December 31, 2017, the Foundation entered into SAFE agreements (Simple Agreement for Future Equity) with Artenga Inc. and FUSMobile Inc. in the amounts of \$116,993 and \$107,126 respectively. The SAFE agreements have no maturity date and bear no interest. The agreements provide the right of the Foundation to future equity in the companies per the terms of the agreement.

The agreement with Artenga Inc. is subject to a valuation cap of \$8,000,000. Per the terms of the SAFE agreement entered into with Artenga Inc., if there is an equity financing before the instrument expires or is terminated, the company will automatically issue to the Foundation either: 1) a number of shares of Standard Preferred Stock sold in the equity financing equal to the purchase amount divided by the price per share of the Standard Preferred Stock, if the pre-money valuation is less than or equal to the Valuation Cap; or 2) a number of shares of Safe Preferred Stock equal to the purchase amount divided by the SAFE Price, if the pre-money valuation is greater than the Valuation Cap.

Per the terms of the SAFE agreement entered into with FUSMobile Inc., if there is an equity financing before the instrument expires or is terminated, the company will automatically issue to the Foundation Safe Stock equal to the Purchase Amount divided by the Discount Price.

If there is a liquidation event before the expiration or termination of the SAFE Agreements, the Foundation will at its option either: 1) receive a cash payment equal to the purchase price or 2) automatically receive from the Companies a number of shares of common stock equal to the purchase amount divided by the liquidity price, if the Foundation fails to select the cash option. Thereafter the SAFE Agreements will terminate. In connection with a cash payment through a liquidity event, if there are not enough funds to pay the Foundation in full, Funds will be distributed pro-rata and based on the purchase price and the remaining amounts will be covered with common stock equal to the remaining unpaid purchase price divided by the liquidity price.

FOCUSED ULTRASOUND FOUNDATION

Notes to Financial Statements
As of December 31, 2017 (Continued)

NOTE 4 - SIMPLE AGREEMENT FOR FUTURE EQUITY INVESTMENTS: (continued)

Per the agreement with Artenga, Inc. in a dissolution event, the Foundation will be paid out of remaining assets prior to the holders of Artenga Inc's capital stock. Per the agreement with FUSMobile Inc, in a dissolution event, the Foundation will be paid out of remaining assets with equal priority and pro rata among all holders of all other SAFEs and the holders of the Capital Stock.

As of December 31, 2017, no SAFE Agreements were converted into equity, nor have any terminated or expired based on the terms of the agreements.

NOTE 5 - PROMISES TO GIVE:

Unconditional promises to give consists of the following:

Unrestricted promises	\$	5,734,224
Restricted to research and fellowship programs		<u>416,399</u>
Gross unconditional promises to give	\$	6,150,623
Less: Unamortized discount		<u>(403,580)</u>
Net unconditional promises to give	\$	<u><u>5,747,043</u></u>
Amount due in:		
Less than one year	\$	5,759,634
One to five years		<u>560,000</u>
Gross unconditional promises to give	\$	<u><u>6,319,634</u></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, 2017 (Continued)

NOTE 6 - CONDITIONAL PROMISES TO GIVE:

The Foundation has conditional promises to give of \$242,211 at December 31, 2017, representing funds contingent upon future performances and are not recorded in the financial statements.

Conditional promises are summarized as follows:

	<u>Year Ended December 31, 2017</u>
Insightec	\$ 242,211
Total conditional promises to give	<u>\$ 242,211</u>

NOTE 7 - 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 \$110,134.

On March 20, 2014, the Foundation extended the lease for an additional three years ending April 30, 2017. On April 26, 2017, the Foundation entered into a 3 year lease agreement with new property owners beginning on May 1, 2017 for use of the office space ending April 30, 2020.

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

<u>Year Ending December 31,</u>	<u>Amount</u>
2018	\$ 115,640
2019	121,424
2020	<u>41,128</u>
Total	<u>\$ 278,192</u>

NOTE 8 - PROPERTY AND EQUIPMENT:

The following is a summary of property and equipment as of December 31, 2016:

Equipment	\$ 317,732
Leasehold improvements	9,115
Less accumulated depreciation	<u>(236,786)</u>
Total	<u>\$ 90,061</u>

Depreciation expense for the year ended December 31, 2017 totaled \$48,012, all of which was allocated as a management and general expense.

FOCUSED ULTRASOUND FOUNDATION

Notes to Financial Statements
As of December 31, 2017 (Continued)

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS:

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

Research and fellowship programs	\$ <u>1,790,815</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>1,659,734</u>

NOTE 10 - 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, 2017 in the amount of \$1,534,781. 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 11 - RELATED PARTY TRANSACTIONS:

During the fiscal year ended December 31, 2017, the Foundation received cash contributions from members of its Board of Directors and their family members in the total amount of \$1,500,000.

NOTE 12 - 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 13 - SUBSEQUENT EVENTS:

In preparing the financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through May 21, 2018, the date that the financial statements were available to be issued.