

DISCOVERY EYE FOUNDATION

FINANCIAL STATEMENTS

DECEMBER 31, 2006

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Harrington Group

CERTIFIED PUBLIC ACCOUNTANTS, LLP

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Discovery Eye Foundation

We have audited the accompanying Statement of Financial Position of Discovery Eye Foundation (a nonprofit organization) as of December 31, 2006 and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from The Discovery Fund for Eye Research, Inc.'s December 31, 2005 financial statements and in our report dated March 22, 2006 we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Discovery Eye Foundation as of December 31, 2006 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Harrington Group

San Marino, California
March 8, 2007

DISCOVERY EYE FOUNDATION

STATEMENT OF FINANCIAL POSITION

December 31, 2006

With comparative totals at December 31, 2005

	Unrestricted	Temporarily Restricted	2006	2005
Assets				
Cash and cash equivalents (Note 2)	\$ 718,307	\$ -	\$ 718,307	\$ 560,165
Accounts receivable	3,792		3,792	346
Pledges receivable (Note 3)	194,426		194,426	258,038
Prepaid expenses	403,661		403,661	19,108
Investments (Note 4)	5,098,418	3,925,899	9,024,317	7,550,674
Property and equipment (Note 5)	159,973		159,973	53,381
Total assets	<u>\$ 6,578,577</u>	<u>\$ 3,925,899</u>	<u>\$ 10,504,476</u>	<u>\$ 8,441,712</u>
Liabilities and net assets				
Liabilities				
Accounts payable	\$ 9,038	\$ -	\$ 9,038	60,970
Accrued vacation	7,980		7,980	-
Total liabilities	<u>17,018</u>	<u>-</u>	<u>17,018</u>	<u>60,970</u>
Net assets				
Unrestricted (Note 2)	4,454,437		4,454,437	4,241,469
Unrestricted - board designated (Note 2)	2,107,122		2,107,122	2,107,122
Temporarily restricted (Note 6)		3,925,899	3,925,899	2,032,151
Total net assets	<u>6,561,559</u>	<u>3,925,899</u>	<u>10,487,458</u>	<u>8,380,742</u>
Total liabilities and net assets	<u>\$ 6,578,577</u>	<u>\$ 3,925,899</u>	<u>\$ 10,504,476</u>	<u>\$ 8,441,712</u>

The accompanying notes are an integral part of these financial statements.

DISCOVERY EYE FOUNDATION

STATEMENT OF ACTIVITIES

For the year ended December 31, 2006

With comparative totals for the year ended December 31, 2005

	Unrestricted	Temporarily Restricted	2006	2005
Revenue and support				
Contributions	\$ 323,808	\$ 2,766,126	\$ 3,089,934	\$ 672,867
Gain (loss) on investments	507,532	12,600	520,132	(51,446)
Interest and dividends	296,317	15,297	311,614	280,708
Amortization of discount on pledges	18,506	7,262	25,768	68,581
Miscellaneous income	3,461		3,461	4,343
Grant funds transfer from Cedar Sinai			-	3,442
Net assets released from program restrictions	907,537	(907,537)	-	-
Total revenue and support	<u>2,057,161</u>	<u>1,893,748</u>	<u>3,950,909</u>	<u>978,495</u>
Expenses				
Program services	1,164,762		1,164,762	1,235,863
Management and general	319,851		319,851	267,739
Fund development	359,580		359,580	298,195
Total expenses	<u>1,844,193</u>	<u>-</u>	<u>1,844,193</u>	<u>1,801,797</u>
Change in net assets	212,968	1,893,748	2,106,716	(823,302)
Net assets, beginning of year	<u>6,348,591</u>	<u>2,032,151</u>	<u>8,380,742</u>	<u>9,204,044</u>
Net assets, end of year	<u>\$ 6,561,559</u>	<u>\$ 3,925,899</u>	<u>\$ 10,487,458</u>	<u>\$ 8,380,742</u>

The accompanying notes are an integral part of these financial statements.

