

DISCOVERY EYE FOUNDATION

FINANCIAL STATEMENTS

DECEMBER 31, 2017

CONTENTS

Independent Auditors' Report	1-2
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-12

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Discovery Eye Foundation

We have audited the accompanying financial statements of Discovery Eye Foundation (a nonprofit organization), which comprise the Statement of Position as of December 31, 2017, 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 Responsibilities 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.

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, 2017, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT

continued

Prior Period Financial Statements

The 2016 financial statements were reviewed by us, and our report thereon, dated May 31, 2017, stated we were not aware of any material modifications that should be made to those financial statements for them to be in conformity with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements.

Harrington Group

Pasadena, California
August 7, 2018

DISCOVERY EYE FOUNDATION

STATEMENT OF FINANCIAL POSITION

December 31, 2017 (Audited)

With comparative totals at December 31, 2016 (Reviewed)

	Unrestricted	Temporarily Restricted	2017 (Audited)	2016 (Reviewed)
ASSETS				
Cash and cash equivalents (Note 2)	\$ 185,808	\$ 77,040	\$ 262,848	\$ 188,970
Pledges receivable (Note 3)		10,000	10,000	29,423
Other receivable			-	869
Prepaid expenses			-	1,548
Investments (Note 4)	99,169	481,427	580,596	532,036
Property and equipment (Note 5)	4,469		4,469	13,811
TOTAL ASSETS	<u>\$ 289,446</u>	<u>\$ 568,467</u>	<u>\$ 857,913</u>	<u>\$ 766,657</u>
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable	\$ 4,042	\$ -	\$ 4,042	\$ 5,042
Accrued liabilities (Note 6)	17,983		17,983	17,011
TOTAL LIABILITIES	<u>22,025</u>	<u>-</u>	<u>22,025</u>	<u>22,053</u>
NET ASSETS				
Unrestricted	267,421		267,421	239,472
Temporarily restricted (Note 7)		568,467	568,467	505,132
TOTAL NET ASSETS	<u>267,421</u>	<u>568,467</u>	<u>835,888</u>	<u>744,604</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 289,446</u>	<u>\$ 568,467</u>	<u>\$ 857,913</u>	<u>\$ 766,657</u>

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

DISCOVERY EYE FOUNDATION

STATEMENT OF ACTIVITIES

For the year ended December 31, 2017 (Audited)

With comparative totals for the year ended December 31, 2016 (Reviewed)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2017 (Audited)</u>	<u>2016 (Reviewed)</u>
REVENUE AND SUPPORT				
Contributions	\$ 132,090	\$ 239,410	\$ 371,500	\$ 358,380
Gain on investments	74,045		74,045	104,408
Interest and dividends	23,653		23,653	29,334
Miscellaneous income	93		93	2,753
Change in value of pledges receivable			-	388
Net assets released from purpose restrictions	176,075	(176,075)	-	-
TOTAL REVENUE AND SUPPORT	<u>405,956</u>	<u>63,335</u>	<u>469,291</u>	<u>495,263</u>
EXPENSES				
Program services	268,466		268,466	517,024
Management and general	89,562		89,562	323,958
Fund development	19,979		19,979	56,556
TOTAL EXPENSES	<u>378,007</u>	<u>-</u>	<u>378,007</u>	<u>897,538</u>
CHANGE IN NET ASSETS	27,949	63,335	91,284	(402,275)
NET ASSETS, BEGINNING OF YEAR (NOTE 10)	<u>239,472</u>	<u>505,132</u>	<u>744,604</u>	<u>1,146,879</u>
NET ASSETS, END OF YEAR	<u>\$ 267,421</u>	<u>\$ 568,467</u>	<u>\$ 835,888</u>	<u>\$ 744,604</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, 2017 (Audited)

With comparative totals for the year ended December 31, 2016 (Reviewed)

		Support Services		Support Services Total	Total Expenses	
	Program Services	Management and General	Fund Development		2017 (Audited)	2016 (Reviewed)
Salaries	\$ -	\$ 67,153	\$ 15,479	\$ 82,632	\$ 82,632	\$ 149,184
Payroll taxes and benefits		16,054	4,500	20,554	20,554	61,765
Total personnel costs	-	83,207	19,979	103,186	103,186	210,949
Gift contributed	142,225			-	142,225	316,785
Outside services	51,672			-	51,672	217,991
Professional fees	23,001			-	23,001	30,633
Supplies	9,252	3,084		3,084	12,336	24,014
Advertising and promotion	10,692			-	10,692	16,306
Depreciation	9,342			-	9,342	9,342
Insurance	4,490	1,497		1,497	5,987	4,233
Miscellaneous	5,481			-	5,481	9,123
Printing and publications	5,012			-	5,012	16,779
Postage and delivery	2,662	888		888	3,550	2,664
Telephone	2,658	886		886	3,544	8,836
Dues, memberships, and subscriptions	1,414			-	1,414	1,888
Commission expense	565			-	565	4,412
Meetings and conferences				-	-	17,167
Rent				-	-	6,045
Educational materials				-	-	358
Mileage and travel				-	-	13
Honorariums				-	-	-
Bad debt				-	-	-
Repairs and maintenance				-	-	-
TOTAL 2017 FUNCTIONAL EXPENSES	\$ 268,466	\$ 89,562	\$ 19,979	\$ 109,541	\$ 378,007	
TOTAL 2016 FUNCTIONAL EXPENSES	\$ 517,024	\$ 323,958	\$ 56,556	\$ 380,514		\$ 897,538

