



Harrington Group
CERTIFIED PUBLIC ACCOUNTANTS, LLP

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DISCOVERY EYE FOUNDATION

**AUDITED
FINANCIAL STATEMENTS**

DECEMBER 31, 2012

CONTENTS

Independent Auditors' Report	1
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6-11



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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), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility 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 of 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 Discovery Eye Foundation'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 Discovery Eye Foundation'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.

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, 2012, 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.

Other Matter

Summarized Comparative Information

We have previously audited Discovery Eye Foundation's December 31, 2011 financial statements, and our report dated March 20, 2012 expressed an unmodified opinion on those financial statements. In our opinion the summarized comparative information presented herein as of and for the year ended December 31, 2011, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Harrington Group

Pasadena, California
March 27, 2013

DISCOVERY EYE FOUNDATION

STATEMENT OF FINANCIAL POSITION

December 31, 2012

With comparative totals at December 31, 2011

	Unrestricted	Temporarily Restricted	2012	2011
Assets				
Cash and cash equivalents (Note 2)	\$ 372,641	\$ -	\$ 372,641	\$ 371,747
Pledges receivable (Note 3)	25,000	-	25,000	-
Other receivable	243	-	243	-
Prepaid expenses	264,114	-	264,114	224,756
Investments (Note 4)	5,040,488	1,268,445	6,308,933	6,825,968
Property and equipment (Note 5)	43,752	-	43,752	1,894
Total assets	\$ 5,746,238	\$ 1,268,445	\$ 7,014,683	\$ 7,424,365
Liabilities and net assets				
Liabilities				
Accounts payable	\$ 4,306	\$ -	\$ 4,306	\$ 5,561
Accrued liabilities (Note 6)	15,320	-	15,320	18,946
Total liabilities	19,626	-	19,626	24,507
Net assets				
Unrestricted (Note 2)	5,726,612	-	5,726,612	5,543,117
Temporarily restricted (Note 7)	-	1,268,445	1,268,445	1,856,741
Total net assets	5,726,612	1,268,445	6,995,057	7,399,858
Total liabilities and net assets	\$ 5,746,238	\$ 1,268,445	\$ 7,014,683	\$ 7,424,365

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

DISCOVERY EYE FOUNDATION

STATEMENT OF ACTIVITIES

For the year ended December 31, 2012

With comparative totals for the year ended December 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2012</u>	<u>2011</u>
Revenue and support				
Contributions	\$ 651,324	\$ 477,282	\$ 1,128,606	\$ 961,082
Gain on investments	402,680		402,680	232,653
Interest and dividends	180,013		180,013	188,511
Miscellaneous income	11,208		11,208	4,523
Special event - net of expenses of \$34,157	9,564		9,564	25,922
Net assets released from program restrictions	1,065,578	(1,065,578)	-	-
Total revenue and support	<u>2,320,367</u>	<u>(588,296)</u>	<u>1,732,071</u>	<u>1,412,691</u>
Expenses				
Program services	1,733,158		1,733,158	973,835
Management and general	282,703		282,703	168,949
Fund development	121,011		121,011	195,331
Total expenses	<u>2,136,872</u>	<u>-</u>	<u>2,136,872</u>	<u>1,338,115</u>
Change in net assets	183,495	(588,296)	(404,801)	74,576
Net assets, beginning of year	<u>5,543,117</u>	<u>1,856,741</u>	<u>7,399,858</u>	<u>7,325,282</u>
Net assets, end of year	<u>\$ 5,726,612</u>	<u>\$ 1,268,445</u>	<u>\$ 6,995,057</u>	<u>\$ 7,399,858</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, 2012

With comparative totals for the year ended December 31, 2011

	Program Services	Support Services			Total Expenses	
		Management and General	Fund Development	Total	2012	2011
Salaries	\$ 330,225	\$ 30,298	\$ 55,165	\$ 85,463	\$ 415,688	\$ 378,815
Payroll taxes and benefits	67,340	14,521	6,267	20,788	88,128	91,937
Total personnel costs	397,565	44,819	61,432	106,251	503,816	470,752
Grants awarded	846,200			-	846,200	354,897
Outside services	271,052	118,181	22,257	140,438	411,490	183,909
Meetings and conferences	51,664	5,843	812	6,655	58,319	38,803
Commission expense	78	44,751		44,751	44,829	12,627
Professional fees	42,160			-	42,160	19,147
Rent	27,570	14,279		14,279	41,849	59,850
Supplies	24,256	13,543	371	13,914	38,170	19,581
Miscellaneous	9,537	7,614	14,020	21,634	31,171	22,497
Printing and publications	11,079	4,326	7,327	11,653	22,732	57,351
Educational materials	12,320		6,267	6,267	18,587	16,634
Postage and delivery	8,576	3,874	4,577	8,451	17,027	18,166
Advertising and promotion	12,223	793	1,671	2,464	14,687	12,102
Telephone	7,044	3,423	2,176	5,599	12,643	12,120
Depreciation		8,142		8,142	8,142	2,629
Insurance		6,165		6,165	6,165	4,307
Dues, memberships, and subscriptions	2,857	2,583	89	2,672	5,529	4,557
Honorariums	5,000			-	5,000	23,128
Mileage and travel	192	4,367	12	4,379	4,571	5,023
Recruiting	3,785				3,785	-
Repairs and maintenance				-	-	35
Total 2012 functional expenses	\$ 1,733,158	\$ 282,703	\$ 121,011	\$ 403,714	\$ 2,136,872	
Total 2011 functional expenses	\$ 973,835	\$ 168,949	\$ 195,331	\$ 364,280		\$ 1,338,115

