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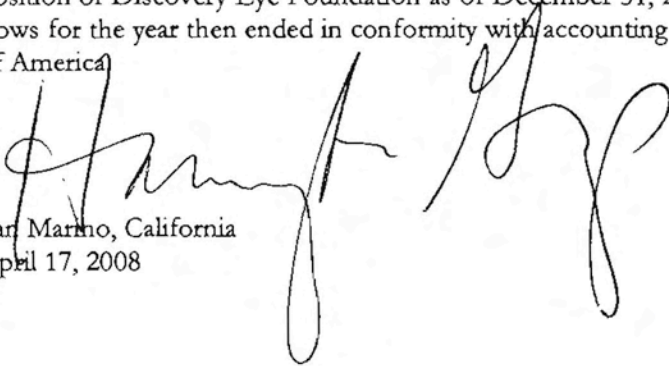
INDEPENDENT AUDITORS' REPORT

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, 2007 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, 2006 financial statements and in our report dated March 8, 2007 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, 2007 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
April 17, 2008

CONTENTS

	Pages
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	6-10

DISCOVERY EYE FOUNDATION

STATEMENT OF FINANCIAL POSITION

December 31, 2007

With comparative totals at December 31, 2006

	Unrestricted	Temporarily Restricted	2007	2006
Assets				
Cash and cash equivalents (Note 2)	\$ 462,518	\$ -	\$ 462,518	\$ 718,307
Accounts receivable	260		260	3,792
Pledges receivable (Note 3)	57,709		57,709	194,426
Prepaid expenses	565,524		565,524	403,661
Investments (Note 4)	5,008,186	4,161,558	9,169,744	9,024,317
Property and equipment (Note 5)	24,161		24,161	159,973
Total assets	<u>\$ 6,118,358</u>	<u>\$ 4,161,558</u>	<u>\$ 10,279,916</u>	<u>\$ 10,504,476</u>
Liabilities and net assets				
Liabilities				
Accounts payable	\$ 37,944	\$ -	\$ 37,944	\$ 9,038
Accrued liabilities (Note 6)	16,601		16,601	7,980
Total liabilities	<u>54,545</u>	<u>-</u>	<u>54,545</u>	<u>17,018</u>
Net assets				
Unrestricted (Note 2)	3,956,691		3,956,691	4,454,437
Unrestricted - board designated (Note 2)	2,107,122		2,107,122	2,107,122
Temporarily restricted (Note 7)		4,161,558	4,161,558	3,925,899
Total net assets	<u>6,063,813</u>	<u>4,161,558</u>	<u>10,225,371</u>	<u>10,487,458</u>
Total liabilities and net assets	<u>\$ 6,118,358</u>	<u>\$ 4,161,558</u>	<u>\$ 10,279,916</u>	<u>\$ 10,504,476</u>

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

DISCOVERY EYE FOUNDATION

STATEMENT OF ACTIVITIES

For the year ended December 31, 2007

With comparative totals for the year ended December 31, 2006

	Unrestricted	Temporarily Restricted	2007	2006
Revenue and support				
Contributions	\$ 423,853	\$ 2,463,356	\$ 2,887,209	\$ 3,089,934
Interest and dividends	326,340	11,504	337,844	311,614
Gain on investments	286,408	(9,453)	276,955	520,132
Miscellaneous income	5,652		5,652	3,461
Amortization of discount on pledges		3,283	3,283	25,768
Loss on disposal of fixed asset	(3,479)		(3,479)	-
Net assets released from program restrictions	2,233,031	(2,233,031)	-	-
Total revenue and support	3,271,805	235,659	3,507,464	3,950,909
Expenses				
Program services	2,919,583		2,919,583	1,164,762
Management and general	453,822		453,822	319,851
Fund development	396,146		396,146	359,580
Total expenses	3,769,551	-	3,769,551	1,844,193
Change in net assets	(497,746)	235,659	(262,087)	2,106,716
Net assets, beginning of year	6,561,559	3,925,899	10,487,458	8,380,742
Net assets, end of year	\$ 6,063,813	\$ 4,161,558	\$ 10,225,371	\$ 10,487,458

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

DISCOVERY EYE FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2007

With comparative totals for the year ended December 31, 2006

	Program Services		Total Program Services	Support Services		Total Expenses	
	Research	Education		Management and General	Fund Development	2007	2006
Salaries	\$ 663,499	\$ 89,438	\$ 752,937	\$ 22,662	\$ 147,953	\$ 923,552	\$ 795,438
Payroll taxes and benefits	110,911	5,891	116,802	83,365	7,720	207,887	197,043
Total personnel costs	774,410	95,329	869,739	106,027	155,673	1,131,439	992,481
Grant expense	1,648,353		1,648,353	17		1,648,370	81,321
Professional fees	85,327	20,968	106,295	118,257	38,533	263,085	202,256
Fundraising expense			-		142,888	142,888	44,683
Educational materials	35,258	32,290	67,548	22,547	2,113	92,208	70,181
Supplies	59,922	979	60,901	19,148	11,087	91,136	183,606
Meetings and conferences	54,173	1,650	55,823	18,516	1,267	75,606	21,881
Management fees	60,500		60,500	10,000		70,500	37,261
Rent			-	57,828		57,828	61,083
Recruiting	602		602	34,564	271	35,437	540
Honorariums	30,480		30,480	2,000		32,480	-
Printing and publications	11,054		11,054		19,086	30,140	49,992
Postage and delivery	2,731	34	2,765	10,266	12,692	25,723	13,527
Miscellaneous		1,145	1,145	15,312	4,970	21,427	9,183
Mileage and travel			-	16,407	2,703	19,110	5,345
Telephone	202	1,029	1,231	10,190	1,945	13,366	8,149
Dues, memberships, and subscriptions	1,340	541	1,881	1,749	2,618	6,248	4,864
Insurance			-	6,168		6,168	5,785
Depreciation	148	340	488	4,086	300	4,874	36,016
Commission expense	588		588	740		1,328	15,183
Repairs and maintenance	95	95	190			190	856
Total 2007 functional expenses	\$ 2,765,183	\$ 154,400	\$ 2,919,583	\$ 453,822	\$ 396,146	\$ 3,769,551	
Total 2006 functional expenses	\$ 998,455	\$ 166,307	\$ 1,164,762	\$ 319,851	\$ 359,580		\$ 1,844,193

