Focused Ultrasound Foundation

Financial Report
December 31, 2019

Contents

Independent Auditor's Report

Board of Directors
Focused Ultrasound Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of Focused Ultrasound Foundation (the Foundation), which comprise the statement of financial position as of December 31, 2019, 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.

Auditor's 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 auditor's 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 the Focused Ultrasound Foundation as of December 31, 2019, 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.

RSM US LLP is the U.S. member firm of RSM International, a global network of independent audit, tax, and consulting firms. Visit rsmus.com/aboutus for more information regarding RSM US LLP and RSM International.

Report on Summarized Comparative Information
The financial statements of the Foundation as of and for the year ended December 31, 2018, were audited by other auditors whose report dated May 3, 2019, expressed an unmodified opinion on those financial statements. The summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material aspects, with the audited financial statements from which it has been derived.

RSM US LLP

McLean, Virginia
May 28, 2020

Focused Ultrasound Foundation

Statement of Financial Position
December 31, 2019
(With Comparative Totals for 2018)

	2019	2018
Assets		
Cash and cash equivalents	**$ 17,653,451**	$ 17,308,613
Investments – SAFE (Note 2)	**392,633**	356,789
Accounts receivable	**44,288**	23,572
Promises to give, net (Note 3)	**5,632,609**	5,414,455
Prepaid expenses	**48,132**	51,924
Property and equipment, net (Note 7)	**320,565**	199,945
Total assets	**$ 24,091,678**	$ 23,355,298
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	**$ 198,446**	$ 106,669
Awards payable	**1,477,485**	1,415,588
Total liabilities	**1,675,931**	1,522,257
Commitments (Notes 6 and 10)		
Net assets:		
Net assets without donor restrictions	**17,874,982**	20,408,001
Net assets with donor restrictions	**4,540,765**	1,425,040
Total net assets	**22,415,747**	21,833,041
Total liabilities and net assets	**$ 24,091,678**	$ 23,355,298

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

Focused Ultrasound Foundation

Statement of Activities
Year Ended December 31, 2019
(With Comparative Totals for 2018)

	2019			
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	2018 Total
Revenue and support:				
Contributions	**$ 5,870,854**	**$ 4,113,044**	**$ 9,983,898**	$ 16,590,561
Symposium fees	**5,800**	**-**	**5,800**	319,248
Miscellaneous	**36,467**	**-**	**36,467**	46,188
Interest income	**202,716**	**-**	**202,716**	100,996
Net assets released from restrictions	**997,319**	**(997,319)**	**-**	-
Total revenue and support	**7,113,156**	**3,115,725**	**10,228,881**	17,056,993
Expenses:				
Program services:				
Research and collaboration	**6,988,573**	**-**	**6,988,573**	5,788,147
Supporting services:				
Management and general	**1,414,327**	**-**	**1,414,327**	1,184,388
Fundraising	**1,243,275**	**-**	**1,243,275**	876,015
Total expenses	**9,646,175**	**-**	**9,646,175**	7,848,550
Increase (decrease) in net assets	**(2,533,019)**	**3,115,725**	**582,706**	9,208,443
Net assets, beginning of year	**20,408,001**	**1,425,040**	**21,833,041**	12,624,598
Net assets, end of year	**$ 17,874,982**	**$ 4,540,765**	**$ 22,415,747**	$ 21,833,041

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

Focused Ultrasound Foundation

Statement of Functional Expenses
Year Ended December 31, 2019
(With Comparative Totals for 2018)

