
FOCUSED ULTRASOUND FOUNDATION
FINANCIAL REPORT
YEAR ENDED DECEMBER 31, 2016

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY CERTIFIED PUBLIC ACCOUNTANTS

CHARLOTTESVILLE □ LOUISA □ RICHMOND □ FREDERICKSBURG □ STAUNTON □ BLACKSBURG

FOCUSED ULTRASOUND FOUNDATION
FINANCIAL REPORT
YEAR ENDED DECEMBER 31, 2016

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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, 2016, 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, 2016, 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 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 17, 2016. 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

July 3, 2017

- Financial Statements -

FOCUSED ULTRASOUND FOUNDATION

Statement of Financial Position
As of December 31, 2016
(With Comparative Totals for 2015)

	2016	2015
Assets:		
Cash and cash equivalents	\$ 6,939,285	\$ 6,044,662
Restricted cash and cash equivalents	2,086,188	2,274,141
Accounts receivable	97,261	74,393
Prepaid expenses	26,520	9,509
Rent deposit	7,675	7,675
Unconditional promises to give, net of allowance for uncollectibles (Note 4):		
Unrestricted	4,170,485	5,041,629
Restricted for fellowship and research	281,719	200,000
Property and equipment, net of accumulated depreciation (Note 7)	63,310	58,700
Total assets	\$ 13,672,443	\$ 13,710,709
 Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 52,830	\$ 56,290
Awards payable (Note 9)	1,571,252	1,207,005
Total liabilities	\$ 1,624,082	\$ 1,263,295
 Net assets:		
Unrestricted	\$ 9,680,454	\$ 9,973,273
Temporarily restricted	2,367,907	2,474,141
Total net assets	\$ 12,048,361	\$ 12,447,414
Total liabilities and net assets	\$ 13,672,443	\$ 13,710,709

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, 2016
(With Comparative Totals for 2015)

	Unrestricted	Temporarily Restricted	Totals	
			2016	2015
Revenues, gains, and other support:				
Contributions	\$ 4,647,593	\$ 837,953	\$ 5,485,546	\$ 9,496,996
Contributed services	-	-	-	3,000
Reimbursement activity revenue	49,544	-	49,544	171,417
Symposium fees	262,900	-	262,900	-
Miscellaneous	36,458	-	36,458	48,232
Investment income (Note 3)	63,154	-	63,154	33,035
Gain (loss) on sale of investments	(8,092)	-	(8,092)	(17,288)
Net assets released from restrictions (Note 8):				
Satisfaction of purpose restrictions	944,187	(944,187)	-	-
Total revenues, gains, and other support	\$ 5,995,744	\$ (106,234)	\$ 5,889,510	\$ 9,735,392
Expenses:				
Program services	\$ 4,879,821	\$ -	\$ 4,879,821	\$ 4,602,291
Supporting services:				
Management & general	850,139	-	850,139	817,579
Fundraising	558,603	-	558,603	621,172
Total expenses	\$ 6,288,563	\$ -	\$ 6,288,563	\$ 6,041,042
Increase (decrease) in net assets	\$ (292,819)	\$ (106,234)	\$ (399,053)	\$ 3,694,350
Net assets, beginning of year	9,973,273	2,474,141	12,447,414	8,753,064
Net assets, end of year	\$ 9,680,454	\$ 2,367,907	\$ 12,048,361	\$ 12,447,414

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, 2016
(With Comparative Totals for 2015)

	Program Services	Supporting Services		Totals	
		Management & General	Fundraising	2016	2015
Program awards	\$ 1,923,218	\$ -	\$ -	\$ 1,923,218	\$ 2,271,009
Salaries and wages	1,440,681	366,693	433,603	2,240,977	2,012,673
Payroll taxes and fringe benefits	218,243	56,313	66,697	341,253	309,985
Professional fees	30,391	20,883	889	52,163	407,258
Contract labor and other fees	400,103	40,522	10,970	451,595	-
Consulting	49,398	-	-	49,398	57,245
Copywriting and design	10,098	-	-	10,098	11,134
IT support	9,907	25,664	3,925	39,496	9,769
Honorarium	55,000	-	-	55,000	38,400
Office expenses	56,362	18,680	1,717	76,759	120,802
Travel and entertainment	64,815	15	17,860	82,690	63,318
Grant related travel and entertainment	54,830	454	1,548	56,832	101,697
Conferences	275,682	5,486	17,314	298,482	101,990
Advertising	18,454	1,450	-	19,904	9,689
Public relations	4,000	-	-	4,000	4,000
List services	4,037	-	70	4,107	2,049
Insurance	-	55,480	-	55,480	51,887
Other expenses	932	10,607	1,083	12,622	24,102
Licenses and taxes	-	1,714	-	1,714	1,756
Office rent	-	105,548	-	105,548	102,472
Other rents	171	-	-	171	185
Bank charges	-	13,822	-	13,822	6,236
Tenant improvements	-	105	-	105	-
Telecommunications	-	45,065	-	45,065	48,696
Internet/ISP	-	13,261	-	13,261	12,524
Equipment rent and maintenance	-	6,625	-	6,625	7,050
Reimbursement activity expense	28,148	-	-	28,148	162,908
Sponsorships	36,000	-	-	36,000	45,550
Printing, book	124,023	7,409	1,048	132,480	-
Postage, book	75,328	2,316	1,879	79,523	-
Depreciation	-	52,027	-	52,027	56,658
Total	\$ 4,879,821	\$ 850,139	\$ 558,603	\$ 6,288,563	\$ 6,041,042

