Harrington Group
CERTIFIED PUBLIC ACCOUNTANTS, LLP

J. Joseph Harrington
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DISCOVERY EYE FOUNDATION

AUDITED
FINANCIAL STATEMENTS

DECEMBER 31, 2011

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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, 2011, 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, 2010 financial statements and, in our report dated May 13, 2011, 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, 2011, 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

Pasadena, California
March 20, 2012

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DISCOVERY EYE FOUNDATION

STATEMENT OF FINANCIAL POSITION
December 31, 2011
With comparative totals at December 31, 2010

	Unrestricted	Temporarily Restricted	2011	2010 (Restated)
Assets				
Cash and cash equivalents (Note 2)	$ 371,747	$ -	**$ 371,747**	$ 899,931
Pledges receivable			**-**	46,736
Prepaid expenses	224,756		**224,756**	255,765
Investments (Note 3)	4,969,227	1,856,741	**6,825,968**	6,142,467
Property and equipment (Note 4)	1,894		**1,894**	4,523
Total assets	$ 5,567,624	$ 1,856,741	**$ 7,424,365**	$ 7,349,422
Liabilities and net assets				
Liabilities				
Accounts payable	$ 5,561	$ -	**$ 5,561**	$ 5,561
Accrued liabilities (Note 5)	18,946		**18,946**	18,579
Total liabilities	24,507	-	**24,507**	24,140
Net assets				
Unrestricted (Note 2)	5,543,117		**5,543,117**	5,742,592
Temporarily restricted (Note 6)		1,856,741	**1,856,741**	1,582,690
Total net assets	5,543,117	1,856,741	**7,399,858**	7,325,282
Total liabilities and net assets	$ 5,567,624	$ 1,856,741	**$ 7,424,365**	$ 7,349,422

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

DISCOVERY EYE FOUNDATION

STATEMENT OF ACTIVITIES
For the year ended December 31, 2011
With comparative totals for the year ended December 31, 2010

	Unrestricted	Temporarily Restricted	2011	2010 (Restated)
Revenue and support				
Contributions	$ 193,239	$ 767,843	**$ 961,082**	$ 1,839,119
Gain on investments	232,653		**232,653**	212,045
Interest and dividends	188,511		**188,511**	185,280
Special event - net of expenses of $27,896	25,922		**25,922**	90,607
Miscellaneous income	4,523		**4,523**	3,765
Amortization of discount on pledges			**-**	7,576
Net assets released from program restrictions	493,792	(493,792)	**-**	-
Total revenue and support	1,138,640	274,051	**1,412,691**	2,338,392
Expenses				
Program services	973,835		**973,835**	1,682,371
Management and general	168,949		**168,949**	632,703
Fund development	195,331		**195,331**	267,421
Total expenses	1,338,115	-	**1,338,115**	2,582,495
Change in net assets	(199,475)	274,051	**74,576**	(244,103)
Net assets, beginning of year	5,742,592	1,582,690	**7,325,282**	7,569,385
Net assets, end of year	$ 5,543,117	$ 1,856,741	**$ 7,399,858**	$ 7,325,282

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

DISCOVERY EYE FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2011
With comparative totals for the year ended December 31, 2010

		Support Services			Total Expenses	
	Program Services	**Management and General**	**Fund Development**	**Total**	**2011**	2010
Salaries	$ 220,070	$ 21,000	$ 137,745	$ 158,745	**$ 378,815**	$ 378,445
Payroll taxes and benefits	82,154	2,041	7,742	9,783	**91,937**	158,809
Total personnel costs	302,224	23,041	145,487	168,528	**470,752**	537,254
Grant expense	354,897			-	**354,897**	1,503,163
Outside services	116,005	34,240	33,664	67,904	**183,909**	208,829
Rent	38,926	20,924		20,924	**59,850**	59,444
Printing and publications	42,314	5,499	9,538	15,037	**57,351**	46,488
Meetings and conferences	32,067	6,518	218	6,736	**38,803**	42,239
Honorariums	23,128			-	**23,128**	-
Miscellaneous	10,948	9,752	1,797	11,549	**22,497**	37,749
Supplies	3,235	16,245	101	16,346	**19,581**	16,592
Professional fees	550	18,597		18,597	**19,147**	26,461
Postage and delivery	13,523	4,134	509	4,643	**18,166**	20,775
Educational materials	16,634			-	**16,634**	17,057
Commission expense		12,627		12,627	**12,627**	10,463
Telephone	6,957	1,521	3,642	5,163	**12,120**	13,290
Advertising and promotion	11,393	709		709	**12,102**	9,306
Mileage and travel	269	4,754		4,754	**5,023**	5,457
Dues, memberships, and subscriptions	762	3,420	375	3,795	**4,557**	4,574
Insurance	3	4,304		4,304	**4,307**	5,294
Depreciation		2,629		2,629	**2,629**	2,629
Repairs and maintenance		35		35	**35**	431
Management fees				-	**-**	15,000
Total 2011 functional expenses	**$ 973,835**	**$ 168,949**	**$ 195,331**	**$ 364,280**	**$ 1,338,115**	
Total 2010 functional expenses	$ 1,682,371	$ 632,703	$ 267,421	$ 900,124		$ 2,582,495

