



Harrington Group
CERTIFIED PUBLIC ACCOUNTANTS, LLP

J. Joseph Harrington
Emeritus

Job M. Quesada
Sean E. Cain
Tonetta L. Conner

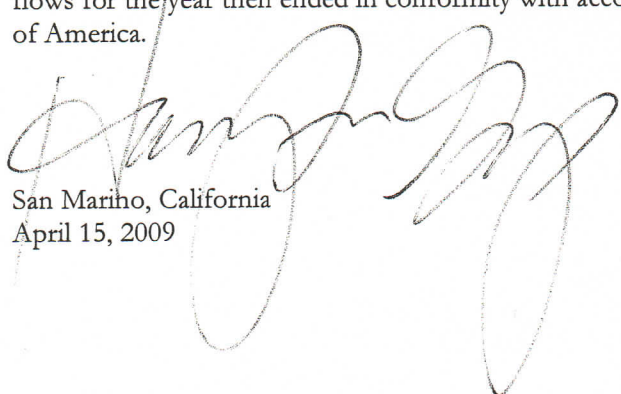
INDEPENDENT AUDITORS' REPORT

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, 2008 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 Discovery Eye Foundation's December 31, 2007 financial statements and in our report dated April 17, 2008 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Discovery Eye Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2008, 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.



San Marino, California
April 15, 2009

DISCOVERY EYE FOUNDATION

STATEMENT OF FINANCIAL POSITION

December 31, 2008

With comparative totals at December 31, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2008</u>	<u>2007</u>
Assets				
Cash and cash equivalents (Note 2)	\$ 580,947	\$ -	\$ 580,947	\$ 462,518
Accounts receivable	1,754		1,754	260
Pledges receivable (Note 3)		137,891	137,891	57,709
Prepaid expenses	820,091		820,091	565,524
Investments (Note 4)	2,604,171	4,551,357	7,155,528	9,169,744
Property and equipment (Note 5)	9,855		9,855	24,161
Total assets	<u>\$ 4,016,818</u>	<u>\$ 4,689,248</u>	<u>\$ 8,706,066</u>	<u>\$ 10,279,916</u>
Liabilities and net assets				
Liabilities				
Accounts payable	\$ 74,528	\$ -	\$ 74,528	\$ 37,944
Accrued liabilities (Note 6)	15,199		15,199	16,601
Total liabilities	<u>89,727</u>	<u>-</u>	<u>89,727</u>	<u>54,545</u>
Net assets				
Unrestricted (Note 2)	3,927,091		3,927,091	3,956,691
Unrestricted - board designated (Note 2)			-	2,107,122
Temporarily restricted (Note 7)		4,689,248	4,689,248	4,161,558
Total net assets	<u>3,927,091</u>	<u>4,689,248</u>	<u>8,616,339</u>	<u>10,225,371</u>
Total liabilities and net assets	<u>\$ 4,016,818</u>	<u>\$ 4,689,248</u>	<u>\$ 8,706,066</u>	<u>\$ 10,279,916</u>

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

DISCOVERY EYE FOUNDATION

STATEMENT OF ACTIVITIES

For the year ended December 31, 2008

With comparative totals for the year ended December 31, 2007

	Unrestricted	Temporarily Restricted	2008	2007
Revenue and support				
Contributions	\$ 387,481	\$ 3,013,998	\$ 3,401,479	\$ 2,887,209
Interest and dividends	324,466	17,325	341,791	337,844
Miscellaneous income	69,468		69,468	5,652
Amortization of discount on pledges		(8,799)	(8,799)	3,283
(Loss) on disposal of property and equipment	(10,972)		(10,972)	(3,479)
Gain (loss) on investments	(1,605,223)	(88,622)	(1,693,845)	276,955
Net assets released from program restrictions	2,406,212	(2,406,212)	-	-
Total revenue and support	<u>1,571,432</u>	<u>527,690</u>	<u>2,099,122</u>	<u>3,507,464</u>
Expenses				
Program services	2,519,215		2,519,215	2,919,583
Management and general	760,519		760,519	453,822
Fund development	428,420		428,420	396,146
Total expenses	<u>3,708,154</u>	<u>-</u>	<u>3,708,154</u>	<u>3,769,551</u>
Change in net assets	(2,136,722)	527,690	(1,609,032)	(262,087)
Net assets, beginning of year	<u>6,063,813</u>	<u>4,161,558</u>	<u>10,225,371</u>	<u>10,487,458</u>
Net assets, end of year	<u>\$ 3,927,091</u>	<u>\$ 4,689,248</u>	<u>\$ 8,616,339</u>	<u>\$ 10,225,371</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, 2008

