

DISCOVERY EYE FOUNDATION

**REVIEWED
FINANCIAL STATEMENTS**

DECEMBER 31, 2014

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors
Discovery Eye Foundation

We have reviewed the accompanying Statement of Financial Position of Discovery Eye Foundation (a nonprofit organization) as of December 31, 2014, and the related Statements of Activities, Statement of Functional Expenses, and Cash Flows for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of organization management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion and the related notes to 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 designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying 2014 financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

The financial statements for the year ended December 31, 2013, were audited by us, and we expressed an unmodified opinion on them in our report dated March 10, 2014, but we have not performed any auditing procedures since that date.

Harrington Group

Pasadena, California
June 19, 2015

DISCOVERY EYE FOUNDATION

STATEMENT OF FINANCIAL POSITION

December 31, 2014

With comparative totals at December 31, 2013

	Unrestricted	Temporarily Restricted	(Reviewed) 2014	(Audited) (Restated) 2013
Assets				
Cash and cash equivalents (Note 2)	\$ 83,539	\$ 350,369	\$ 433,908	\$ 485,590
Pledges receivable (Note 3)		38,273	38,273	48,077
Other receivable	10,291		10,291	243
Prepaid expenses	150,896		150,896	210,133
Investments (Note 4)	2,523,979	557,939	3,081,918	3,142,354
Property and equipment (Note 5)	27,606		27,606	36,059
	\$ 2,796,311	\$ 946,581	\$ 3,742,892	\$ 3,922,456
Liabilities and net assets				
Liabilities				
Accounts payable	\$ 6,072	\$ -	\$ 6,072	\$ 4,202
Accrued liabilities (Note 6)	14,912		14,912	12,808
	20,984	-	20,984	17,010
Net assets				
Unrestricted (Note 2)	2,775,327		2,775,327	2,849,150
Temporarily restricted (Note 7)		946,581	946,581	1,056,296
	2,775,327	946,581	3,721,908	3,905,446
	\$ 2,796,311	\$ 946,581	\$ 3,742,892	\$ 3,922,456

See independent accountants' review report and notes to financial statements.

DISCOVERY EYE FOUNDATION

STATEMENT OF ACTIVITIES

For the year ended December 31, 2014

With comparative totals for the year ended December 31, 2013

	Unrestricted	Temporarily Restricted	(Reviewed) 2014	(Audited) (Restated) 2013
Revenue and support				
Contributions	\$ 103,487	\$ 816,744	\$ 920,231	\$ 715,237
Gain on investments	203,915		203,915	400,932
Interest and dividends	145,543		145,543	87,845
Miscellaneous income	4,379		4,379	5,710
Change in value of pledges receivable		(1,727)	(1,727)	-
Net assets released from purpose restrictions	924,732	(924,732)	-	-
Total revenue and support	1,382,056	(109,715)	1,272,341	1,209,724
Expenses				
Program services	919,209		919,209	3,737,233
Management and general	404,020		404,020	430,861
Fund development	132,649		132,649	131,241
Total expenses	1,455,879	-	1,455,879	4,299,335
Change in net assets	(73,823)	(109,715)	(183,538)	(3,089,611)
Net assets, beginning of year (Note 11)	2,849,150	1,056,296	3,905,446	6,995,057
Net assets, end of year	\$ 2,775,327	\$ 946,581	\$ 3,721,908	\$ 3,905,446

See independent accountants' review report and notes to financial statements.

