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DISCOVERY EYE FOUNDATION

FINANCIAL STATEMENTS

DECEMBER 31, 2009

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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, 2009, 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, 2008 financial statements and, in our report dated April 15, 2009, 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, 2009, 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.

San Marino, California
May 14, 2010

DISCOVERY EYE FOUNDATION

STATEMENT OF FINANCIAL POSITION

December 31, 2009

With comparative totals at December 31, 2008

	Unrestricted	Temporarily Restricted	2009	2008
Assets				
Cash and cash equivalents (Note 2)	\$ 349,561	\$ -	\$ 349,561	\$ 580,947
Accounts receivable	5,515		5,515	1,754
Pledges receivable (Note 3)		77,899	77,899	137,891
Prepaid expenses	502,602		502,602	820,091
Investments (Note 4)	2,533,698	4,265,351	6,799,049	7,155,528
Property and equipment (Note 5)	7,152		7,152	9,855
Total assets	<u>\$ 3,398,528</u>	<u>\$ 4,343,250</u>	<u>\$ 7,741,778</u>	<u>\$ 8,706,066</u>
Liabilities and net assets				
Liabilities				
Accounts payable	\$ 11,629	\$ -	\$ 11,629	\$ 74,528
Accrued liabilities (Note 6)	160,764		160,764	15,199
Total liabilities	<u>172,393</u>	<u>-</u>	<u>172,393</u>	<u>89,727</u>
Net assets				
Unrestricted (Note 2)	3,226,135		3,226,135	3,927,091
Temporarily restricted (Note 7)		4,343,250	4,343,250	4,689,248
Total net assets	<u>3,226,135</u>	<u>4,343,250</u>	<u>7,569,385</u>	<u>8,616,339</u>
Total liabilities and net assets	<u>\$ 3,398,528</u>	<u>\$ 4,343,250</u>	<u>\$ 7,741,778</u>	<u>\$ 8,706,066</u>

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

DISCOVERY EYE FOUNDATION

STATEMENT OF ACTIVITIES

For the year ended December 31, 2009

With comparative totals for the year ended December 31, 2008

	Unrestricted	Temporarily Restricted	2009	2008
Revenue and support				
Contributions	\$ 170,616	\$ 1,772,317	\$ 1,942,933	\$ 3,401,479
Gain (loss) on investments	428,190		428,190	(1,693,845)
Interest and dividends	203,419		203,419	341,791
Miscellaneous income	2,772		2,772	69,469
Amortization of discount on pledges		3,696	3,696	(8,799)
(Loss) on disposal of property and equipment			-	(10,973)
Net assets released from program restrictions	2,122,011	(2,122,011)	-	-
Total revenue and support	<u>2,927,008</u>	<u>(345,998)</u>	<u>2,581,010</u>	<u>2,099,122</u>
Expenses				
Program services	2,640,181		2,640,181	2,519,215
Management and general	644,197		644,197	760,519
Fund development	343,586		343,586	428,420
Total expenses	<u>3,627,964</u>	<u>-</u>	<u>3,627,964</u>	<u>3,708,154</u>
Change in net assets	(700,956)	(345,998)	(1,046,954)	(1,609,032)
Net assets, beginning of year	<u>3,927,091</u>	<u>4,689,248</u>	<u>8,616,339</u>	<u>10,225,371</u>
Net assets, end of year	<u>\$ 3,226,135</u>	<u>\$ 4,343,250</u>	<u>\$ 7,569,385</u>	<u>\$ 8,616,339</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, 2009

With comparative totals for the year ended December 31, 2008

	Program Services	Support Services		Total	Total Expenses	
		Management and General	Fund Development		2009	2008
Salaries	\$ 856,619	\$ 236,572	\$ 171,037	\$ 407,609	\$ 1,264,228	\$ 1,135,156
Payroll taxes and benefits	223,750	107,104	34,266	141,370	365,120	242,363
Total personnel costs	1,080,369	343,676	205,303	548,979	1,629,348	1,377,519
Grant expense	1,235,071	30,217		30,217	1,265,288	1,377,323
Professional fees	102,974	92,332	29,974	122,306	225,280	311,812
Educational materials	114,501	18,765	9,888	28,653	143,154	94,154
Rent	40,712	3,815	18,159	21,974	62,686	84,800
Fundraising expense			27,252	27,252	27,252	78,152
Meetings and conferences	27,810	12,606	2,822	15,428	43,238	72,880
Management fees	6,000	43,550		43,550	49,550	70,200
Supplies	2,181	10,755	3,722	14,477	16,658	61,213
Printing and publications	8,895	48,962	28,267	77,229	86,124	56,758
Postage and delivery	4,336	17,778	4,747	22,525	26,861	35,223
Miscellaneous	1,221	6,124	1,766	7,890	9,111	29,846
Telephone	8,611	615	5,304	5,919	14,530	13,621
Honorariums				-	-	10,000
Dues, memberships, and subscriptions	652	2,062	702	2,764	3,416	9,837
Commission expense	188	2,295		2,295	2,483	8,965
Mileage and travel	2,586	2,090	2,655	4,745	7,331	5,292
Insurance		5,543		5,543	5,543	4,908
Depreciation	74	2,629		2,629	2,703	3,334
Recruiting	4,000	193	2,000	2,193	6,193	2,132
Repairs and maintenance		190	1,025	1,215	1,215	185
Total 2009 functional expenses	\$ 2,640,181	\$ 644,197	\$ 343,586	\$ 987,783	\$ 3,627,964	
Total 2008 functional expenses	\$ 2,519,215	\$ 760,519	\$ 428,420			\$ 3,708,154