	2019				2018
	Program Services	Support Services			
	Research and Collaboration	Management and General	Fundraising	Total	Total
Program awards	$ 2,527,182	$ -	$ -	$ 2,527,182	$ 1,963,729
Salaries and wages	2,378,672	742,703	812,624	3,933,999	3,109,674
Payroll taxes and fringe benefits	433,823	142,209	149,546	725,578	566,769
Contract labor	323,117	49,025	44,930	417,072	277,067
Professional services	140,646	222,749	951	364,346	488,971
IT Support	199,224	104,752	6,738	310,714	147,840
Occupancy	111,865	34,928	38,216	185,009	124,836
Grant related travel and entertainment	166,638	190	10,402	177,230	112,570
Conference and meetings	95,993	7,859	56,336	160,188	387,194
Travel and meals	73,673	1,954	61,937	137,564	139,655
Honorarium	125,000	-	-	125,000	54,500
Office and other expenses	44,681	50,167	14,854	109,702	125,392
Collaboration dues	108,500	-	-	108,500	75,000
Depreciation expense	52,997	16,548	18,106	87,651	47,505
Sponsorships	69,823	-	-	69,823	35,500
Internet and telecommunications	40,724	12,715	13,912	67,351	58,892
Project supplies	38,893	15,680	664	55,237	66,386
Insurance	33,185	10,361	11,337	54,883	47,202
Public relations	15,971	-	-	15,971	2,555
Bank fees	7,966	2,487	2,722	13,175	17,313
	$ 6,988,573	$ 1,414,327	$ 1,243,275	$ 9,646,175	$ 7,848,550

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

Focused Ultrasound Foundation

Statement of Cash Flows
Year Ended December 31, 2019
(With Comparative Totals for 2018)

	2019	2018
Cash flows from operating activities:		
Change in net assets	**$ 582,706**	$ 9,208,443
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	**87,651**	47,505
(Increase) decrease in:		
Accounts receivable	**(20,716)**	278,580
Prepaid expense	**3,792**	63,828
Promises to give, net	**(218,154)**	332,588
Increase (decrease) in:		
Accounts payable and accrued expenses	**91,777**	(29,147)
Awards payable	**61,897**	(17,729)
Net cash provided by (used for) operating activities	**588,953**	9,884,068
Cash flows from investing activities:		
Purchase of property and equipment	**(208,271)**	(157,389)
Purchase of investments	**(35,844)**	(132,670)
Net cash provided by (used for) investing activities	**(244,115)**	(290,059)
Net increase (decrease) in cash and cash equivalents	**344,838**	9,594,009
Cash and cash equivalents:		
Beginning of year	**17,308,613**	7,714,604
Ending of year	**$ 17,653,451**	$ 17,308,613

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

Note 1. Nature of Activities and 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. The Foundation plans to achieve these goals by organizing and funding research, fostering collaboration, building awareness and cultivating the next generation.

A summary of the Foundation's significant accounting policies follows:

Basis of accounting: The accompanying financial statements are presented with the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation: The Foundation's financial statement presentation follows the recommendations under the Not-for-Profit Entities Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). Under the ASC, the Foundation is required to report information regarding its financial position and activities according to two classes of net assets: with donor restrictions and without donor restrictions.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed stipulations.

Net assets with donor restrictions: Net assets that are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled or both.

Use of estimates: The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Cash and cash equivalents: The Foundation consider all highly-liquid investments with initial maturities of three months or less to be cash equivalents.

Financial risk: The Foundation maintains their cash in bank deposit accounts which, at times, may exceed federally-insured limits. The Foundation has not experienced any losses in such accounts and believe they are not exposed to any significant risk on cash and cash equivalents.

Investments: In accordance with the FASB ASC 825, investments without readily determinable fair value are recorded at cost and adjusted for impairment each year, if any.

Accounts receivable: Receivables are carried at original invoice amounts, less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using the historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Based on management's evaluation of the collectability of accounts receivable, the Foundation considered accounts receivable to be fully collectible. There was no allowance for doubtful accounts recorded for the year ended December 31, 2019.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Promises to give: Unconditional promises to give are recognized as support in the period that the Foundation is notified of the contribution by the donor and acknowledged and identified by the donor. Unconditional promises to give are initially recorded at fair value, less an estimate made for doubtful promises based on a review of all outstanding promises on a monthly basis. Promises to give to be collected after one year are discounted at an appropriate discount rate commensurate with the risks involved. Management determines the allowance for doubtful promises by using the historical experience applied to an aging of promises. Promises are written off when deemed uncollectible. Based on management's evaluation of the collection of the promise to give, there was no provision for doubtful accounts at December 31, 2019.