DISCOVERY EYE FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2014

With comparative totals for the year ended December 31, 2013

	Support Services			Total	Total Expenses	
	Program Services	Management and General	Fund Development		(Reviewed) 2014	(Audited) 2013
Salaries	\$ 210,981	\$ 124,489	\$ 78,682	\$ 203,171	\$ 414,152	\$ 393,868
Payroll taxes and benefits	107,638	10,146	6,413	16,559	124,197	116,393
Total personnel costs	318,619	134,635	85,095	219,730	538,349	510,261
Outside services	216,825	155,925	9,789	165,714	382,539	197,338
Grants awarded	215,004	39,814		39,814	254,818	324,018
Rent	31,451	1,335	14,391	15,726	47,177	45,718
Professional fees	28,165	17,940		17,940	46,105	25,474
Meetings and conferences	38,989			-	38,989	31,463
Printing and publications	25,888	1,550	5,687	7,237	33,125	24,179
Miscellaneous	11	15,538	7,500	23,038	23,049	27,721
Supplies	3,973	13,639	34	13,673	17,646	14,867
Postage and delivery	7,237	1,991	6,560	8,551	15,788	16,336
Telephone	7,836	1,927	3,513	5,440	13,276	11,726
Advertising and promotion	10,667	200		200	10,867	23,671
Depreciation	8,453			-	8,453	8,393
Commission expense		6,686		6,686	6,686	8,079
Educational materials	5,264			-	5,264	9,926
Insurance	247	4,829		4,829	5,076	7,116
Mileage and travel	70	4,381	43	4,424	4,494	5,690
Dues, memberships, and subscriptions	510	3,130	38	3,168	3,678	7,359
Honorariums		500		500	500	-
Gift contributed				-	-	3,000,000
Total 2014 functional expenses	\$ 919,209	\$ 404,020	\$ 132,649	\$ 536,670	\$ 1,455,879	
Total 2013 functional expenses	\$ 3,737,233	\$ 430,861	\$ 131,241	\$ 562,102		\$ 4,299,335

See independent accountants' review report and notes to financial statements.

DISCOVERY EYE FOUNDATION

STATEMENT OF CASH FLOWS

For the year ended December 31, 2014

With comparative totals for the year ended December 31, 2013

	(Reviewed)	(Audited)
	2014	2013
	<u> </u>	<u> </u>
Cash flows from operating activities:		
Change in net assets	\$ (183,538)	\$ (3,089,611)
Adjustments to reconcile change in net assets to net cash (used) by operating activities:		
Depreciation	8,453	8,393
(Gain) on investments	(203,915)	(400,932)
Reinvested interest and dividends	(145,543)	(87,845)
Unamortized discount on pledges	1,727	1,923
Changes in operating assets and liabilities:		
Decrease (increase) in pledges receivable	8,077	(25,000)
(Increase) in other receivable	(10,048)	-
Decrease in prepaid expenses	59,237	53,981
Increase (decrease) in accounts payable	1,870	(104)
Increase (decrease) in accrued liabilities	2,104	(2,512)
	<u> </u>	<u> </u>
Net cash (used) by operating activities	(461,576)	(3,541,707)
	<u> </u>	<u> </u>
Cash flows from investing activities:		
Purchase of equipment	-	(700)
Proceeds from sale of investments	409,894	3,655,356
	<u> </u>	<u> </u>
Net cash provided by investing activities	409,894	3,654,656
	<u> </u>	<u> </u>
Net (decrease) increase in cash and cash equivalents	(51,682)	112,949
	<u> </u>	<u> </u>
Cash and cash equivalents, beginning of year	485,590	372,641
	<u> </u>	<u> </u>
Cash and cash equivalents, end of year	\$ 433,908	\$ 485,590
	<u> </u>	<u> </u>

See independent accountants' review report and notes to 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 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.

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, 2014.

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 promises to give that are expected to be collected within one year are recorded as net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

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 or loss 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 certain investments at fair value: The specific techniques used to measure fair value for the element is described in the notes below that relate to the element.

continued

DISCOVERY EYE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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, 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 48% of Discovery's total contribution revenue was derived from one private foundation for the year ended December 31, 2014.

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.

DISCOVERY EYE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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.

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, 2013, from which the summarized information was derived.

Reclassifications

Certain amounts from the December 31, 2013 financial statements have been reclassified for comparative purposes to conform to December 31, 2013 presentation.

