
FOCUSED ULTRASOUND FOUNDATION
FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2018

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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, 2018, 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, 2018, 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.

Change in Accounting Principle

As described in Note 14 to the financial statements, in 2018, Focused Ultrasound Foundation adopted new accounting guidance, FASB ASU 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Focused Ultrasound Foundation's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 21, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.


Charlottesville, Virginia
May 3, 2019

- Financial Statements -

FOCUSED ULTRASOUND FOUNDATION

Statement of Financial Position
As of December 31, 2018
(With Comparative Totals for 2017)

	2018	2017
Assets:		
Cash and cash equivalents	\$ 16,095,922	\$ 6,340,188
Restricted cash and cash equivalents	1,212,691	1,374,416
Investments - SAFE (Note 4)	356,789	224,119
Accounts receivable	23,572	302,152
Prepaid expenses	44,249	108,077
Rent deposit	7,675	7,675
Unconditional promises to give, net of allowance for uncollectibles (Note 5):		
Without donor restrictions	5,202,106	5,339,490
With donor restrictions	212,349	407,553
Property and equipment, net of accumulated depreciation (Note 8)	199,945	90,061
Total assets	\$ 23,355,298	\$ 14,193,731
 Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 106,669	\$ 135,816
Awards payable (Note 11)	1,415,588	1,433,317
Total liabilities	\$ 1,522,257	\$ 1,569,133
 Net assets:		
Net assets without donor restrictions	\$ 20,408,001	\$ 10,833,783
Net assets with donor restrictions	1,425,040	1,790,815
Total net assets	\$ 21,833,041	\$ 12,624,598
Total liabilities and net assets	\$ 23,355,298	\$ 14,193,731

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, 2018
(With Comparative Totals for 2017)

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2018	2017
Revenues, gains, and other support:				
Contributions	\$ 16,148,840	\$ 441,721	\$ 16,590,561	\$ 6,944,184
Symposium fees	319,248	-	319,248	5,000
Collaboration revenue	42,000	-	42,000	-
Miscellaneous	4,188	-	4,188	6,174
Investment income (Note 3)	109,068	-	109,068	56,590
Gain (loss) on sale of investments	(8,072)	-	(8,072)	(7,442)
Net assets released from restrictions (Note 9):				
Satisfaction of purpose restrictions	807,496	(807,496)	-	-
Total revenues, gains, and other support	<u>\$ 17,422,768</u>	<u>\$ (365,775)</u>	<u>\$ 17,056,993</u>	<u>\$ 7,004,506</u>
Expenses:				
Program services:				
Research & collaboration of ultrasound	\$ 5,788,147	\$ -	\$ 5,788,147	\$ 4,727,638
Supporting services:				
Management & general	1,184,388	-	1,184,388	988,202
Fundraising	876,015	-	876,015	712,429
Total expenses	<u>\$ 7,848,550</u>	<u>\$ -</u>	<u>\$ 7,848,550</u>	<u>\$ 6,428,269</u>
Increase (decrease) in net assets	\$ 9,574,218	\$ (365,775)	\$ 9,208,443	\$ 576,237
Net assets, beginning of year	<u>10,833,783</u>	<u>1,790,815</u>	<u>12,624,598</u>	<u>12,048,361</u>
Net assets, end of year	<u>\$ 20,408,001</u>	<u>\$ 1,425,040</u>	<u>\$ 21,833,041</u>	<u>\$ 12,624,598</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, 2018
(With Comparative Totals for 2017)