With comparative totals for the year ended December 31, 2007

	Program Services		Total	Support Services		Total Expenses	
	Research	Education	Program Services	Management and General	Fund Development	2008	2007
Salaries	\$ 575,710	\$ 86,589	\$ 662,299	\$ 301,912	\$ 170,946	\$ 1,135,157	923,552
Payroll taxes and benefits	106,847	6,243	113,090	119,925	9,347	242,362	207,887
Total personnel costs	682,557	92,832	775,389	421,837	180,293	1,377,519	1,131,439
Grant expense	1,319,412		1,319,412	57,911		1,377,323	1,648,370
Professional fees	127,432	800	128,232	135,746	47,835	311,813	263,085
Educational materials	36,312	28,455	64,767	25,821	3,564	94,152	92,208
Rent	20,662	20,661	41,323	22,816	20,661	84,800	57,828
Fundraising expense					78,152	78,152	142,888
Meetings and conferences	52,321	2,498	54,819	10,403	7,658	72,880	75,606
Management fees	42,200		42,200	28,000		70,200	70,500
Supplies	35,804	612	36,416	22,127	2,670	61,213	91,136
Printing and publications	15,715		15,715	3,800	37,243	56,758	30,140
Postage and delivery	3,673	1,023	4,696	999	29,529	35,224	25,723
Miscellaneous	3,867	2,606	6,473	14,272	9,101	29,846	21,427
Telephone	3,953	5,031	8,984	33	4,604	13,621	13,366
Honorariums	10,000		10,000			10,000	32,480
Dues, memberships, and subscriptions	1,410	275	1,685	2,973	5,179	9,837	6,248
Commission expense	6,363		6,363	2,602		8,965	1,328
Mileage and travel	1,195	995	2,190	1,499	1,603	5,292	19,110
Insurance				4,908		4,908	6,168
Depreciation	148	283	431	2,878	25	3,334	4,874
Recruiting				1,829	303	2,132	35,437
Repairs and maintenance	120		120	65		185	190
Total 2008 functional expenses	\$ 2,363,144	\$ 156,071	\$ 2,519,215	\$ 760,519	\$ 428,420	\$ 3,708,154	
Total 2007 functional expenses	\$ 2,765,183	\$ 154,400	\$ 2,919,583	\$ 453,822	\$ 396,146		\$ 3,769,551

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

DISCOVERY EYE FOUNDATION

STATEMENT OF CASH FLOWS

For the year ended December 31, 2008

With comparative totals for the year ended December 31, 2007

	2008	2007
Cash flows from operating activities:		
Change in net assets	\$ (1,609,032)	\$ (262,087)
Adjustments to reconcile change in net assets to net cash (used) by operating activities:		
Depreciation	3,334	4,874
Amortization of discount on pledges	8,799	(3,283)
Donated investments	-	(5,268)
(Gain) loss on investments	1,693,845	(276,955)
Reinvested interest income	(332,210)	(150,065)
Loss on disposal of property and equipment	10,972	3,479
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(1,494)	3,532
(Increase) decrease in pledges receivable	(88,981)	140,000
(Increase) in prepaid expenses	(254,567)	(161,863)
Increase in accounts payable	36,584	28,906
Increase (decrease) in accrued liabilities	(1,402)	8,621
Net cash (used) by operating activities	(534,152)	(670,109)
Cash flows from investing activities:		
Purchase of investments	(1,100,000)	(1,500,000)
Proceeds from sale of investments	1,752,581	1,786,861
Purchase of property and equipment	-	(9,682)
Proceeds from sale of property and equipment	-	137,141
Net cash provided by investing activities	652,581	414,320
Net increase (decrease) in cash and cash equivalents	118,429	(255,789)
Cash and cash equivalents, beginning of year	462,518	718,307
Cash and cash equivalents, end of year	\$ 580,947	\$ 462,518

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.

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, 2008.

Cash and Cash Equivalents

Discovery has defined cash and cash equivalents as cash in banks and certificates of deposit 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, government fixed income funds, and common stocks of publicly held companies. The Board of Directors routinely reviews market values of these investments.

Approximately 70% of Discovery's total contribution revenue is derived from one private foundation at December 31, 2008.

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, 2007, 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, 2008 and are deemed fully collectible; accordingly, no allowance for uncollectible pledges has been recorded as of December 31, 2008. 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, 2008 of \$137,891 is expected to be collected as follows:

continued

DISCOVERY EYE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

3. Pledges Receivable, continued

Year ended December 31,

2009	\$ 63,981
2010	35,000
2011	25,000
2012	<u>25,000</u>
Pledges receivable, gross	148,981
Less: unamortized discount on pledges receivable	<u>(11,090)</u>
Pledges receivable, net	<u>\$137,891</u>

4. Investments

Investments at December 31, 2008 consist of the following:

Stocks	\$2,342,317
Government fixed income funds	1,725,757
Money market funds	1,695,147
Mutual funds	1,116,835
Annuity	158,886
Certificates of deposit	<u>116,586</u>
	<u>\$7,155,528</u>

5. Property and Equipment

Property and equipment at December 31, 2008 consist of the following:

Equipment	\$ 146,430
Less: accumulated depreciation	<u>(136,575)</u>
	<u>\$ 9,855</u>

Depreciation expense for the year ended December 31, 2008 was \$3,334.

6. Accrued Liabilities

Accrued liabilities at December 31, 2008 consist of the following:

Accrued vacation	\$12,331
Other accrued liabilities	<u>2,868</u>
	<u>\$15,199</u>

continued

DISCOVERY EYE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

7. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2008 consist of the following:

Retinal Regeneration Project	\$1,986,735
Macular Degeneration	1,736,563
Retinal Vitreous Project	465,396
Directors Fund	226,455
Funds restricted for time	137,891
Diabetic Retinopathy	130,081
Other	<u>6,127</u>
	<u>\$4,689,248</u>

8. Employee Benefit Plan

Discovery has a Simple IRA available to all eligible employees. Employees may contribute any whole percentage of annual compensation provided that it does not exceed maximum amounts as permitted by law. Discovery made matching contributions up to 3% of employee's annual earnings during the year ended December 31, 2008. Employer contributions under this plan for the year ended December 31, 2008 were \$9,699.

9. Commitments and Contingencies

Obligation Under an Operating Lease

Discovery has one long term operating lease for its office space at 6222 Wilshire, Suite 260. Future minimum payments by year and in the aggregate, under this lease with an initial or remaining term of one year or more, consist of the following:

<u>Year ended December 31,</u>	
2009	\$ 57,960
2010	59,698
2011	<u>50,990</u>
	<u>\$168,648</u>

Rent expense under the operating lease for the year ended December 31, 2008 was \$84,800.

10. Subsequent Event

Subsequent to December 31, 2008, and as of the date of our report, Discovery liquidated approximately 21% of its investment portfolio.