

Focused Ultrasound Foundation

Financial Report
December 31, 2022

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Independent Auditor's Report

Board of Directors
Focused Ultrasound Foundation

Opinion

We have audited the financial statements of Focused Ultrasound Foundation (collectively, the Foundation), which comprise the statement of financial position as of December 31, 2022, the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements,

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Focused Ultrasound Foundation as of December 31, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the Foundation's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 20, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

RSM US LLP

McLean, Virginia
July 20, 2023

Focused Ultrasound Foundation

Statement of Financial Position

December 31, 2022

(With Comparative Totals for 2021)

	2022	2021
Assets		
Cash and cash equivalents	\$ 15,587,899	\$ 14,694,406
Investments	13,165,081	13,038,417
Accounts receivable	69,905	86,096
Promises to give, net	12,969,780	15,490,196
Prepaid expenses	95,403	86,104
Property and equipment, net	252,737	212,336
Right-of-use operating lease assets, net	655,584	-
Investments—SAFE	475,833	463,833
Total assets	\$ 43,272,222	\$ 44,071,388
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 204,207	\$ 119,896
Awards payable	375,698	567,587
Refundable advance	-	89,243
Operating lease liabilities, net	681,280	-
Total liabilities	1,261,185	776,726
Net assets:		
Net assets without donor restrictions	22,186,285	24,815,283
Net assets with donor restrictions	19,824,752	18,479,379
Total net assets	42,011,037	43,294,662
Total liabilities and net assets	\$ 43,272,222	\$ 44,071,388

See notes to financial statements.

Focused Ultrasound Foundation

Statement of Activities

Year Ended December 31, 2022

(With Comparative Totals for 2021)

	2022			2021
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenue and support:				
Contributions	\$ 2,541,181	\$ 8,435,450	\$ 10,976,631	\$ 8,282,574
Contributions of nonfinancial assets	320,137	-	320,137	240,787
Symposium fees	317,122	-	317,122	-
Miscellaneous	31,132	-	31,132	44,679
Investment (loss) income, net	(2,781)	-	(2,781)	56,055
Net assets released from restrictions	7,090,077	(7,090,077)	-	-
Total revenue and support	10,296,868	1,345,373	11,642,241	8,624,095
Expenses:				
Program services:				
Research and collaboration	10,064,954	-	10,064,954	7,243,582
Supporting services:				
Management and general	1,696,050	-	1,696,050	1,527,643
Fundraising	1,164,862	-	1,164,862	1,132,484
Total expenses	12,925,866	-	12,925,866	9,903,709
Change in net assets	(2,628,998)	1,345,373	(1,283,625)	(1,279,614)
Net assets:				
Beginning	24,815,283	18,479,379	43,294,662	44,574,276
Ending	<u>\$ 22,186,285</u>	<u>\$ 19,824,752</u>	<u>\$ 42,011,037</u>	<u>\$ 43,294,662</u>

See notes to financial statements.

Focused Ultrasound Foundation

Statement of Functional Expenses Year Ended December 31, 2022 (With Comparative Totals for 2021)

	2022				
	Program Services	Support Services			
	Research and Collaboration	Management and General	Fundraising	Total	2021 Total
Salaries and wages	\$ 3,619,469	\$ 857,934	\$ 847,610	\$ 5,325,013	\$ 4,818,184
Program awards	2,787,678	-	-	2,787,678	1,834,996
Professional services	785,888	217,925	3,531	1,007,344	724,254
Payroll taxes and fringe benefits	644,554	139,461	149,674	933,689	866,781
Contract labor	544,059	99,669	25,261	668,989	697,815
IT support	332,899	185,678	14,531	533,108	222,196
Office and other	289,896	52,861	23,911	366,668	97,051
Conference and meetings	246,857	28,834	22,307	297,998	25,913
Travel and meals	212,468	2,343	12,063	226,874	19,127
Occupancy	134,434	52,430	31,482	218,346	207,307
Collaboration dues	118,500	-	-	118,500	108,500
Insurance	53,862	12,767	12,613	79,242	57,530
Sponsorships	68,011	1,477	-	69,488	14,087
Grant related travel and entertainment	60,647	436	1,464	62,547	2,810
Project supplies	29,996	23,579	1,626	55,201	13,849
Internet and telecommunications	35,108	8,322	8,222	51,652	50,774
Depreciation	33,092	7,844	7,749	48,685	64,238
Honorarium	45,000	-	-	45,000	65,000
Bank fees	12,034	2,852	2,818	17,704	9,137
Public relations	10,502	1,638	-	12,140	4,160
	\$ 10,064,954	\$ 1,696,050	\$ 1,164,862	\$ 12,925,866	\$ 9,903,709

See notes to financial statements.