	Program Services		Supporting Services		Totals	
	Research and Collaboration of Ultrasound	Management & General	Fundraising	2018	2017	
Program awards	\$ 1,963,729	\$ -	\$ -	\$ 1,963,729	\$ 1,842,036	
Salaries and wages	1,872,258	585,902	651,514	3,109,674	2,602,390	
Payroll taxes and fringe benefits	342,728	104,873	119,168	566,769	450,235	
Contract labor and other fees	383,018	71,234	469	454,721	378,232	
Conferences	341,113	17,428	28,653	387,194	146,271	
Visiting fellowship	260,814	-	-	260,814	-	
Travel and entertainment	78,837	67	60,751	139,655	122,142	
Office expenses	77,867	55,520	1,027	134,414	100,274	
Office rent	-	124,836	-	124,836	110,136	
Grant related travel and entertainment	109,697	995	1,878	112,570	86,295	
IT support	96,422	7,146	5,181	108,749	70,558	
Collaboration dues	75,000	-	-	75,000	-	
Honorarium	54,500	-	-	54,500	96,500	
Telecommunications	-	50,930	-	50,930	45,713	
Depreciation	-	47,505	-	47,505	48,012	
Insurance	-	47,202	-	47,202	45,716	
Sponsorships	35,500	-	-	35,500	40,969	
Printing, book	25,201	8,688	1,400	35,289	60,986	
Consulting	29,681	-	-	29,681	51,135	
Professional fees	825	19,995	-	20,820	44,886	
Bank charges	-	17,313	-	17,313	7,389	
Postage, book	12,256	2,243	1,947	16,446	22,277	
Copywriting and design	14,750	-	-	14,750	7,180	
Advertising	6,881	1,549	462	8,892	10,104	
Internet/ISP	-	7,962	-	7,962	15,397	
Equipment rent and maintenance	-	7,438	-	7,438	7,095	
Other expenses	-	3,102	3,530	6,632	5,078	
List services	4,515	-	35	4,550	4,488	
Public relations	2,555	-	-	2,555	4,000	
Licenses and taxes	-	2,460	-	2,460	2,067	
Tenant improvements	-	-	-	-	583	
Other rents	-	-	-	-	125	
Total	\$ 5,788,147	\$ 1,184,388	\$ 876,015	\$ 7,848,550	\$ 6,428,269	

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, 2018
(With Comparative Totals for 2017)

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 9,208,443	\$ 576,237
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	47,505	48,012
(Increase) decrease in:		
Accounts receivable	278,580	(204,891)
Prepaid expense	63,828	(81,557)
Unconditional promises to give (net)	332,588	(1,294,839)
Increase (decrease) in:		
Accounts payable	(29,147)	82,986
Awards payable	(17,729)	(137,935)
Net cash provided by (used for) operating activities	\$ 9,884,068	\$ (1,011,987)
Cash flows from investing activities:		
Purchase of equipment	\$ (157,389)	\$ (74,947)
Gain/loss from sale of other assets	-	184
Purchase of investments	(132,670)	(224,119)
Net cash provided by (used for) investing activities	\$ (290,059)	\$ (298,882)
Net increase (decrease) in cash and cash equivalents	\$ 9,594,009	\$ (1,310,869)
Cash and cash equivalents, beginning of year (includes restricted cash amounts of \$1,374,416)	7,714,604	9,025,473
Cash and cash equivalents, end of year (includes restricted cash amounts of \$1,212,691)	\$ 17,308,613	\$ 7,714,604

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

FOCUSED ULTRASOUND FOUNDATION

Notes to Financial Statements As of December 31, 2018

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 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 two classes of net assets based on the existence or absence of donor-imposed restrictions: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed stipulations. At December 31, 2018 the Foundation had net assets without donor restrictions of \$20,408,001.

Net assets with donor restrictions: 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. At December 31, 2018 the Foundation had net assets with donor restrictions of \$1,425,040.

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, 2018 (Continued)

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

Revenue Recognition

Contributions received are recorded as increases in net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any restrictions.

All donor-restricted contributions are reported as increases in net assets with restrictions. When a 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 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, 2018 and 2017, 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, 2018, includes \$17,040,811 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, 2018 (Continued)

NOTE 3 - INVESTMENT RETURN:

Investments were sold during the year ended December 31, 2018. The following schedule summarizes the investment return and its classification in the statement of activities for the year ended December 31, 2018:

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</u>
Interest and dividends	\$ 109,068	\$ -	\$ 109,068
Realized gains/(losses)	(8,072)	-	(8,072)
Total investment return	<u>\$ 100,996</u>	<u>\$ -</u>	<u>\$ 100,996</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. During the year ended December 31, 2018, the Foundation entered into a SAFE agreement with Veinsound, SAS. in the amount of \$132,670. 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.

The agreement with VeinSound, SAS. is subject to a valuation cap of \$3,480,000. Per the terms of the SAFE agreement entered into with VeinSound, SAS., 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.

FOCUSED ULTRASOUND FOUNDATION

Notes to Financial Statements As of December 31, 2018 (Continued)

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

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.