Property and equipment: Property and equipment are stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, generally three years. Leasehold improvements are amortized of the shorter of the lease term or the estimated useful life of the improvement. The cost of maintenance and repairs is recorded as expenses are incurred. The Foundation's policy is to capitalize all property and equipment over $500.

Awards payable: Consists 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, 2019, in the amount of $2,519,809. These conditional awards are not recorded in the financial statements because the conditions necessary to make them due and payable have not yet occurred.

Contributions: Unconditional contributions are recognized as support when the promise is received. All donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the 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 on the statement of activities as net assets released from restrictions. Restrictions that are met by the Foundation in the year in which they were received are recognized as unrestricted support.

Donated services: The Foundation receives a substantial amount of services donated by its members in carrying out its mission. The Foundation generally pays for services requiring specific expertise. During the year ended December 31, 2019, the Foundation received donated legal services for $134,493, which is included in statement of activities.

Functional allocation of expenses: The costs of providing the various programs and other activities are summarized on a functional basis in the statement of activities. Expenses that can be identified with a specific program or support service are charged directly according to their natural expenditure classification. Payroll and related expenses are allocated based on level of efforts. Depreciation, insurance, bank fees, occupancy and internet and communications expenses are allocated based on payroll and related expenses.

Income taxes: The Internal Revenue Service has determined that the Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) except for taxes on unrelated business income. For the year ended December 31, 2019, the Foundation had no unrelated business income. The Foundation is not classified as a private foundation under Section 509(a)(1) of the IRC.

Management has evaluated the Foundation's tax positions and has concluded that the Foundation has taken no uncertain tax positions that require adjustment to the financial statements.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Prior year information: The financial statements include certain prior year summarized comparative information in total but not by net asset class or function. Such information does not include sufficient details to constitute a presentation in conformity with generally accepted accounting principles in the Unites States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2018, from which the summarized information was derived.

Adopted accounting pronouncements: In June 2018, the FASB issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The ASU has different effective dates for resource recipients and resource providers. Where the Foundation is the resource recipient, the ASU is applicable to contributions received for annual periods beginning after December 15, 2018. Where the Foundation is a resource provider, the ASU is effective for annual periods beginning after December 15, 2019. The Foundation adopted the resource recipient provisions of the ASU using the modified prospective method. This adoption had no significant impact to the Foundation.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, with further clarifications made in February 2018 with the issuance of ASU 2018-03, *Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This guidance changes how entities account for equity investments that do not result in consolidation and are not accounted for under the equity method of accounting. Entities will be required to measure these investments at fair value at the end of each reporting period and recognize changes in fair value in net income. A practicability exception will be available for equity investments that do not have readily determinable fair values; however, the exception requires the Foundation to adjust the carrying amount for impairment and observable price changes in orderly transactions for the identical or a similar investment of the same issuer. ASU 2016-01 is effective for the Foundation for fiscal years beginning after December 15, 2018. The impact of this guidance on future periods is dependent on future market conditions and investment activity. The Foundation adopted these provision during the year ended December 31, 2019, and applied them to their Simple Agreement for Future Equity (SAFE) investments (see Note 2) with no impact to reported amounts utilizing the practical expedient.

Upcoming accounting pronouncement: In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2020. A modified retrospective transition approach is required for lessees for capital and operating leases existing at or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Management is evaluating the impact of adoption, if any, to the financial statements.

Note 2. Simple Agreement for Future Equity Investments

The Foundation has SAFE agreements with Artenga Inc., FUSMobile Inc. and VeinSound, SAS in the amounts of $116,993, $107,126 and $168,514, respectively, at December 31, 2019. 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.

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 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.

In lieu of the issuance of stock to the investor pursuant to any of the triggering events, on or before the date of the equity financing, the company may pay to the Foundation an amount equal to two times the purchase amount (Opt-Out Payment). This clause was included in the Artenga Inc. SAFE and VeinSound, SAS SAFE. The FUSMobile, Inc. SAFE had an Opt-Out Payment of one and half times the purchase amount.

As of December 31, 2019, no SAFE agreements were converted into equity, nor have any terminated, expired or became impaired, based on the terms of the agreements.