Focused Ultrasound Foundation

Statement of Cash Flows

Year Ended December 31, 2022

(With Comparative Totals for 2021)

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ (1,283,625)	\$ (1,279,614)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	48,685	64,238
Amortization of right-of-use operating lease asset	221,904	-
Donated securities held at year end	-	(187,009)
Increase (decrease) in discount on promises to give	290,282	(409,377)
Realized and unrealized loss on investments	371,576	502,998
Decrease (increase) in:		
Accounts receivable	16,191	73,663
Prepaid expense	(9,299)	(51,439)
Promises to give, net	2,230,134	7,417,917
(Decrease) increase in:		
Accounts payable and accrued expenses	84,311	(30,073)
Awards payable	(191,889)	(388,372)
Refundable advance	(89,243)	(596,557)
Principal payments on operating lease liabilities	(196,208)	-
Net cash provided by operating activities	1,492,819	5,116,375
Cash flows from investing activities:		
Purchase of property and equipment	(89,086)	(14,183)
Sale of investments	16,446,857	10,583,382
Purchase of investments	(16,957,097)	(13,951,442)
Net cash used in investing activities	(599,326)	(3,382,243)
Net increase in cash and cash equivalents	893,493	1,734,132
Cash and cash equivalents:		
Beginning	14,694,406	12,960,274
Ending	<u>\$ 15,587,899</u>	<u>\$ 14,694,406</u>
Supplemental schedules of noncash investing activity:		
Donated securities not immediately liquidated upon receipt	<u>\$ -</u>	<u>\$ 187,009</u>
Donated securities immediately liquidated upon receipt	<u>\$ 1,358,049</u>	<u>\$ 5,110,013</u>
Supplemental disclosure of cash flow information:		
Right-of-use assets recorded at ASC 842 adoption	<u>\$ 877,488</u>	<u>\$ -</u>

See notes to financial statements.

Focused Ultrasound Foundation

Notes to Financial Statements

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.

The Foundation has established international affiliates, Focused Ultrasound Hong Kong Limited and UK Focused Ultrasound Foundation, both formed in August 2020. The affiliates have separate boards and management and are, therefore, not consolidated. There is a memorandum of understanding with Focused Ultrasound Hong Kong Limited for the Foundation to provide some services for project support, communications, fundraising, legal and financial matters. Both affiliates have had limited activity since inception.

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

Adopted accounting pronouncements: In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 statement of financial position for all leases with terms longer than 12 months. The Foundation adopted this ASU on a modified retrospective basis, which resulted in a right-of-use asset and lease liability being recorded on the statement of financial position during the year ended December 31, 2022 (see Note 8).

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958), Presentation and disclosures by Not-For-Profit entities for Contributed Nonfinancial Assets*. ASU 2020-07 is applicable to nonprofit entities that receive contributions of nonfinancial assets. The Foundation adopted this ASU on a retrospective basis during the year ended December 31, 2022, which resulted in a new revenue stream on the statement of activities and additional disclosures (see Note 10).

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.

Cash and cash equivalents: The Foundation considers 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 believes they are not exposed to any significant risk on cash and cash equivalents.

Focused Ultrasound Foundation

Notes to Financial Statements

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

The Foundation invests in a portfolio that contains securities which are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near-term could materially affect investment balances and the amounts reported in the financial statements.

Investments: All investments in securities with readily determinable fair values are reflected at fair value. Realized and unrealized gains and losses on investments are reported in the statement of activities as part of investment (loss) income, net.

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, 2022.

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 uncollectible accounts at December 31, 2022. Payments of \$1,510,000 were received from Board and Council members in 2022.

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 over 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.

