

DISCOVERY EYE FOUNDATION

FINANCIAL STATEMENTS

DECEMBER 31, 2013

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Discovery Eye Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of Discovery Eye Foundation (a nonprofit organization), which comprise the Statement of Financial Position as of December 31, 2013, and the related Statements of Activities, Statement of 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 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.

INDEPENDENT AUDITORS' REPORT

continued

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, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Report on Summarized Comparative Information

We have previously audited Discovery Eye Foundation's 2012 financial statements, and our report dated March 27, 2013, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Harrington Group

Pasadena, California

March 10, 2014

DISCOVERY EYE FOUNDATION

STATEMENT OF FINANCIAL POSITION

December 31, 2013

With comparative totals at December 31, 2012

	Unrestricted	Temporarily Restricted	2013	2012
Assets				
Cash and cash equivalents (Note 2)	\$ 485,590	\$ -	\$ 485,590	\$ 372,641
Pledges receivable (Note 3)		48,077	48,077	25,000
Other receivable	243		243	243
Prepaid expenses	210,133		210,133	264,114
Investments (Note 4)	2,175,685	966,669	3,142,354	6,308,933
Property and equipment (Note 5)	36,059		36,059	43,752
Total assets	<u>\$ 2,907,710</u>	<u>\$ 1,014,746</u>	<u>\$ 3,922,456</u>	<u>\$ 7,014,683</u>
Liabilities and net assets				
Liabilities				
Accounts payable	\$ 4,202	\$ -	\$ 4,202	\$ 4,306
Accrued liabilities (Note 6)	12,808		12,808	15,320
Total liabilities	<u>17,010</u>	<u>-</u>	<u>17,010</u>	<u>19,626</u>
Net assets				
Unrestricted (Note 2)	2,890,700		2,890,700	5,726,612
Temporarily restricted (Note 7)		1,014,746	1,014,746	1,268,445
Total net assets	<u>2,890,700</u>	<u>1,014,746</u>	<u>3,905,446</u>	<u>6,995,057</u>
Total liabilities and net assets	<u>\$ 2,907,710</u>	<u>\$ 1,014,746</u>	<u>\$ 3,922,456</u>	<u>\$ 7,014,683</u>

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

DISCOVERY EYE FOUNDATION

STATEMENT OF ACTIVITIES

For the year ended December 31, 2013

With comparative totals for the year ended December 31, 2012

	Unrestricted	Temporarily Restricted	2013	2012
Revenue and support				
Contributions	\$ 138,825	\$ 576,412	\$ 715,237	\$ 1,128,606
Gain on investments	400,932		400,932	402,680
Interest and dividends	87,845		87,845	180,013
Miscellaneous income	5,710		5,710	11,208
Special event			-	9,564
Net assets released from program restrictions	830,111	(830,111)	-	-
Total revenue and support	<u>1,463,423</u>	<u>(253,699)</u>	<u>1,209,724</u>	<u>1,732,071</u>
Expenses				
Program services	3,737,233		3,737,233	1,733,158
Management and general	430,861		430,861	282,703
Fund development	131,241		131,241	121,011
Total expenses	<u>4,299,335</u>	<u>-</u>	<u>4,299,335</u>	<u>2,136,872</u>
Change in net assets	(2,835,912)	(253,699)	(3,089,611)	(404,801)
Net assets, beginning of year	<u>5,726,612</u>	<u>1,268,445</u>	<u>6,995,057</u>	<u>7,399,858</u>
Net assets, end of year	<u>\$ 2,890,700</u>	<u>\$ 1,014,746</u>	<u>\$ 3,905,446</u>	<u>\$ 6,995,057</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, 2013

With comparative totals for the year ended December 31, 2012

	Program Services	Support Services			Total Expenses	
		Management and General	Fund Development	Total	2013	2012
Salaries	\$ 199,981	\$ 100,453	\$ 93,435	\$ 193,888	\$ 393,869	\$ 415,688
Payroll taxes and benefits	25,448	83,179	7,767	90,946	116,394	88,128
Total personnel costs	225,429	183,632	101,202	284,834	510,263	503,816
Gift contributed	3,000,000			-	3,000,000	-
Grants awarded	264,741	59,277		59,277	324,018	846,200
Outside services	111,567	67,475	18,296	85,771	197,338	411,490
Rent	30,505	15,213		15,213	45,718	41,849
Meetings and conferences	27,765	3,659	39	3,698	31,463	58,319
Miscellaneous	5,843	21,073	799	21,872	27,715	31,171
Professional fees	4,051	21,422		21,422	25,473	42,160
Printing and publications	14,211	3,626	6,342	9,968	24,179	22,732
Advertising and promotion	23,471	200		200	23,671	14,687
Postage and delivery	11,547	1,969	2,820	4,789	16,336	17,027
Supplies	3,850	11,009	8	11,017	14,867	38,170
Telephone	3,837	6,236	1,652	7,888	11,725	12,643
Educational materials	8,969	957		957	9,926	18,587
Depreciation		8,393		8,393	8,393	8,142
Commission expense		8,079		8,079	8,079	44,829
Dues, memberships, and subscriptions	1,295	5,996	68	6,064	7,359	5,529
Insurance		7,116		7,116	7,116	6,165
Mileage and travel	152	5,529	15	5,544	5,696	4,571
Honorariums				-	-	5,000
Recruiting				-	-	3,785
Total 2013 functional expenses	<u>\$ 3,737,233</u>	<u>\$ 430,861</u>	<u>\$ 131,241</u>	<u>\$ 562,102</u>	<u>\$ 4,299,335</u>	
Total 2012 functional expenses	<u>\$ 1,733,158</u>	<u>\$ 282,703</u>	<u>\$ 121,011</u>	<u>\$ 403,714</u>		<u>\$ 2,136,872</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, 2013

