

**DISCOVERY EYE FOUNDATION**

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**FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

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**INDEPENDENT ACCOUNTANT'S REVIEW REPORT**

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To the Board of Directors  
Discovery Eye Foundation

We have reviewed the accompanying Statement of Financial Position of Discovery Eye Foundation (a nonprofit organization) as of December 31, 2016, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

**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.

**Accountant's Responsibility**

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

**Accountant's Conclusion**

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

**Report on 2015 Financial Statements**

The 2015 financial statements were audited by us, and we expressed an unmodified opinion on them in our report dated July 7, 2016. We have not performed any auditing procedures since that date.

*Harrington Group*

Pasadena, California  
May 31, 2017

# DISCOVERY EYE FOUNDATION

## STATEMENT OF FINANCIAL POSITION

December 31, 2016 (Reviewed)

With comparative totals at December 31, 2015 (Audited)

	Unrestricted	Temporarily Restricted	2016 (Reviewed)	2015 (Audited)
<b>ASSETS</b>				
Cash and cash equivalents (Note 2)	\$ 188,970	\$ -	\$ 188,970	\$ 280,595
Pledges receivable (Note 3)		29,423	29,423	39,035
Other receivable	869		869	291
Prepaid expenses	1,548		1,548	139,728
Investments (Note 4)	532,036		532,036	695,664
Property and equipment (Note 5)	13,811		13,811	23,153
<b>TOTAL ASSETS</b>	<b>\$ 737,234</b>	<b>\$ 29,423</b>	<b>\$ 766,657</b>	<b>\$ 1,178,466</b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 5,042	\$ -	\$ 5,042	\$ 5,953
Accrued liabilities (Note 6)	17,011		17,011	25,634
<b>TOTAL LIABILITIES</b>	<b>22,053</b>	<b>-</b>	<b>22,053</b>	<b>31,587</b>
<b>NET ASSETS</b>				
Unrestricted (Note 2)	715,181		715,181	383,915
Temporarily restricted (Note 7)		29,423	29,423	762,964
<b>TOTAL NET ASSETS</b>	<b>715,181</b>	<b>29,423</b>	<b>744,604</b>	<b>1,146,879</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 737,234</b>	<b>\$ 29,423</b>	<b>\$ 766,657</b>	<b>\$ 1,178,466</b>

See independent accountants' review report and notes to these financial statements.

# DISCOVERY EYE FOUNDATION

## STATEMENT OF ACTIVITIES

For the year ended December 31, 2016 (Reviewed)

With comparative totals for the year ended December 31, 2015 (Audited)

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>2016 (Reviewed)</b>	<b>2015 (Audited)</b>
<b>REVENUE AND SUPPORT</b>				
Contributions	\$ 226,476	\$ 131,904	\$ 358,380	\$ 711,178
Gain (loss) on investments	104,408		104,408	(96,807)
Interest and dividends	29,334		29,334	50,200
Miscellaneous income	2,753		2,753	3,300
Change in value of pledges receivable		388	388	(965)
Net assets released from purpose restrictions	865,833	(865,833)	-	-
<b>TOTAL REVENUE AND SUPPORT</b>	<b>1,228,804</b>	<b>(733,541)</b>	<b>495,263</b>	<b>666,906</b>
<b>EXPENSES</b>				
Program services	517,024		517,024	2,591,823
Management and general	323,958		323,958	529,047
Fund development	56,556		56,556	121,065
<b>TOTAL EXPENSES</b>	<b>897,538</b>	<b>-</b>	<b>897,538</b>	<b>3,241,935</b>
<b>CHANGE IN NET ASSETS</b>	<b>331,266</b>	<b>(733,541)</b>	<b>(402,275)</b>	<b>(2,575,029)</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>383,915</b>	<b>762,964</b>	<b>1,146,879</b>	<b>3,721,908</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 715,181</b>	<b>\$ 29,423</b>	<b>\$ 744,604</b>	<b>\$ 1,146,879</b>

See independent accountants' review report and notes to these financial statements.

# DISCOVERY EYE FOUNDATION

## STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2016 (Reviewed)

With comparative totals for the year ended December 31, 2015 (Audited)