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

DISCOVERY EYE FOUNDATION

STATEMENT OF CASH FLOWS
For the year ended December 31, 2011
With comparative totals for the year ended December 31, 2010

	2011	2010 (Restated)
Cash flows from operating activities:		
Change in net assets	**$ 74,576**	$ (244,103)
Adjustments to reconcile change in net assets to net cash (used) by operating activities:		
Depreciation	**2,629**	2,629
Amortization of discount on pledges	**-**	(7,576)
(Gain) on investments	**(232,653)**	(212,045)
Reinvested interest income	**-**	(36,513)
Changes in operating assets and liabilities:		
Decrease in accounts receivable	**-**	5,515
Decrease in pledges receivable	**46,736**	38,739
Decrease in prepaid expenses	**31,009**	246,837
(Decrease) in accounts payable	**-**	(6,068)
Increase (decrease) in accrued liabilities	**367**	(142,185)
Net cash (used) by operating activities	**(77,336)**	(354,770)
Cash flows from investing activities:		
Purchase of investments	**(450,848)**	-
Proceeds from sale of investments	**-**	905,140
Net cash (used) provided by investing activities	**(450,848)**	905,140
Net (decrease) increase in cash and cash equivalents	**(528,184)**	550,370
Cash and cash equivalents, beginning of year	**899,931**	349,561
Cash and cash equivalents, end of year	**$ 371,747**	$ 899,931

The accompanying notes are an integral part of these 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 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 revenues 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

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, 2011.

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.

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 and certificates of deposit that are not used for operations are treated as investments.

Fair Value Measurement

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

Level 1 inputs - quoted prices in active markets for identical assets
Level 2 inputs - quoted prices in active or inactive markets for the same or similar assets
Level 3 inputs - estimates using the best information available when there is little or no market

Discovery is required to measure one type of asset at fair value: certain investments. The specific technique used to measure fair value for the element is described in the note below that relates to the element.

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, money market funds, 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 34% of Discovery's total contribution revenue was derived from one private foundation at December 31, 2011.

continued

2. Summary of Significant Accounting Policies, continued

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.

Income Taxes

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

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by Discovery in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. Discovery's returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

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. Actual results could differ from those estimates.

continued

2. Summary of Significant Accounting Policies, continued

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, 2010, from which the summarized information was derived.

Reclassification

Certain accounts from the December 31, 2010 financial statements have been reclassified for comparative purposes to conform to December 31, 2011 presentation.

Subsequent Events

Management has evaluated subsequent events through March 20, 2012, the date which the financial statements were available.

3. Investments

Investments at December 31, 2011 consist of the following:

Stocks	$3,779,850
Mutual funds	2,100,748
Government fixed income funds	397,256
Money market funds	247,581
Annuity	174,079
Certificates of deposit	126,454
	$6,825,968

4. Property and Equipment

Property and equipment at December 31, 2011 consist of the following:

Equipment	$ 146,430
Less: accumulated depreciation	(144,536)
	$ 1,894

Depreciation expense for the year ended December 31, 2011 was $2,629.

continued

5. Accrued Liabilities

Accrued liabilities at December 31, 2011 consist of the following:

Accrued vacation	$12,331
Other accruals	6,615
	$18,946

6. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2011 consist of the following:

Retinal Regeneration Project	$ 750,585
Retinal Vitreous Project	418,163
National Keratoconus Foundation	305,512
Macular Degeneration Partnership	160,466
Macular Degeneration	159,739
Guenther	50,000
Directors fund	7,260
Keratoconus research	5,016
	$1,856,741

For the year ended December 31, 2011, net assets released from program restrictions were $493,792.

7. 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, 2011. Employer contributions under this plan for the year ended December 31, 2011 were $6,071.

continued

8. Commitments and Contingencies

Obligation Under an Operating Lease

Discovery leases its office space at 6222 Wilshire, Suite 260, Los Angeles, CA under a non-cancelable operating lease expiring in November 2013. Future minimum payments by year and in the aggregate, under this lease with initial or remaining terms of one year or more, consist of the following:

Year ended December 31,	
2012	$44,856
2013	41,118
	$85,974

Rent expense under the operating lease for the year ended December 31, 2011 was $59,850.

9. Fair Value Measurements

The table below presents the balances of assets measured at fair value at December 31, 2011 on a recurring basis:

	Level 1	Level 2	Level 3	Total
Equities	$3,779,850	$ -	$ -	**$3,779,850**
Mutual funds	2,100,748			**2,100,748**
Government fixed income funds	397,256			**397,256**
Annuity	174,079			**174,079**
	$6,451,933	$ -	$ -	**$6,451,933**

The fair value of equities, mutual funds, government fixed income funds and annuity are measured on a recurring basis using quoted prices for identical assets in active markets (Level 1 inputs).

10. Prior Period Adjustment

Unrestricted net assets as of December 31, 2010 have been restated to record $2,557,461 in unrestricted net assets which was incorrectly reported as temporary net assets in a prior period. The comparative totals for December 31, 2010 presented in the financial statements have been restated to reflect the corrected balances as follows:

	As previously Reported	Adjustment	As Restated
Statement of Financial Position:			
Unrestricted net assets, beginning December 31, 2010	$3,185,131	$2,557,461	$5,742,592
Temporary restricted net assets, beginning December 31, 2010	$4,140,151	$(2,557,461)	$1,582,690