With comparative totals for the year ended December 31, 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Change in net assets	\$ (3,089,611)	\$ (404,801)
Adjustments to reconcile change in net assets to net cash (used) by operating activities:		
Depreciation	8,393	8,142
(Gain) on investments	(400,932)	(402,680)
Reinvested interest and dividends	(87,845)	(180,013)
Unamortized discount on pledges	1,923	-
Changes in operating assets and liabilities:		
(Increase) in pledges receivable	(25,000)	(25,000)
(Increase) in other receivable	-	(243)
Decrease (increase) in prepaid expenses	53,981	(39,358)
(Decrease) in accounts payable	(104)	(1,255)
(Decrease) in accrued liabilities	(2,512)	(3,626)
Net cash (used) by operating activities	<u>(3,541,707)</u>	<u>(1,048,834)</u>
Cash flows from investing activities:		
Purchase of equipment	(700)	(50,000)
Proceeds from sale of investments	3,655,356	1,099,728
Net cash provided by investing activities	<u>3,654,656</u>	<u>1,049,728</u>
Net increase in cash and cash equivalents	112,949	894
Cash and cash equivalents, beginning of year	<u>372,641</u>	<u>371,747</u>
Cash and cash equivalents, end of year	<u><u>\$ 485,590</u></u>	<u><u>\$ 372,641</u></u>

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, 2013.

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 pledges receivable and certain investments at fair value: 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 22% of Discovery's total contribution revenue was derived from one private foundation for the year ended December 31, 2013.

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, 2012, from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through March 10, 2014, 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, 2013. 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, 2013 was 2%. Total amount of pledges receivable at December 31, 2013, of \$48,077, is expected to be collected as follows:

<u>Year ended June 30,</u>	
Less than one year	\$10,000
One to five years	<u>40,000</u>
Pledges receivable, gross	50,000
Less: unamortized discount on pledges receivable	<u>(1,923)</u>
Pledges receivable, net	<u>\$48,077</u>

continued

DISCOVERY EYE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

4. Investments

Investments at December 31, 2013 consist of the following:

Mutual funds	\$1,742,695
Stocks	1,113,204
Annuity	182,805
Government fixed income funds	100,377
Money market funds	<u>3,273</u>
	<u>\$3,142,354</u>

5. Property and Equipment

Property and equipment at December 31, 2013 consist of the following:

Equipment	\$197,130
Less: accumulated depreciation	<u>(161,071)</u>
	<u>\$ 36,059</u>

Depreciation expense for the year ended December 31, 2013 was \$8,393.

6. Accrued Liabilities

Accrued liabilities at December 31, 2013 consist of the following:

Accrued vacation	\$10,623
Other accruals	<u>2,185</u>
	<u>\$12,808</u>

7. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2013 consist of the following:

Retinal Vitreous Project	\$ 369,663
Retinal Regeneration Project	240,984
Macular Degeneration Partnership	233,890
National Keratoconus Foundation Estate	128,965
Keratoconus research	34,763
Director's Fund	4,391
Virology	<u>2,090</u>
	<u>\$1,014,746</u>

For the year ended December 31, 2013, net assets released from program restrictions were \$830,111.

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, 2013. Employer contributions under this plan for the year ended December 31, 2013 were \$6,072.

9. Fair Value Measurements

The table below presents the balances of assets measured at fair value at December 31, 2013 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$1,742,695	\$ -	\$ -	\$1,742,695
Equities	1,113,204			1,113,204
Annuity	182,805			182,805
Government fixed income funds	<u>100,377</u>			<u>100,377</u>
	<u>\$3,139,081</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$3,139,081</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).

The table below presents transactions measured at fair value on a non-recurring basis during the year ended December 31, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Pledge contributions - new	<u>\$ -</u>	<u>\$ -</u>	<u>\$50,000</u>	<u>\$50,000</u>

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

DISCOVERY EYE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

10. Commitments and Contingencies

Obligations Under Operating Leases

Discovery Eye Foundation leases an office space, under an operating lease. The lease was recently extended to June 30, 2015. 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,

2014	\$48,060
2015	<u>24,030</u>
Total	<u>\$72,090</u>

Rent expense under operating leases for the year ended December 31, 2013 was \$45,718.

11. Gift Contributed

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, was designated for capital construction and building of the Gavin Herbert Eye Institute ("GHEI") building and the remaining \$1,000,000 gift was to establish a research fund, to support laboratory research at GHEI.