Valuation of long-lived assets: Property and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the estimated fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell.

Focused Ultrasound Foundation

Notes to Financial Statements

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

Leases: In February 2016, the FASB issued ASC Topic 842, Leases, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their statement of financial position as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, Leases) and operating leases, with classification affecting the pattern of expense recognition in the statement of activities. The Foundation adopted Topic 842 on January 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior-period financial statements. Under this transition provision, the Foundation has applied Topic 842 to reporting periods beginning on January 1, 2022, while prior periods continue to be reported and disclosed in accordance with the Foundation's historical accounting treatment under ASC Topic 840, Leases.

The Foundation elected the "package of practical expedients" under the transition guidance within Topic 842, in which the Foundation does not reassess (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases, or (3) the initial direct costs for any existing leases. The Foundation has not elected to adopt the "hindsight" practical expedient and, therefore, will measure the ROU asset and lease liability using the remaining portion of the lease term upon adoption of ASC 842 on January 1, 2022.

The Foundation determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the Foundation obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Foundation also considers whether its service arrangements include the right to control the use of an asset.

The Foundation made an accounting policy election available under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the adoption of Topic 842. The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date, and are reduced by any lease incentives. To determine the present value of lease payments, the Foundation made an accounting policy election available to non-public companies to utilize a risk-free borrowing rate, which is aligned with the lease term upon the adoption of Topic 842.

Future lease payments may include fixed rent escalation clauses. Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probable they will be incurred.

The Foundation has made an accounting policy election to account for lease and non-lease components in its contracts as a single lease component for its real estate class. The non-lease components typically represent additional services transferred to the Foundation, such as common area maintenance for real estate, which are variable in nature and recorded in variable lease expense in the period incurred.

Focused Ultrasound Foundation

Notes to Financial Statements

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

Adoption of Topic 842 resulted in the recording of additional ROU assets and lease liabilities related to the Foundation's operating lease of approximately \$867,011 at January 1, 2022. The adoption of the new lease standard did not materially impact net assets or cash flows, and did not result in a cumulative-effect adjustment to the opening balance of net assets.

Awards payable: Awards payable consists of amounts awarded, but not paid, to program participants that have met the conditions of the awards. In addition, the Foundation has awarded conditional awards as of December 31, 2022, in the amount of \$3,117,462. These conditional awards are not recorded in the financial statements because the conditions necessary to make them due and payable have not yet occurred.

Refundable advance: Represents cash received from contributors or grantors for which some or all of the agreement conditions were not yet met. Conditions primarily include completion of project tasks and related expenditures, as well as the right of return of funds transferred if all terms are not met. Conditional contributions are recognized when the conditions on which they depend on are substantially met.

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. The amount contributed by Board and Council members in 2022 totaled \$392,601.

Revenue recognition: The Foundation earns revenues from registration fees for their International Symposium on Focused Ultrasound. Registration fees are recognized as revenue in the period the related symposium is held, recognized at a point in time. There are no rights of return or refunds for symposium fees. Payments on contracts with customers are typically due upon receipt of the invoice by the customer. The Foundation did not have any impairment or credit losses on any receivables or contract assets arising from contracts with customers. There are also no incremental costs of obtaining a contract and no significant financing components. Finally, there are no significant changes in judgments affecting the determination of the amount and timing of revenue from contracts with customers. The level of revenue generated through contracts with customers can fluctuate due to certain economic factors, specifically those within the medical industry.

Contributions of nonfinancial assets: The nonfinancial assets are recorded as contributions at the fair value at the date of donation. The services are not monetized and used in the normal course of business as provided.

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.

Focused Ultrasound Foundation

Notes to Financial Statements

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

Income taxes: The Foundation is organized as a Commonwealth of Virginia nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under IRS Section 501(a) as an organization described in IRS Section 501(c)(3). The Foundation qualifies for the charitable contribution deduction under Internal Revenue Code Sections 170(b)(1)(A)(vi) and (viii) and has been determined not to be a private foundation under IRS Sections 509(a)(1) and (3). The Foundation is required to annually file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Foundation is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purpose. The Foundation did not incur any unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

Use of estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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 United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2021, from which the summarized information was derived.

