



Harrington Group
CERTIFIED PUBLIC ACCOUNTANTS, LLP

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DISCOVERY EYE FOUNDATION



FINANCIAL STATEMENTS

DECEMBER 31, 2010

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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, 2010, 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, 2009 financial statements and, in our report dated May 14, 2010, 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, 2010, 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

San Marino, California
May 13, 2011

DISCOVERY EYE FOUNDATION

STATEMENT OF FINANCIAL POSITION

December 31, 2010

With comparative totals at December 31, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2010</u>	<u>2009</u>
Assets				
Cash and cash equivalents (Note 2)	\$ 899,931	\$ -	\$ 899,931	\$ 349,561
Accounts receivable			-	5,515
Pledges receivable (Note 3)	25,000	21,736	46,736	77,899
Prepaid expenses	255,765		255,765	502,602
Investments (Note 4)	2,024,052	4,118,415	6,142,467	6,799,049
Property and equipment (Note 5)	4,523		4,523	7,152
Total assets	<u>\$ 3,209,271</u>	<u>\$ 4,140,151</u>	<u>\$ 7,349,422</u>	<u>\$ 7,741,778</u>
Liabilities and net assets				
Liabilities				
Accounts payable	\$ 5,561	\$ -	\$ 5,561	\$ 11,629
Accrued liabilities (Note 6)	18,579		18,579	160,764
Total liabilities	<u>24,140</u>	<u>-</u>	<u>24,140</u>	<u>172,393</u>
Net assets				
Unrestricted (Note 2)	3,185,131		3,185,131	3,226,135
Temporarily restricted (Note 7)		4,140,151	4,140,151	4,343,250
Total net assets	<u>3,185,131</u>	<u>4,140,151</u>	<u>7,325,282</u>	<u>7,569,385</u>
Total liabilities and net assets	<u>\$ 3,209,271</u>	<u>\$ 4,140,151</u>	<u>\$ 7,349,422</u>	<u>\$ 7,741,778</u>

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

DISCOVERY EYE FOUNDATION

STATEMENT OF ACTIVITIES

For the year ended December 31, 2010

With comparative totals for the year ended December 31, 2009

	Unrestricted	Temporarily Restricted	2010	2009
Revenue and support				
Contributions	\$ 460,924	\$ 1,468,802	\$ 1,929,726	\$ 1,942,933
Gain (loss) on investments	212,045		212,045	428,190
Interest and dividends	185,280		185,280	203,419
Amortization of discount on pledges		7,576	7,576	3,696
Miscellaneous income	3,765		3,765	2,772
Net assets released from program restrictions	1,679,477	(1,679,477)	-	-
Total revenue and support	2,541,491	(203,099)	2,338,392	2,581,010
Expenses				
Program services	1,682,371		1,682,371	2,640,181
Management and general	632,703		632,703	644,197
Fund development	267,421		267,421	343,586
Total expenses	2,582,495	-	2,582,495	3,627,964
Change in net assets	(41,004)	(203,099)	(244,103)	(1,046,954)
Net assets, beginning of year	3,226,135	4,343,250	7,569,385	8,616,339
Net assets, end of year	\$ 3,185,131	\$ 4,140,151	\$ 7,325,282	\$ 7,569,385

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

DISCOVERY EYE FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2010

With comparative totals for the year ended December 31, 2009

	Program Services	Support Services			Total Expenses	
		Management and General	Fund Development	Total	2010	2009
Salaries	\$ 422,420	\$ 154,095	\$ 159,293	\$ 313,388	\$ 735,808	\$ 1,264,228
Payroll taxes and benefits	34,878	109,027	14,904	123,931	158,809	365,120
Total personnel costs	457,298	263,122	174,197	437,319	894,617	1,629,348
Grant expense	1,011,847	133,953		133,953	1,145,800	1,265,288
Professional fees	77,709	102,780	54,801	157,581	235,290	225,280
Rent	36,635	20,957	1,852	22,809	59,444	62,686
Printing and publications	19,922	11,088	15,478	26,566	46,488	86,124
Meetings and conferences	30,169	9,094	2,976	12,070	42,239	43,238
Miscellaneous	4,967	28,844	3,938	32,782	37,749	9,111
Postage and delivery	8,083	9,663	3,029	12,692	20,775	26,861
Educational materials	15,134		1,923	1,923	17,057	143,154
Supplies	3,326	11,611	1,655	13,266	16,592	16,658
Management fees		15,000		15,000	15,000	49,550
Telephone	8,074	475	4,741	5,216	13,290	14,530
Commission expense	109	10,354		10,354	10,463	2,483
Advertising and promotion	8,062	200	1,044	1,244	9,306	-
Mileage and travel	93	5,352	12	5,364	5,457	7,331
Insurance		5,294		5,294	5,294	5,543
Dues, memberships, and subscriptions	943	1,856	1,775	3,631	4,574	3,416
Depreciation		2,629		2,629	2,629	2,703
Repairs and maintenance		431		431	431	1,215
Special events expense				-	-	27,252
Recruiting				-	-	6,193
Total 2010 functional expenses	\$ 1,682,371	\$ 632,703	\$ 267,421	\$ 900,124	\$ 2,582,495	
Total 2009 functional expenses	\$ 2,640,181	\$ 644,197	\$ 343,586	\$ 987,783		\$ 3,627,964