Per the agreements with Artenga, Inc. and VeinSound SAS., 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 FUSMoble 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, 2018, 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:

Promises without donor restrictions	\$	5,609,820
Promises with donor restrictions		<u>216,342</u>
Gross unconditional promises to give	\$	5,826,162
Less: Unamortized discount		<u>(411,707)</u>
Net unconditional promises to give	\$	<u>5,414,455</u>
Amount due in:		
Less than one year	\$	3,636,908
One to five years		<u>2,189,254</u>
Gross unconditional promises to give	\$	<u>5,826,162</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, 2018 (Continued)

NOTE 6 - ROYALTY AGREEMENT:

In 2013, the Foundation entered into an agreement with InSightec Ltd., in which the Foundation is due royalty payments according to net sales made by Insightec. As of December 31, 2018, the Foundation recognized no royalty receivable, as the amount to be paid has yet to be determined.

NOTE 7 - LINE OF CREDIT:

The Foundation established a \$250,000 line of credit with Virginia National Bank on September 21, 2010. This line of credit is renewed annually. As of December 31, 2018, the line of credit balance was \$0.

NOTE 8 - OPERATING LEASES:

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. On April 20, 2018, the Foundation signed a lease amendment beginning on November 1, 2018 for the use of an additional 2,500 square feet of office space ending April 30, 2020. Total payments made during the year under these agreements were \$124,836.

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

<u>Year Ending December 31,</u>	<u>Amount</u>
2019	\$ 178,440
2020	60,440
Total	<u>\$ 238,880</u>

NOTE 9 - PROPERTY AND EQUIPMENT:

The following is a summary of property and equipment as of December 31, 2018:

Equipment	\$ 433,997
Leasehold improvements	9,115
Construction in progress	33,442
Less accumulated depreciation	<u>(276,609)</u>
Total	<u>\$ 199,945</u>

Depreciation expense for the year ended December 31, 2018 totaled \$47,505, all of which was allocated as a management and general expense.

FOCUSED ULTRASOUND FOUNDATION

Notes to Financial Statements
As of December 31, 2018 (Continued)

NOTE 10 - NET ASSETS WITH DONOR RESTRICTIONS:

Net assets with donor restrictions are available for the following purposes or periods:

Research and fellowship programs	\$ <u>1,425,040</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>807,496</u>

NOTE 11 - 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, 2018 in the amount of \$1,898,325. 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 12 - RELATED PARTY TRANSACTIONS:

During the fiscal year ended December 31, 2018, the Foundation received cash contributions from members of its Board of Directors and their family members in the total amount of \$1,600,000.

NOTE 13 - FUNCTIONAL ALLOCATION OF EXPENSES:

The costs of providing the programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated directly and by staff time commitments among the programs and supporting services benefited.

FOCUSED ULTRASOUND FOUNDATION

Notes to Financial Statements As of December 31, 2018 (Continued)

NOTE 14 - LIQUIDITY AND AVAILABILITY:

The Foundation monitors its liquidity so that it can meet its operating needs and other contractual commitments while maximizing the investment of its excess operating cash. The Foundation has the following financial assets that could readily be made available within one year of the balance sheet to fund expenses without limitations:

	<u>2018</u>
Cash and cash equivalents	\$ 16,095,922
Accounts receivable	23,572
Unconditional promises to give, due in less than 1 year	<u>3,636,908</u>
Total	<u>\$ 19,756,402</u>

In addition to financial assets available to meet general expenditures over the year, the Foundation anticipates covering its general expenditures by collecting sufficient donations and other revenues and by utilizing donor-restricted resources from current and prior years' donations, as needed. The statement of cash flows identifies the sources and uses of the Organization's cash and shows positive cash of \$9,594,009 for the fiscal year ending December 31, 2018.

NOTE 15 - ADOPTION OF ACCOUNTING PRONOUNCEMENT:

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. The Foundation has changed the presentation of its financial statements, accordingly, applying the changes retrospectively to the beginning net assets. The new ASU changes the following aspects of the Foundation's financial statements:

- The temporarily restricted and permanently restricted net asset classes have been reduced to a single net asset class called *net assets with donor restrictions*.
- The unrestricted net asset class has been changed to *net assets without donor restrictions*.
- The financial statements include a new disclosure about liquidity and availability of resources.
- The financial statements include increased disclosures on functional expenses.

Adoption of the ASU did not result in any reclassifications or restatements to net assets.

NOTE 16 - SUBSEQUENT EVENTS:

In preparing the financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through May 3, 2019, the date that the financial statements were available to be issued.