Note 3. Promises to Give

Promises to give to be collected in more than one year from the date of the donor's commitment are measured using the present value of future cash flows based on a discount rate of the applicable Treasury bill rate on the date of the pledge, plus 1.5%. Promises to give at December 31, 2019, consists of the following:

Less than one year	$	190,600
One to five years		5,962,933
		6,153,533
Less discount to net present value		(520,924)
	$	5,632,609

During the year ended December 31, 2019, the Foundation received a conditional contribution from a donor for $6 million to be matched dollar-for-dollar with other pledges raised each year up to $2 million per year. At December 31, 2019, the Foundation has satisfied the condition for 2019 and $2 million was recognized in the statement of activities.

Note 4. 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, 2019, the Foundation recognized no royalty receivable, as the amount to be paid has yet to be determined.

Note 5. 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. There were no balance outstanding on the line of credit at December 31, 2019.

Note 6. Operating Leases

The Foundation has a lease for office in Charlottesville, Virginia, that commenced on May 1, 2017. Under the terms of the agreement, the Foundation will lease 6,800 square feet with the monthly rental rate of $9,326 with 5% annual rate escalation. On April 20, 2018, the Foundation signed a lease amendment for the use of an additional 2,500 square feet of office space commencing on July 1, 2018, with additional monthly rental rate of $4,598 with 5% annual rate escalation.

On April 20, 2020, the Foundation renewed the term of the lease for an additional 3 years ending on April 30, 2023, with monthly rental rate escalation of 3%.

Future minimum rental payments are as follows:

Years ending December 31:		
2020	$	184,946
2021		190,494
2022		196,208
2023		66,044
	$	637,692

Note 6. Operating Leases (Continued)

Rent expense for the year ended December 31, 2019, was $185,010.

Note 7. Property and Equipment

Property and equipment and accumulated depreciation at December 31, 2019, consist of the following:

Equipment	$	535,656
Leasehold improvements		149,169
Less accumulated depreciation		(364,260)
	$	320,565

Depreciation expense for the year ended December 31, 2019, was $87,651.

Note 8. Net Assets With Donor Restrictions

Changes in net assets with donor restrictions during the year ended December 31, 2019, are as follows:

	December 31, 2018	Additions	Released	December 31, 2019
Time and purpose restricted:				
Research	$ 1,425,040	$ 4,113,044	$ 997,319	$ 4,540,765

Note 9. Related Party Transactions

During the fiscal year ended December 31, 2019, the Foundation received cash contributions from members of its Board of Directors and their family members in the total amount of $1,601,000.

Note 10. Retirement Plans

The Foundation's employees are eligible after 3 months of employment to participate in the Foundation's 401(k) retirement plan (the Plan) in which employees may make voluntary, tax-deferred contributions within specified limits. The Foundation matches employee contributions dollar-for-dollar up to a maximum allowed, which is 3% of employee's annual salary. The Foundation recorded contributions to the Plan of $96,159 for the year ended December 31, 2019.

Note 11. Liquidity and Availability

The Foundation regularly monitors liquidity of financial assets required to meet its annual operating needs and other contractual commitments while also striving to maximize the return on investment of its funds not required for annual operations. As of December 31, 2019, the following financial assets are available to meet annual operating needs for the next fiscal year:

Financial assets at year-end:	
Cash and cash equivalents	$ 17,653,451
Accounts receivable	44,288
Promises to give, net	5,632,609
Total financial assets	23,330,348
Less amounts not available to be used within one year:	
Net assets with donor restrictions	4,540,765
Less promises to give due in next 12 months	(2,048,933)
	2,491,832
Financial assets available to meet general expenditures over the next 12 months	$ 20,838,516

Note 12. Subsequent Events

The Foundation has evaluated its December 31, 2019, financial statements for subsequent events through May 28, 2020, the date the financial statements were available to be issued.

Subsequent to the Coronavirus (COVID-19) outbreak in 2020 in the United States, there has been substantial volatility in financial markets and the economy. The COVID-19 and actions to mitigate it have had and are expected to continue to have an adverse impact on the economy. The impact of COVID-19 could negatively impact the Foundation's activities. Management is continually monitoring the impact of COVID-19 and will adjust activities should there be a significant impact on the economy.