

DISCOVERY EYE FOUNDATION

FINANCIAL STATEMENTS

DECEMBER 31, 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Discovery Eye Foundation

We have audited the accompanying financial statements of Discovery Eye Foundation (a nonprofit organization), which comprise the Statement of Position as of December 31, 2015, and the related Statement of Activities, Statement of Functional Expenses, and Cash Flows for the year then ended, and the related notes to the financial statements.

Management's Responsibilities for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements referred to above present fairly, in material respects, the financial position of Discovery Eye Foundation as of December 31, 2015, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT

continued

Prior Period Financial Statements

The December 31, 2014 financial statements were reviewed by us, and our report thereon, dated June 19, 2015, stated we were not aware of any material modifications that should be made to those financial statements for them to be in conformity with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements.

Harrington Group

Pasadena, California

July 7, 2016

DISCOVERY EYE FOUNDATION

STATEMENT OF FINANCIAL POSITION

December 31, 2015 (Audited)

With comparative totals at December 31, 2014 (Reviewed)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>(Audited) 2015</u>	<u>(Reviewed) 2014</u>
ASSETS				
Cash and cash equivalents (Note 2)	\$ 125,958	\$ 154,637	\$ 280,595	\$ 433,908
Pledges receivable (Note 3)		39,035	39,035	38,273
Other receivable	291		291	10,291
Prepaid expenses	139,728		139,728	150,896
Investments (Note 4)	126,372	569,292	695,664	3,081,918
Property and equipment (Note 5)	23,153		23,153	27,606
TOTAL ASSETS	<u>\$ 415,502</u>	<u>\$ 762,964</u>	<u>\$ 1,178,466</u>	<u>\$ 3,742,892</u>
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable	\$ 5,953	\$ -	\$ 5,953	\$ 6,072
Accrued liabilities (Note 6)	25,634		25,634	14,912
TOTAL LIABILITIES	<u>31,587</u>	<u>-</u>	<u>31,587</u>	<u>20,984</u>
NET ASSETS				
Unrestricted (Note 2)	383,915		383,915	2,775,327
Temporarily restricted (Note 7)		762,964	762,964	946,581
TOTAL NET ASSETS	<u>383,915</u>	<u>762,964</u>	<u>1,146,879</u>	<u>3,721,908</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 415,502</u>	<u>\$ 762,964</u>	<u>\$ 1,178,466</u>	<u>\$ 3,742,892</u>

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

DISCOVERY EYE FOUNDATION

STATEMENT OF ACTIVITIES

For the year ended December 31, 2015 (Audited)

With comparative totals for the year ended December 31, 2014 (Reviewed)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>(Audited) 2015</u>	<u>(Reviewed) 2014</u>
REVENUE AND SUPPORT				
Contributions	\$ 128,661	\$ 582,517	\$ 711,178	\$ 920,231
Interest and dividends	50,200		50,200	145,543
Miscellaneous income	3,300		3,300	4,379
Change in value of pledges receivable		(965)	(965)	(1,727)
(Loss) gain on investments	(96,807)		(96,807)	203,915
Net assets released from purpose restrictions	765,169	(765,169)	-	-
TOTAL REVENUE AND SUPPORT	<u>850,523</u>	<u>(183,617)</u>	<u>666,906</u>	<u>1,272,341</u>
EXPENSES				
Program services	2,591,823		2,591,823	919,209
Management and general	529,047		529,047	404,020
Fund development	121,065		121,065	132,650
TOTAL EXPENSES	<u>3,241,935</u>	<u>-</u>	<u>3,241,935</u>	<u>1,455,879</u>
CHANGE IN NET ASSETS	(2,391,412)	(183,617)	(2,575,029)	(183,538)
NET ASSETS, BEGINNING OF YEAR	<u>2,775,327</u>	<u>946,581</u>	<u>3,721,908</u>	<u>3,905,446</u>
NET ASSETS, END OF YEAR	<u>\$ 383,915</u>	<u>\$ 762,964</u>	<u>\$ 1,146,879</u>	<u>\$ 3,721,908</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, 2015 (Audited)

With comparative totals for the year ended December 31, 2014 (Reviewed)