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

DISCOVERY EYE FOUNDATION

STATEMENT OF CASH FLOWS

For the year ended December 31, 2012

With comparative totals for the year ended December 31, 2011

	2012	2011
Cash flows from operating activities:		
Change in net assets	\$ (404,801)	\$ 74,576
Adjustments to reconcile change in net assets to net cash (used) by operating activities:		
Depreciation	8,142	2,629
(Gain) on investments	(402,680)	(232,653)
Changes in operating assets and liabilities:		
(Increase) decrease in pledges receivable	(25,000)	46,736
(Decrease) in other receivable	(243)	-
(Increase) decrease in prepaid expenses	(39,358)	31,009
(Decrease) in accounts payable	(1,255)	-
(Decrease) increase in accrued liabilities	(3,626)	367
Net cash (used) by operating activities	(868,821)	(77,336)
Cash flows from investing activities:		
Purchase of equipment	(50,000)	-
Purchase of investments	-	(450,848)
Proceeds from sale of investments	919,715	-
Net cash provided (used) by investing activities	869,715	(450,848)
Net increase (decrease) in cash and cash equivalents	894	(528,184)
Cash and cash equivalents, beginning of year	371,747	899,931
Cash and cash equivalents, end of year	\$ 372,641	\$ 371,747

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, 2012.

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 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 two types of assets at fair value: pledges receivable and certain investments. The specific techniques used to measure fair value for the elements is described in the notes below that relate to each 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.

Approximately 28% of Discovery's total contribution revenue was derived from one private foundation at December 31, 2012.

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, 2011, from which the summarized information was derived.

3. Pledge Receivable

Pledge receivable are recorded at estimated net realizable value in the period received. All pledges are deemed to be fully collectible; therefore, no allowance for doubtful accounts has been recorded. Pledges receivable at December 31, 2012 in the amount of \$25,000 is expected to be collected within one year.

4. Investments

Investments at December 31, 2012 consist of the following:

Money market funds	\$3,073,959
Stocks	1,380,259
Mutual funds	1,375,967
Government fixed income funds	301,267
Annuity	<u>177,481</u>
	<u>\$6,308,933</u>

5. Property and Equipment

Property and equipment at December 31, 2012 consist of the following:

Equipment	\$ 196,430
Less: accumulated depreciation	<u>(152,678)</u>
	<u>\$ 43,752</u>

Depreciation expense for the year ended December 31, 2012 was \$8,142.

continued

DISCOVERY EYE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

6. Accrued Liabilities

Accrued liabilities at December 31, 2012 consist of the following:

Accrued vacation	\$12,705
Other accruals	<u>2,615</u>
	<u>\$15,320</u>

7. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2012 consist of the following:

Retinal Regeneration Project	\$ 400,368
Retinal Vitreous Project	369,663
National Keratoconus Foundation	274,776
Macular Degeneration Partnership	178,765
Directors fund	33,260
Keratoconus research	<u>11,613</u>
	<u>\$1,268,445</u>

For the year ended December 31, 2012, net assets released from program restrictions were \$1,065,578.

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, 2012. Employer contributions under this plan for the year ended December 31, 2012 were \$2,541.

9. Fair Value Measurements

The table below presents the balances of assets measured at fair value at December 31, 2012 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities	\$1,380,259	\$ -	\$ -	\$1,380,259
Mutual funds	1,375,967			1,375,967
Government fixed income funds	301,267			301,267
Annuity	<u>177,481</u>			<u>177,481</u>
	<u>\$3,234,974</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$3,234,974</u>

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).

continued

DISCOVERY EYE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

9. Fair Value Measurements, continued

The table below presents transactions measured at fair value on a non-recurring basis during the year ended December 31, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Pledge contributions - new	<u>\$ -</u>	<u>\$ -</u>	<u>\$25,000</u>	<u>\$25,000</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$25,000</u>	<u>\$25,000</u>

The fair value of pledge contributions are measured on a non-recurring bases based on the value provided by the donor at the date of pledge (Level 3 inputs).

10. Subsequent Event

On January 13, 2013 the Discovery Eye Foundation made a \$3,000,000 gift to the University of California, Irvine. Two-thirds of the gifts; or \$2,000,000, is designated for capital construction and building of the Gavin Herbert Eye Institute (“GHEI”) building and the remaining \$1,000,000 gift is to establish a research fund, to support laboratory research at GHEI. The financial statements as of December 31, 2012 do not include this transaction.

Management has evaluated subsequent events through March 27, 2013, the date which the financial statements were available.