Reclassifications: Certain items in the December 31, 2021, summarized comparative information have been reclassified to conform to the December 31, 2022, financial statement presentation. The reclassifications had no effect on the previously reported change in net assets or net assets.

Subsequent events: The Foundation has evaluated subsequent events through July 20, 2023, the date on which the financial statements were available to be issued.

Note 2. Simple Agreement for Future Equity Investments

The Foundation has Simple Agreement for Future Equity (SAFE) agreements with Artenga Inc., VeinSound, SAS and Advanced Microbubbles Inc. in the amounts of \$116,993, \$168,514 and \$12,000, respectively, at December 31, 2022. 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 standard 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

Note 2. Simple Agreement for Future Equity Investments (Continued)

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 standard preferred stock equal to the purchase amount, divided by the SAFE price, if the pre-money valuation is greater than the valuation cap.

The agreement with Advanced Microbubbles, Inc. is subject to a valuation cap of \$10,000,000. Per the terms of the SAFE agreement entered into with Advanced Microbubbles, 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 standard 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., VeinSound, SAS and Advanced Microbubbles Inc., in a dissolution event, the Foundation will be paid out of remaining assets prior to the holders of 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, VeinSound, SAS SAFE and Advanced Microbubbles Inc. SAFE.

FUSMobile, Inc. SAFE and NaviFUS Corporation SAFE have been converted to preferred stock equity totaling \$178,326. There were no SAFE agreements that were converted into equity, nor have any terminated, expired or became impaired, based on the terms of the agreements during the year ended December 31, 2022.

Note 3. Investments and Fair Value Measurements

The Fair Value Measurement Topic of the FASB ASC defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability.

Focused Ultrasound Foundation

Notes to Financial Statements

Note 3. Investments and Fair Value Measurements (Continued)

The three levels of the fair value hierarchy are described below:

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

Level 2: Observable market-based inputs or unobservable input corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, the Foundation performs a detailed analysis of the assets and liabilities that are subject to the accounting standard. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. There were no Level 3 assets or liabilities held by the Foundation at December 31, 2022.

The table which follows presents the balances of assets measured at fair value on a recurring basis by level within the hierarchy at December 31, 2022:

	Total	Level 1	Level 2
Certificate of deposit	\$ 5,025,021	\$ -	\$ 5,025,021
U.S. Treasury bills	2,437,891	-	2,437,891
Exchange-traded funds	5,501,395	5,501,395	-
Corporate bonds	200,774	-	200,774
	<u>\$ 13,165,081</u>	<u>\$ 5,501,395</u>	<u>\$ 7,663,686</u>

Exchange-traded funds are actively traded for identical assets and are considered Level 1 investments. Corporate bonds, U.S. Treasury bills and certificates of deposit are included in Level 2 assets as identical assets and are not actively traded. The fair values are based on quoted prices for similar assets in active markets or quoted prices for identical assets in markets that are not active.

Investment loss for the year ended December 31, 2022, consists of following:

Interest and dividends	\$ 368,795
Realized and unrealized loss	(371,576)
	<u>\$ (2,781)</u>

Note 4. 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 promise, plus 1.5%. Promises to give at December 31, 2022, consists of the following:

Less than one year	\$ 6,195,024
One to five years	7,210,000
	<u>13,405,024</u>
Less discount to net present value	(435,244)
	<u>\$ 12,969,780</u>

Focused Ultrasound Foundation

Notes to Financial Statements

Note 5. Property and Equipment

Property and equipment and accumulated depreciation at December 31, 2022, consists of the following:

Equipment	\$ 628,475
Leasehold improvements	160,359
Less accumulated depreciation	(536,097)
	<u>\$ 252,737</u>

Depreciation expense for the year ended December 31, 2022, was \$48,685.

Note 6. Refundable Advance

During the year ended December 31, 2021, the Foundation received a conditional grant totaling \$400,000, of which \$100,000 was paid during the year. Approximately \$11,000 of the funds were spent and conditions met for recognition as revenue during 2021. The remaining \$89,243 was included as a refundable advance at December 31, 2021. During 2022, the conditions were met and the advance was recognized as revenue.