	Program Services	Support Services		Support Services Total	Total Expenses	
		Management and General	Fund Development		(Audited) 2015	(Reviewed) 2014
Salaries	\$ 206,589	\$ 160,981	\$ 64,593	\$ 225,574	\$ 432,163	\$ 414,152
Payroll taxes and benefits	42,532	77,055	5,167	82,222	124,754	124,197
Total personnel costs	<u>249,121</u>	<u>238,036</u>	<u>69,760</u>	<u>307,796</u>	<u>556,917</u>	<u>538,349</u>
Gift contributed	2,200,000	8,073		8,073	2,208,073	254,818
Outside services	53,563	164,173	22,205	186,378	239,941	382,539
Rent	17,232	7,254	8,616	15,870	33,102	47,177
Meetings and conferences	20,327	8,094	1,168	9,262	29,589	38,989
Professional fees	1,039	27,647		27,647	28,686	46,105
Miscellaneous	4,148	14,513	6,728	21,241	25,389	23,049
Printing and publications	8,969	10,360	5,381	15,741	24,710	33,125
Supplies	8,347	12,777	242	13,019	21,366	17,646
Telephone	10,547	3,095	5,139	8,234	18,781	13,276
Postage and delivery	6,209	5,968	978	6,946	13,155	15,788
Advertising and promotion	8,249	1,200	93	1,293	9,542	10,867
Depreciation		8,898		8,898	8,898	8,453
Commission expense	124	6,841		6,841	6,965	6,686
Insurance	579	5,582		5,582	6,161	5,076
Dues, memberships, and subscriptions	374	3,726	680	4,406	4,780	3,678
Mileage and travel	122	2,504	75	2,579	2,701	4,494
Educational materials	2,273	306		306	2,579	5,264
Honorariums	500			-	500	500
Repairs and Maintenance	100			-	100	-
TOTAL 2015 FUNCTIONAL EXPENSES	<u>\$ 2,591,823</u>	<u>\$ 529,047</u>	<u>\$ 121,065</u>	<u>\$ 650,112</u>	<u>\$ 3,241,935</u>	
TOTAL 2014 FUNCTIONAL EXPENSES	<u>\$ 919,209</u>	<u>\$ 404,020</u>	<u>\$ 132,650</u>	<u>\$ 536,670</u>		<u>\$ 1,455,879</u>

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

DISCOVERY EYE FOUNDATION

STATEMENT OF CASH FLOWS

For the year ended December 31, 2015 (Audited)

With comparative totals for the year ended December 31, 2014 (Reviewed)

	(Audited) 2015	(Reviewed) 2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (2,575,029)	\$ (183,538)
Adjustments to reconcile change in net assets to net cash (used) by operating activities:		
Depreciation	8,898	8,453
Loss (gain) on investments	96,807	(203,915)
Reinvested interest and dividends	(50,200)	(145,543)
Unamortized discount on pledges	965	1,727
(Increase) decrease in operating assets:		
Pledges receivable	(1,727)	8,077
Other receivable	10,000	(10,048)
Prepaid expenses	11,168	59,237
Increase (decrease) in operating liabilities:		
Accounts payable	(119)	1,870
Accrued liabilities	10,722	2,104
NET CASH (USED) BY OPERATING ACTIVITIES	(2,488,515)	(461,576)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(4,445)	-
Proceeds from sale of investments	2,339,647	409,894
NET CASH PROVIDED BY INVESTING ACTIVITIES	2,335,202	409,894
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(153,313)	(51,682)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	433,908	485,590
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 280,595	\$ 433,908

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 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, 2015.

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.

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.

For the year ended December 31, 2015, approximately 24%, or \$170,000 of Discovery's contribution revenue came from five donors.

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, 2014, from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through July 7, 2016, the date which the financial statements were available for issue. No events or transactions have occurred during this period that appear to require recognition or disclosure in the financial statements.

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, 2015. 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, 2015 was 2%. Total amount of pledges receivable at December 31, 2015, of \$39,035, 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>(965)</u>
Pledges receivable, net	<u>\$39,035</u>

continued

DISCOVERY EYE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

4. Investments

Investments at December 31, 2015 consist of the following:

Equities	\$520,704
Cash and cash equivalents	129,410
Mutual funds	<u>45,550</u>
	<u>\$695,664</u>

5. Property and Equipment

Property and equipment at December 31, 2015 consist of the following:

Equipment	\$ 201,575
Less: accumulated depreciation	<u>(178,422)</u>
	<u>\$ 23,153</u>

Depreciation expense for the year ended December 31, 2015 was \$8,898.

6. Accrued Liabilities

Accrued liabilities at December 31, 2015 consist of the following:

Accrued vacation	\$16,642
Other accruals	<u>8,992</u>
	<u>\$25,634</u>

7. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2015 consist of the following:

Retinal Vitreous Project	\$369,663
Macular Degeneration Partnership	187,208
Macular Degeneration	108,968
National Keratoconus Foundation	32,810
National Keratoconus Foundation Estate	18,646
Keratoconus research	41,413
Director's Fund	<u>4,256</u>
	<u>\$762,964</u>

For the year ended December 31, 2015, net assets released from purpose restrictions were \$765,169.

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, 2015. Employer contributions under this plan for the year ended December 31, 2015 were \$6,599.

9. Fair Value Measurements

The table below presents the balances of assets measured at fair value at December 31, 2015 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities:				
Large Value	\$297,736	\$ -	\$ -	\$297,736
Large Core	124,088			124,088
Mid Value	68,360			68,360
Small Value	<u>30,520</u>	<u> </u>	<u> </u>	<u>30,520</u>
	520,704	-	-	520,704
Mutual funds:				
Fixed Income	<u>45,550</u>	<u> </u>	<u> </u>	<u>45,550</u>
	<u>\$566,254</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$566,254</u>

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