	Program Services	Support Services		Support Services Total	Total Expenses	
		Management and General	Fund Development		2016 (Reviewed)	2015 (Audited)
Salaries	\$ 71,315	\$ 55,571	\$ 22,298	\$ 77,869	\$ 149,184	\$ 432,163
Payroll taxes and benefits	21,058	38,149	2,558	40,707	61,765	124,754
Total personnel costs	92,373	93,720	24,856	118,576	210,949	556,917
Gift contributed	315,627	1,158		1,158	316,785	2,208,073
Outside services	48,663	149,154	20,174	169,328	217,991	239,941
Professional fees	1,110	29,523		29,523	30,633	28,686
Meetings and conferences	11,793	4,696	678	5,374	17,167	29,589
Printing and publications	6,090	7,035	3,654	10,689	16,779	24,710
Advertising and promotion	14,096	2,051	159	2,210	16,306	9,542
Supplies	5,475	8,380	159	8,539	14,014	21,366
Bad debt	10,000				10,000	-
Depreciation		9,342		9,342	9,342	8,898
Miscellaneous	1,490	5,215	2,418	7,633	9,123	25,389
Telephone	4,962	1,456	2,418	3,874	8,836	18,781
Rent	3,147	1,325	1,573	2,898	6,045	33,102
Commission expense	79	4,333		4,333	4,412	6,965
Insurance	398	3,835		3,835	4,233	6,161
Postage and delivery	1,257	1,209	198	1,407	2,664	13,155
Dues, memberships, and subscriptions	147	1,472	269	1,741	1,888	4,780
Educational materials	316	42		42	358	2,579
Mileage and travel	1	12		12	13	2,701
Honorariums				-	-	500
Repairs and Maintenance				-	-	100
<b>TOTAL 2016 FUNCTIONAL EXPENSES</b>	<b>\$ 517,024</b>	<b>\$ 323,958</b>	<b>\$ 56,556</b>	<b>\$ 380,514</b>	<b>\$ 897,538</b>	
<b>TOTAL 2015 FUNCTIONAL EXPENSES</b>	<b>\$ 2,591,823</b>	<b>\$ 529,047</b>	<b>\$ 121,065</b>	<b>\$ 650,112</b>		<b>\$ 3,241,935</b>

See independent accountants' review report and notes to these financial statements.

# DISCOVERY EYE FOUNDATION

## STATEMENT OF CASH FLOWS

For the year ended December 31, 2016 (Reviewed)

With comparative totals for the year ended December 31, 2015 (Audited)

	<b>2016</b> <b>(Reviewed)</b>	<b>2015</b> <b>(Audited)</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (402,275)	\$ (2,575,029)
Adjustments to reconcile change in net assets to net cash (used) by operating activities:		
Depreciation	9,342	8,898
(Gain) loss on investments	(104,408)	96,807
Reinvested interest and dividends	(29,296)	(50,200)
Unamortized discount on pledges	(388)	965
Write off on pledges receivable	10,000	-
(Increase) decrease in operating assets:		
Pledges receivable	-	(1,727)
Other receivable	(578)	10,000
Prepaid expenses	138,180	11,168
Increase (decrease) in operating liabilities:		
Accounts payable	(911)	(119)
Accrued liabilities	(8,623)	10,722
<b>NET CASH (USED) BY OPERATING ACTIVITIES</b>	<b>(388,957)</b>	<b>(2,488,515)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of equipment	-	(4,445)
Proceeds from sale of investments	297,332	2,339,647
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>297,332</b>	<b>2,335,202</b>
<b>NET (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(91,625)</b>	<b>(153,313)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>280,595</b>	<b>433,908</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 188,970</b>	<b>\$ 280,595</b>

See independent accountants' review report and notes to these financial statements.

# DISCOVERY EYE FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

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### 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.

**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, 2016.

# DISCOVERY EYE FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

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### 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 this financial statement element is described in the notes below that relate to the element.

# DISCOVERY EYE FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

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### 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 72% of Discovery's total revenue was derived from contributions for the year ended December 31, 2016.

#### **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

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### 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, 2015, from which the summarized information was derived.

#### Subsequent Events

Management has evaluated subsequent events through May 31, 2017, 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

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, 2016. 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, 2016 was 2%. Total amount of pledges receivable at December 31, 2016, of \$30,000, is expected to be collected as follows:

<u>Year ended December 31,</u>	
Less than one year	\$10,000
One to five years	<u>20,000</u>
Pledges receivable, gross	30,000
Less: unamortized discount on pledges receivable	<u>(577)</u>
Pledges receivable, net	<u>\$29,423</u>

continued

# DISCOVERY EYE FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

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### 4. Investments

Investments at December 31, 2016 consist of the following:

Equities	\$471,337
Mutual funds	46,550
Money market funds	13,839
Cash	<u>310</u>
	<u>\$532,036</u>

### 5. Property and Equipment

Property and equipment at December 31, 2016 consist of the following:

Equipment	\$ 201,575
Less: accumulated depreciation	<u>(187,764)</u>
	<u>\$ 13,811</u>

Depreciation expense for the year ended December 31, 2016 was \$9,342.

### 6. Accrued Liabilities

Accrued liabilities at December 31, 2016 consist of the following:

Other accruals	\$13,857
Accrued vacation	<u>3,154</u>
	<u>\$17,011</u>

### 7. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2016 consist of the following:

Weisz Family Foundation (Time restricted)	<u>\$29,423</u>
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For the year ended December 31, 2016, net assets released from purpose restrictions were \$865,833.

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## DISCOVERY EYE FOUNDATION

### NOTES TO FINANCIAL STATEMENTS

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#### 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, 2016. Employer contributions under this plan for the year ended December 31, 2016 were \$1,739.

#### 9. Fair Value Measurements

The table below presents the balances of assets measured at fair value at December 31, 2016 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities:				
Large Value	\$293,167	\$ -	\$ -	<u>\$293,167</u>
Cyclical	<u>178,170</u>	<u>          </u>	<u>          </u>	<u>178,170</u>
	471,337	-	-	<u>471,337</u>
Mutual funds:				
Preferred Securities	<u>46,550</u>	<u>          </u>	<u>          </u>	<u>46,550</u>
	<u>\$517,887</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$517,887</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).