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, 2016
(With Comparative Totals for 2015)

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ (399,053)	\$ 3,694,350
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	52,027	56,658
(Increase) decrease in:		
Accounts receivable	(22,868)	21,560
Prepaid expense	(17,011)	1,911
Unconditional promises to give (net)	789,425	(2,159,539)
Increase (decrease) in:		
Accounts payable	(3,460)	119
Awards payable	364,247	354,377
Net cash provided by (used for) operating activities	\$ 763,307	\$ 1,969,436
Cash flows from investing activities:		
Purchase of equipment	\$ (56,637)	\$ (23,606)
Proceeds from sale of other assets	-	11,881
Net cash provided by (used for) investing activities	\$ (56,637)	\$ (11,725)
Net increase (decrease) in cash and cash equivalents	\$ 706,670	\$ 1,957,711
Cash and cash equivalents, beginning of year (includes restricted cash amounts of \$2,274,141)	8,318,803	6,361,092
Cash and cash equivalents, end of year (includes restricted cash amounts of \$2,086,188)	\$ 9,025,473	\$ 8,318,803

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

FOCUSED ULTRASOUND FOUNDATION

Notes to Financial Statements As of December 31, 2016

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, 2016 the Foundation had unrestricted net assets of \$9,680,454.

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, 2016 the Foundation had temporarily restricted net assets of \$2,367,907.

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, 2016, 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, 2016 (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, 2016 and 2015, 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, 2016, includes \$8,624,455 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, 2016 (Continued)

NOTE 3 - INVESTMENT RETURN:

As of December 31, 2016, the Foundation had no investments.

Investments were sold during the year ended December 31, 2016. The following schedule summarizes the investment return and its classification in the statement of activities for the year ended December 31, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest and dividends	\$ 63,154	\$ -	\$ 63,154
Realized gains/(losses)	(8,092)	-	(8,092)
Total investment return	<u>\$ 55,062</u>	<u>\$ -</u>	<u>\$ 55,062</u>

NOTE 4 - PROMISES TO GIVE:

Unconditional promises to give consists of the following:

Unrestricted promises	\$ 4,643,987
Restricted to research and fellowship programs	<u>301,000</u>
Gross unconditional promises to give	\$ 4,944,987
Less: Unamortized discount	<u>(492,783)</u>
Net unconditional promises to give	<u>\$ 4,452,204</u>
Amount due in:	
Less than one year	\$ 4,044,988
One to five years	<u>1,300,000</u>
Gross unconditional promises to give	<u>\$ 5,344,988</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, 2016 (Continued)

NOTE 5 - CONDITIONAL PROMISES TO GIVE:

The Foundation has conditional promises to give of \$302,516 at December 31, 2016, 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 December 31, 2016</u>
Insightec	\$ 242,211
BIRD Foundation	<u>60,305</u>
Total conditional promises to give	<u><u>\$ 302,516</u></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 \$105,548.

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 two years are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2017	\$ 110,134
2018	115,640
2019	121,424
2020	<u>41,128</u>
Total	<u><u>\$ 388,326</u></u>

NOTE 7 - PROPERTY AND EQUIPMENT:

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

Equipment	\$ 264,252
Leasehold improvements	9,115
Less accumulated depreciation	<u>(210,057)</u>
Total	<u><u>\$ 63,310</u></u>

Depreciation expense for the year ended December 31, 2016 totaled \$52,027, all of which was allocated as a management and general expense.

FOCUSED ULTRASOUND FOUNDATION

Notes to Financial Statements
As of December 31, 2016 (Continued)

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS:

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

Research and fellowship programs	\$ <u>2,367,907</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>944,187</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, 2016 in the amount of \$1,017,950. 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, 2016, the Foundation received cash contributions from members of its Board of Directors and their family members in the total amount of \$2,100,000.

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 - SUBSEQUENT EVENTS:

In preparing the financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through July 3, 2017, the date that the financial statements were available to be issued.