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

DISCOVERY EYE FOUNDATION

STATEMENT OF CASH FLOWS

For the year ended December 31, 2007

With comparative totals for the year ended December 31, 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Change in net assets	\$ (262,087)	\$ 2,106,716
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	4,874	36,016
Amortization of discount on pledges	(3,283)	(25,768)
Donated investments	(5,268)	-
(Gain) on investments	(276,955)	(520,132)
Reinvested interest income	(150,065)	(129,305)
Loss on disposal of fixed asset	3,479	-
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	3,532	(3,446)
Decrease in pledges receivable	140,000	89,380
(Increase) in prepaid expenses	(161,863)	(384,553)
Increase (decrease) in accounts payable	28,906	(51,932)
Increase in accrued liabilities	8,621	7,980
Net cash provided (used) by operating activities	<u>(670,109)</u>	<u>1,124,956</u>
Cash flows from investing activities:		
Purchase of investments	(1,500,000)	(1,898,644)
Proceeds from sale of investments	1,786,861	1,074,438
Purchase of property and equipment	(9,682)	(142,608)
Proceeds from sale of property and equipment	137,141	-
Net cash provided (used) by investing activities	<u>414,320</u>	<u>(966,814)</u>
Net increase (decrease) in cash and cash equivalents	(255,789)	158,142
Cash and cash equivalents, beginning of year	<u>718,307</u>	<u>560,165</u>
Cash and cash equivalents, end of year	<u><u>\$ 462,518</u></u>	<u><u>\$ 718,307</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.

Unrestricted - Board Designated. These are comprised of resources that the Board of Directors has established as being designated for education and research grants. For purposes of complying with net asset accounting, this fund is included in unrestricted net assets at December 31, 2007.

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.

continued

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, 2007.

Cash and Cash Equivalents

Discovery has defined cash and cash equivalents as cash in banks and certificates of deposits with an original maturity of three months or less.

Contributions and Pledges Receivable

Unconditional contributions, including pledges recorded at estimated net realizable value, are recognized as revenue in the period received. Discovery reports unconditional contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets.

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.

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, and common stocks of publicly held companies. The Board of Directors routinely reviews market values of these investments.

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.

continued

DISCOVERY EYE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Income Taxes

Discovery is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

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.

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, 2006 from which the summarized information was derived.

Reclassifications

For comparability, certain December 31, 2006 amounts have been reclassified, where appropriate, to conform to the financial statement presentation used at December 31, 2007.

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, 2007 and are deemed fully collectible; accordingly, no allowance for uncollectible pledges has been recorded as of December 31, 2007. 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, 2007 of \$57,709 is expected to be collected as follows:

continued

DISCOVERY EYE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

3. Pledges Receivable, continued

Year ended December 31,

2008	\$40,000
2009	10,000
2010	<u>10,000</u>
Pledges receivable, gross	60,000
Less: unamortized discount on pledges receivable	<u>(2,291)</u>
Pledges receivable, net	<u>\$57,709</u>

4. Investments

Investments at December 31, 2007 consist of the following:

Government fixed income funds	\$3,669,065
Stocks	3,151,187
Mutual funds	1,765,203
Money market funds	216,538
Certificates of deposit	213,768
Annuity	<u>153,983</u>
	<u>\$9,169,744</u>

5. Property and Equipment

Property and equipment at December 31, 2007 consist of the following:

Equipment	\$146,430
Furniture and fixtures	37,631
Leasehold improvements	<u>11,572</u>
	195,633
Less: accumulated depreciation	<u>(171,472)</u>
	<u>\$ 24,161</u>

Depreciation expense for the year ended December 31, 2007 was \$4,874.

6. Accrued Liabilities

Accrued liabilities at December 31, 2007 consist of the following:

Accrued vacation	\$13,863
Other accrued liabilities	<u>2,738</u>
	<u>\$16,601</u>

continued

DISCOVERY EYE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

7. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2007 consist of the following:

Macular degeneration	\$1,558,699
Retinal regeneration project	1,257,968
Retinal vitreous project	494,032
Director's fund	329,936
Stem cell research	211,733
Diabetic retinopathy	139,418
Macular degeneration partnership	48,327
Renovo project	27,110
Ken Wright	25,978
Morris S. Pynoos	20,000
Jester research	20,000
Pilot projects	13,382
Keratinous research	5,635
Sunrise project	4,303
Boston project	3,567
Other	1,470
	<u>\$4,161,558</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 three percent of employee's annual earnings during the year ended December 31, 2007. Employer contributions under this plan for the year ended December 31, 2007 were \$12,016.