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

DISCOVERY EYE FOUNDATION

STATEMENT OF CASH FLOWS

For the year ended December 31, 2009

With comparative totals for the year ended December 31, 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Change in net assets	\$ (1,046,954)	\$ (1,609,032)
Adjustments to reconcile change in net assets to net cash (used) by operating activities:		
Depreciation	2,703	3,334
Amortization of discount on pledges	(3,696)	8,799
(Gain) loss on investments	(428,190)	1,693,845
Reinvested interest income	(203,381)	(332,210)
Loss on disposal of property and equipment	-	10,972
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(3,761)	(1,494)
(Increase) decrease in pledges receivable	63,688	(88,981)
(Increase) decrease in prepaid expenses	317,489	(254,567)
Increase (decrease) in accounts payable	(62,899)	36,584
Increase (decrease) in accrued liabilities	<u>145,565</u>	<u>(1,402)</u>
Net cash (used) by operating activities	<u>(1,219,436)</u>	<u>(534,152)</u>
Cash flows from investing activities:		
Purchase of investments	(1,805,000)	(1,100,000)
Proceeds from sale of investments	<u>2,793,050</u>	<u>1,752,581</u>
Net cash provided by investing activities	<u>988,050</u>	<u>652,581</u>
Net increase (decrease) in cash and cash equivalents	(231,386)	118,429
Cash and cash equivalents, beginning of year	<u>580,947</u>	<u>462,518</u>
Cash and cash equivalents, end of year	<u><u>\$ 349,561</u></u>	<u><u>\$ 580,947</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 (IRC) 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, 2009.

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

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

The specific techniques used to measure fair value for financial statement elements are described in the notes below that relate to each element.

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 EYE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

2. **Summary of Significant Accounting Policies**, continued

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 70% of Discovery's total contribution revenue is derived from one private foundation at December 31, 2009.

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 for years ended December 31, 2006, 2007, and 2008, are subject to examination by federal and state taxing authorities, generally for three years 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.

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, 2008, from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through May 14, 2010, 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, 2009 and are deemed fully collectible; accordingly, no allowance for uncollectible pledges has been recorded as of December 31, 2009. 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, 2009 of \$77,899 is expected to be collected as follows:

Year ended December 31,

2010	\$35,293
2011	25,000
2012	<u>25,000</u>
Pledges receivable, gross	85,293
Less: unamortized discount on pledges receivable	<u>(7,394)</u>
Pledges receivable, net	<u>\$77,899</u>

4. Investments

Investments at December 31, 2009 consist of the following:

Government fixed income funds	\$2,639,440
Stocks	2,348,578
Mutual funds	1,415,462
Annuity	163,969
Certificates of deposit	120,841
Money market funds	<u>110,759</u>
	<u>\$6,799,049</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).

continued

DISCOVERY EYE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

5. Property and Equipment

Property and equipment at December 31, 2009 consist of the following:

Equipment	\$ 146,430
Less: accumulated depreciation	<u>(139,278)</u>
	<u>\$ 7,152</u>

Depreciation expense for the year ended December 31, 2009 was \$2,703.

6. Accrued Liabilities

Accrued liabilities at December 31, 2009 consist of the following:

Deferred revenue	\$149,728
Accrued vacation	<u>11,036</u>
	<u>\$160,764</u>

7. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2009 consist of the following:

Macular Degeneration	\$2,067,222
Retinal Regeneration Project	1,574,118
Retinal Vitreous Project	418,163
Directors fund	174,171
Diabetic Retinopathy	104,745
Other	<u>4,831</u>
	<u>\$4,343,250</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, 2009. Employer contributions under this plan for the year ended December 31, 2009 were \$11,410.

DISCOVERY EYE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

9. Commitments and Contingencies

Obligation Under an Operating Lease

Discovery has one long term operating lease for its office space at 6222 Wilshire, Suite 260. Future minimum payments by year and in the aggregate, under this lease with an initial or remaining term of one year or more, consist of the following:

Year ended December 31,

2010	\$ 59,698
2011	<u>50,990</u>
	<u>\$110,688</u>

Rent expense under the operating lease for the year ended December 31, 2009 was \$62,686.