DISCOVERY EYE FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2006

With comparative totals for the year ended December 31, 2005

	Program Services		Total Program Services	Support Services		Total Expenses	
	Research	Education		Management and General	Fund Development	2006	2005
Salaries	\$ 510,780	\$ 84,461	\$ 595,241	\$ 33,531	\$ 166,666	\$ 795,438	\$ 925,599
Payroll taxes and benefits	107,620	27,267	134,887	3,388	58,768	197,043	215,868
Total personnel costs	618,400	111,728	730,128	36,919	225,434	992,481	1,141,467
Professional fees	77,922	25,093	103,015	76,680	22,561	202,256	182,765
Supplies	133,531	1,889	135,420	35,821	12,365	183,606	90,532
Grant expense	77,621	700	78,321	3,000		81,321	75,000
Educational materials	26,884	18,576	45,460	23,096	1,625	70,181	74,770
Rent	107		107	60,976		61,083	46,683
Printing and publications	10,681	165	10,846	142	39,004	49,992	29,518
Fundraising expense			-		44,683	44,683	21,974
Management fees	4,484	2,186	6,670	30,000	591	37,261	40,618
Depreciation	27,547	2,132	29,679	1,887	4,450	36,016	31,886
Meetings and conferences	13,640	338	13,978	7,054	849	21,881	28,759
Commission expense	48		48	15,135		15,183	-
Postage and delivery	5,597	57	5,654	7,676	197	13,527	5,000
Miscellaneous	197		197	4,753	4,233	9,183	14,878
Telephone	160	1,130	1,290	5,573	1,286	8,149	2,217
Insurance			-	5,785		5,785	3,861
Mileage and travel		1,218	1,218	3,272	855	5,345	1,339
Dues, memberships, and subscriptions	1,336	277	1,613	2,082	1,169	4,864	7,314
Repairs and maintenance	300	278	578		278	856	1,716
Recruiting		540	540			540	-
Honorariums			-			-	1,500
Total 2006 functional expenses	\$ 998,455	\$ 166,307	\$ 1,164,762	\$ 319,851	\$ 359,580	\$ 1,844,193	
Total 2005 functional expenses	\$ 1,050,082	\$ 185,781	\$ 1,235,863	\$ 267,739	\$ 298,195		\$ 1,801,797

The accompanying notes are an integral part of these financial statements.

DISCOVERY EYE FOUNDATION

STATEMENT OF CASH FLOWS

For the year ended December 31, 2006

With comparative totals for the year ended December 31, 2005

	2006	2005
Cash flows from operating activities:		
Change in net assets	\$ 2,106,716	\$ (823,302)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	36,016	31,886
Amortization of discount on pledges	(25,768)	(68,581)
(Gain) loss on investments	(520,132)	51,446
Reinvested interest income	(129,305)	(41,809)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(3,446)	44,403
Decrease in pledges receivable	89,380	1,151,467
(Increase) decrease in prepaid expenses	(384,553)	119,147
(Decrease) in accounts payable	(51,932)	(96,171)
Increase (decrease) in accrued vacation	7,980	(3,492)
Net cash provided by operating activities	1,124,956	364,994
Cash flows from investing activities:		
Purchase of investments	(1,898,644)	(589,142)
Proceeds from sale of investments	1,074,438	343,580
Purchase of property and equipment	(142,608)	(4,848)
Net cash (used) by investing activities	(966,814)	(250,410)
Net increase in cash and cash equivalents	158,142	114,584
Cash and cash equivalents, beginning of year	560,165	445,581
Cash and cash equivalents, end of year	\$ 718,307	\$ 560,165

The accompanying notes are an integral part of these financial statements.

DISCOVERY EYE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

1. Organization

Discovery Eye Foundation ("Discovery"), formerly known as The Discovery Fund for Eye Research, Inc., is a California nonprofit public benefit corporation organized for the purpose of promoting medical research and education in the field of eye diseases. Incorporated on August 31, 1988, Discovery was a "supporting organization" of the California Community Foundation, as that term is defined in section 509(a)(3) of the Internal Revenue Code (IRC) until September 1990, when its tax exempt status was changed to section 509(a)(1) and 170(b)(1)(a)(vi), giving Discovery fully independent charity status.