Note 7. Line of Credit

The Foundation established a \$250,000 line of credit with a bank on September 21, 2010. This line of credit is renewed annually and expired on November 1, 2022. There were no borrowings on the line during the year ended December 31, 2022. The line of credit was not renewed when it expired and, as a result, there was no balance outstanding on the line of credit at December 31, 2022.

Note 8. Lease

The Foundation has a lease for office space in Charlottesville, Virginia. Under the terms of the agreement signed in 2020, the Foundation leased 9,300 square feet at a monthly rental rate of \$15,563, with 3% annual rate escalation. The lease was set to expire on April 30, 2023, but was renewed in January 2023 for an additional three years. The new monthly rental rate as of January 2023 is \$17,006, with 3% annual escalation rate.

On January 1, 2022, the Foundation adopted ASU 2016-02, *Leases (Topic 842)*, resulting in a right of use asset and lease liability recorded on the statement of financial position as of December 31, 2022, for its office space. The Foundation determined the original lease is considered to be an operating lease under the provisions of ASU 2016-02. Operating lease cost is recognized on a straight-line basis over the lease term. The Foundation calculated the present value of the lease over the term of the respective lease, using the risk-free rate on the adoption date of ASC 842 based on the remaining lease term. The interest rate utilized as of January 2, 2022, was 1.37%. The remaining weighted average lease term as of December 31, 2022, is 3.33 years.

Focused Ultrasound Foundation

Notes to Financial Statements

Note 8. Lease (Continued)

Future undiscounted cash flows for the next five years and thereafter, and a reconciliation to the lease liabilities recognized on the balance sheet are as follows, as of December 31, 2022:

Years ending December 31:

2023	\$ 202,092
2024	208,160
2025	214,404
2026	72,146
Total minimum payments required	696,802
Less amounts representing interest	(15,522)
Present value of the minimum lease payment	<u>\$ 681,280</u>

Rent expense for the year ended December 31, 2022, was \$223,477.

The right-of-use lease asset consisted of the following at December 31, 2022:

Operating lease cost (including amortization of ROU assets of \$221,904 in 2022 and interest on lease liabilities of \$10,500 in 2022)	\$ 655,584
Total ROU operating lease asset	<u>\$ 655,584</u>

Note 9. Net Assets With Donor Restrictions

Net assets are subject to donor-imposed restrictions that will be met by the passage of time or other events specified by the donor. 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.

Changes in net assets with donor restrictions during the year ended December 31, 2022, are as follows:

	December 31, 2021	Additions	Released	December 31, 2022
Time and purpose restricted:				
Research	\$ 18,187,188	\$ 8,435,450	\$ 7,090,077	\$ 19,532,561
Training and scholarship	292,191	-	-	292,191
Total	<u>\$ 18,479,379</u>	<u>\$ 8,435,450</u>	<u>\$ 7,090,077</u>	<u>\$ 19,824,752</u>

Note 10. Contributions of Nonfinancial Services

The Foundation receives contributions of legal services toward the fulfillment of program objectives and general operations. The firm providing the services has significant technical experience in the industry, and is valued based on the number of hours incurred and the market billing rates of the donating firm.

The services are not monetized and used in the normal course of business as provided. There were no donor-imposed restrictions for the services received during the year ended December 31, 2022.

Focused Ultrasound Foundation

Notes to Financial Statements

Note 10. Contributions of Nonfinancial Assets (Continued)

The Foundation recognized total contributions of nonfinancial assets revenue of \$320,137, with a corresponding professional fees expense recorded during the year ended December 31, 2022.

Note 11. Retirement Plans

After three months of employment, the Foundation's employees are eligible 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 employees' annual salary. The Foundation recorded contributions to the Plan of \$141,168 for the year ended December 31, 2022.

Note 12. 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, 2022, 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	\$ 15,587,899
Investments	13,165,081
Accounts receivable	69,905
Promises to give, net	12,969,780
Total financial assets	<u>41,792,665</u>
Less amounts not available to be used within one year:	
Net assets with donor restrictions	(19,824,752)
Add: promises to give due in next 12 months	4,900,024
	<u>(14,924,728)</u>
Financial assets available to meet general expenditures over the next 12 months	<u><u>\$ 26,867,937</u></u>