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

DISCOVERY EYE FOUNDATION

STATEMENT OF CASH FLOWS

For the year ended December 31, 2010

With comparative totals for the year ended December 31, 2009

	2010	2009
Cash flows from operating activities:		
Change in net assets	\$ (244,103)	\$ (1,046,954)
Adjustments to reconcile change in net assets to net cash (used) by operating activities:		
Depreciation	2,629	2,703
Amortization of discount on pledges	(7,576)	(3,696)
(Gain) on investments	(212,045)	(428,190)
Reinvested interest income	(36,513)	(203,381)
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	5,515	(3,761)
Decrease in pledges receivable	38,739	63,688
Decrease in prepaid expenses	246,837	317,489
(Decrease) in accounts payable	(6,068)	(62,899)
Decrease (increase) in accrued liabilities	(142,185)	145,565
Net cash (used) by operating activities	(354,770)	(1,219,436)
Cash flows from investing activities:		
Purchase of investments	-	(1,805,000)
Proceeds from sale of investments	905,140	2,793,050
Net cash provided by investing activities	905,140	988,050
Net increase (decrease) in cash and cash equivalents	550,370	(231,386)
Cash and cash equivalents, beginning of year	349,561	580,947
Cash and cash equivalents, end of year	\$ 899,931	\$ 349,561

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 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.

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, 2010.

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 that are not used for operations are treated as investments.

Fair Value Measurement

Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad level:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly or indirectly through corroboration with observable market data (market-corroborated inputs).
- Level 3 inputs are unobservable inputs for the asset or liability, that is, inputs that reflect the reporting entity’s own assumptions about the assumptions market participants would use in pricing the asset or liability (including assumptions about risk) developed based on the best information available in the circumstances.

The specific techniques used to measure fair value for financial statement elements are 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, 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 57% of Discovery's total contribution revenue is derived from one private foundation at December 31, 2010.

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 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

DISCOVERY EYE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

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, 2009, from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through May 13, 2011, the date which the financial statements were available

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, 2010 and are deemed fully collectible; accordingly, no allowance for uncollectible pledges has been recorded as of December 31, 2010. 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, 2010 of \$46,736 is expected to be collected as follows:

<u>Year ended December 31,</u>	
2011	\$25,250
2012	<u>25,000</u>
Pledges receivable, gross	50,250
Less: unamortized discount on pledges receivable	<u>(3,514)</u>
Pledges receivable, net	<u>\$46,736</u>

4. Investments

Investments at December 31, 2010 consist of the following:

Stocks	\$3,079,207
Mutual funds	1,430,107
Government fixed income funds	1,278,560
Annuity	168,995
Certificates of deposit	123,616
Money market funds	<u>61,982</u>
	<u>\$6,142,467</u>

The fair value of investments has been measured on a recurring basis using quoted prices for identical assets in active markets (Level 1 inputs).

DISCOVERY EYE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

5. Property and Equipment

Property and equipment at December 31, 2010 consist of the following:

Equipment	\$ 146,430
Less: accumulated depreciation	<u>(141,907)</u>
	<u>\$ 4,523</u>

Depreciation expense for the year ended December 31, 2010 was \$2,629.

6. Accrued Liabilities

Accrued liabilities at December 31, 2010 consist of the following:

Accrued vacation	\$12,331
Deferred revenue	<u>6,248</u>
	<u>\$18,579</u>

7. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2010 consist of the following:

Macular Degeneration	\$1,745,171
Retinal Regeneration Project	1,682,984
Retinal Vitreous Project	418,163
Directors fund	140,683
Diabetic Retinopathy	104,470
Macular Degeneration Partnership	43,849
Other	<u>4,831</u>
	<u>\$4,140,151</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, 2010. Employer contributions under this plan for the year ended December 31, 2010 were \$13,590.

DISCOVERY EYE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

9. 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 2011. Future minimum payments due in the year ended December 31, 2011 are \$56,089. Rent expense under the operating lease for the year ended December 31, 2010 was \$59,444.