2. Summary of Significant Accounting Policies

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements is as follows:

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting.

Accounting

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of Discovery are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

Unrestricted. These generally result from revenue generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Unrestricted - Board Designated. These are comprised of resources that the Board of Directors has established as being designated for education and research grants. For purposes of complying with net asset accounting, this fund is included in unrestricted net assets at December 31, 2006.

Temporarily Restricted. Discovery reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the 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 program or capital restrictions.

continued

DISCOVERY EYE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Permanently Restricted. These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit Discovery to expend all of the income (or other economic benefits) derived from the donated assets. Discovery has no permanently restricted net assets at December 31, 2006.

Cash and Cash Equivalents

Discovery has defined cash and cash equivalents as cash in banks and certificates of deposits with an original maturity of three months or less.

Contributions and Pledges Receivable

Unconditional contributions, including pledges recorded at estimated net realizable value, are recognized as revenue in the period received. Discovery reports unconditional contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets.

Investments

Discovery values its investments at fair value. Unrealized gains or losses (including investments bought, sold, and held during the year) are reflected in the Statement of Activities as gain on investments. Short-term, highly liquid money market deposits that are not used for operations are treated as investments.

Concentration of Credit Risks

Discovery places its temporary cash investments with high-credit, quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit. Discovery has not incurred losses related to these investments.

Discovery holds investments in the form of annuities, certificates of deposit, mutual funds, and common stocks of publicly held companies. The Board of Directors routinely reviews market values of these investments.

Property and Equipment

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than or equal to five hundred dollars and the useful life is greater than one year.

continued

DISCOVERY EYE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Income Taxes

Discovery is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

Functional Allocation of Expenses

Costs of providing Discovery's programs and other activities have been presented in the Statement of Functional Expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. Discovery uses percentage of use estimates to allocate indirect costs.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented.

Comparative Totals

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Discovery's financial statements for the year ended December 31, 2005 from which the summarized information was derived.

3. Pledges Receivable

Pledges receivable are recorded as support when pledged unless designated otherwise. All pledges are valued at the estimated fair present value at December 31, 2006 and are deemed fully collectible; accordingly no allowance for uncollectible pledges has been recorded as of December 31, 2006. A discount rate of 5.0% has been used to calculate the present value of pledges receivable. Total amount of pledges receivable at December 31, 2006 of \$194,426 is expected to be collected as follows:

continued

DISCOVERY EYE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

3. Pledges Receivable, continued

Year ended December 31,

2007	\$155,000
2008	25,000
2009	10,000
2010	<u>10,000</u>
Pledges receivable, gross	200,000
Less: unamortized discount on pledges receivable	<u>(5,574)</u>
Pledges receivable, net	<u>\$194,426</u>

4. Investments

Investments at December 31, 2006 consist of the following:

Government fixed income funds	\$3,749,795
Stocks	3,249,987
Mutual funds	1,610,051
Certificates of deposit	208,661
Annuity	149,328
Money market funds	<u>56,495</u>
	<u>\$9,024,317</u>

5. Property and Equipment

Property and equipment at December 31, 2006 consist of the following:

Equipment	\$386,742
Furniture and fixtures	37,631
Leasehold improvements	<u>11,572</u>
	435,945
Less: accumulated depreciation	<u>(275,972)</u>
	<u>\$159,973</u>

continued

DISCOVERY EYE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

6. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2006 consist of the following:

Macular degeneration	\$1,361,275
Retinal regeneration project	1,025,125
Retinal vitreous project	728,996
Director's fund	327,885
Stem cell research	186,733
Diabetic retinopathy	182,328
Ken Wright	25,978
Macular degeneration partnership	23,327
Morris S. Pynoos	20,000
Pilot projects	13,382
Renovo project	13,309
Keratinous research	6,673
National Keratoconus Foundation	5,115
Sunrise project	4,303
Other	<u>1,470</u>
	<u>\$3,925,899</u>