Subsequent Events

Management has evaluated subsequent events through June 19, 2015, the date which the financial statements were available.

3. Pledge Receivable

Unconditional promises to give (pledges receivable) are recorded as support when pledged unless designated otherwise. Pledges receivable that are expected to be collected in future years are measured on a non-recurring basis at the date of the pledge and recorded at the present value of their estimated future cash flows and are deemed fully collectible. Accordingly, no allowance for uncollectible pledges has been recorded as of December 31, 2014. The discount on those amounts is computed using risk-free interest rates applicable to the years in which the pledges are received. The discount rate used during the year ended December 31, 2014 was 2%. Total amount of pledges receivable at December 31, 2014, of \$38,273, is expected to be collected as follows:

<u>Year ended June 30,</u>	
Less than one year	\$10,000
One to five years	<u>30,000</u>
Pledges receivable, gross	40,000
Less: unamortized discount on pledges receivable	<u>(1,727)</u>
Pledges receivable, net	<u>\$38,273</u>

continued

DISCOVERY EYE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

4. Investments

Investments at December 31, 2014 consist of the following:

Mutual funds	\$1,905,548
Equities	956,188
Annuity	188,290
Cash	16,660
Money market funds	<u>15,232</u>
	<u>\$3,081,918</u>

5. Property and Equipment

Property and equipment at December 31, 2014 consist of the following:

Equipment	\$ 197,130
Less: accumulated depreciation	<u>(169,524)</u>
	<u>\$ 27,606</u>

Depreciation expense for the year ended December 31, 2014 was \$8,453.

6. Accrued Liabilities

Accrued liabilities at December 31, 2014 consist of the following:

Accrued vacation	\$10,623
Other accruals	<u>4,289</u>
	<u>\$14,912</u>

7. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2014 consist of the following:

Retinal Vitreous Project	\$369,663
Macular Degeneration	303,850
Macular Degeneration Partnership	104,163
National Keratoconus Foundation	61,197
National Keratoconus Foundation Estate	50,994
Keratoconus research	42,263
Retinal Regeneration Project	10,195
Director's Fund	<u>4,256</u>
	<u>\$946,581</u>

For the year ended December 31, 2014, net assets released from purpose restrictions were \$926,459.

continued

DISCOVERY EYE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

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, 2014. Employer contributions under this plan for the year ended December 31, 2014 were \$6,071.

9. Fair Value Measurements

The table below presents the balances of assets measured at fair value at December 31, 2014 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Fixed Income	\$1,905,548	\$ -	\$ -	\$1,905,548
Equities:				
Slow Growth	335,644			335,644
Hard Assets	259,299			259,299
Classic Growth	202,268			202,268
Cyclical	<u>158,977</u>	<u> </u>	<u> </u>	<u>158,977</u>
	956,188	-	-	956,188
Annuity	<u>188,290</u>	<u> </u>	<u> </u>	<u>188,290</u>
	<u>\$3,050,026</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$3,050,026</u>

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

10. Commitments and Contingencies

Obligations Under Operating Leases

Discovery Eye Foundation leases an office space, under an operating lease. The lease expires in June 30, 2015. Future minimum payments under the lease consist of \$24,030.

Rent expense under operating leases for the year ended December 31, 2014 was \$47,177.

continued

DISCOVERY EYE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

11. Prior Period Adjustment

Net assets as of December 31, 2013 have been restated to record \$41,550 in temporarily net assets which was incorrectly reported as unrestricted net assets in a prior period. The comparative totals for December 31, 2013 presented in the financial statements have been restated to reflect the corrected balances as follows:

	As previously Reported	Adjustment	As Restated
<u>Statement of Financial Position:</u>			
Unrestricted net assets, beginning December 31, 2013	\$2,890,700	\$(41,550)	\$2,849,150
Temporarily restricted net assets, beginning December 31, 2013	\$1,014,746	\$ 41,550	\$1,056,296