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

DISCOVERY EYE FOUNDATION

STATEMENT OF CASH FLOWS

For the year ended December 31, 2017 (Audited)

With comparative totals for the year ended December 31, 2016 (Reviewed)

	2017 (Audited)	2016 (Reviewed)
CASH FLOWS FROM (TO) OPERATING ACTIVITIES:		
Change in net assets	\$ 91,284	\$ (402,275)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	9,342	9,342
(Gain) on investments	(74,045)	(104,408)
Unamortized discount on pledges	-	(388)
Write off on pledges receivable	-	10,000
(Increase) decrease in operating assets:		
Pledges receivable	19,423	-
Other receivable	869	(578)
Prepaid expenses	1,548	138,180
Increase (decrease) in operating liabilities:		
Accounts payable	(1,000)	(911)
Accrued liabilities	972	(8,623)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	48,393	(359,661)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Reinvested interest and dividends	(23,604)	(29,296)
Proceeds from sale of investments	49,089	297,332
NET CASH PROVIDED BY INVESTING ACTIVITIES	25,485	268,036
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	73,878	(91,625)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	188,970	280,595
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 262,848	\$ 188,970

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 purpose restrictions.

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, 2017.

DISCOVERY EYE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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 certain investments at fair value. The specific techniques used to measure fair value for the financial statement element is described in the notes below that relate to the 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 money market funds, mutual funds and common stocks of publicly held companies. The Board of Directors routinely reviews market values of these investments.

Approximately 79% of Discovery's total revenue was derived from contributions for the year ended December 31, 2017.

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, 2016, from which the summarized information was derived.

Reclassification

Certain amounts from the December 31, 2016 financial statements have been reclassified for comparative purposes to conform to December 31, 2017 presentation.

Subsequent Events

Management has evaluated subsequent events through August 7, 2018, the date which the financial statements were available for issue. No events or transactions have occurred during this period that appear to require recognition or disclosure in the financial statements.

3. Pledge Receivable

Pledges 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, 2017 in the amount of \$10,000 is expected to be collected within one year.

DISCOVERY EYE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

4. Investments

Investments at December 31, 2017 consist of the following:

Equities	\$526,561
Mutual funds	51,000
Money market funds	<u>3,035</u>
	<u>\$580,596</u>

5. Property and Equipment

Property and equipment at December 31, 2017 consist of the following:

Equipment	\$ 201,575
Less: accumulated depreciation	<u>(197,106)</u>
	<u>\$ 4,469</u>

Depreciation expense for the year ended December 31, 2017 was \$9,342.

6. Accrued Liabilities

Accrued liabilities at December 31, 2017 consist of the following:

Other accruals	\$16,441
Accrued vacation	<u>1,542</u>
	<u>\$17,983</u>

7. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2017 consist of the following:

Macular Degeneration	\$314,819
Retinal Vitreous Project	126,608
Keratoconus research	50,931
Mitochondria research	40,000
Director's Fund	26,109
Weisz Family Foundation (Time restricted)	<u>10,000</u>
	<u>\$568,467</u>

For the year ended December 31, 2017, net assets released from purpose restrictions were \$176,075.

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, 2017. Employer contributions under this plan for the year ended December 31, 2017 were \$488.

9. Fair Value Measurements

The table below presents the balances of assets measured at fair value at December 31, 2017 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities:				
Large value	\$316,259	\$ -	\$ -	\$316,259
Mid value	<u>210,302</u>	<u> </u>	<u> </u>	<u>210,302</u>
	526,561	-	-	526,561
Mutual funds:				
Preferred securities	<u>51,000</u>	<u> </u>	<u> </u>	<u>51,000</u>
	<u><u>\$577,561</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$577,561</u></u>

The fair value of mutual funds and equities are measured on a recurring basis using quoted prices for identical assets in active markets (Level 1 inputs).

10. Prior Period Adjustment

Net assets as of December 31, 2016 have been restated to record \$475,709 in temporarily net assets which was incorrectly reported as unrestricted net assets in a prior period. The comparative totals for December 31, 2016 presented in the financial statements have been restated to reflect the corrected balances as follows:

	<u>As previously Reported</u>	<u>Adjustment</u>	<u>As Restated</u>
<u>Statement of Financial Position:</u>			
Unrestricted net assets, beginning			
December 31, 2016	\$715,181	\$(475,709)	\$239,472
Temporarily restricted net assets, beginning			
December 31, 2016	\$29,423	\$475,709	\$505,132