

THE ARMENIAN EYECARE PROJECT

FINANCIAL STATEMENTS

Years Ended December 31, 2012 and 2011

DRAFT

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Armenian EyeCare Project
Newport Beach, California

We have audited the accompanying financial statements of The Armenian EyeCare Project (a California Non-Profit Public Benefit Corporation), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and cash flows for the years 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditor's 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 The Armenian EyeCare Project as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

December 6, 2013

THE ARMENIAN EYECARE PROJECT
 STATEMENTS OF FINANCIAL POSITION
 December 31, 2012 and 2011

ASSETS

	<u>2012</u>	<u>2011</u>
CURRENT ASSETS		
Cash	\$ 457,697	\$ 420,301
Investments	<u>710,863</u>	<u>647,096</u>
Total current assets	1,168,560	1,067,397
PROPERTY AND EQUIPMENT, net	<u>675,041</u>	<u>730,772</u>
Total assets	<u>\$ 1,843,601</u>	<u>\$ 1,798,169</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accrued expenses	\$ <u>13,564</u>	\$ <u>36,411</u>
Total current liabilities	13,564	36,411
UNRESTRICTED NET ASSETS	<u>1,830,037</u>	<u>1,761,758</u>
Total liabilities and net assets	<u>\$ 1,843,601</u>	<u>\$ 1,798,169</u>

THE ARMENIAN EYECARE PROJECT
 STATEMENTS OF ACTIVITIES
 Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>% of Revenue</u>	<u>2011</u>	<u>% of Revenue</u>
REVENUES AND GAINS				
Donations	\$ 229,530	15.76%	\$ 390,994	23.47%
Grants	645,004	44.27	127,716	7.67
Bequests	-	0.00	378,592	22.72
Special events	123,606	8.49	202,250	12.14
Donations in-kind	392,546	26.94	559,143	33.55
Interest and dividend income	29,730	2.04	32,013	1.92
Net realized and unrealized gains (losses) on investments	<u>36,481</u>	<u>2.50</u>	<u>(24,523)</u>	<u>(1.47)</u>
Total revenues and gains	<u>1,456,897</u>	<u>100.00%</u>	<u>1,666,185</u>	<u>100.00%</u>
EXPENSES				
Program	1,043,768		1,169,741	
Fund development and marketing	241,441		340,581	
Administrative and general	<u>103,409</u>		<u>98,279</u>	
Total expenses	<u>1,388,618</u>		<u>1,608,601</u>	
CHANGE IN UNRESTRICTED NET ASSETS				
	<u>68,279</u>		<u>57,584</u>	
UNRESTRICTED NET ASSETS, beginning	<u>1,761,758</u>		<u>1,704,174</u>	
UNRESTRICTED NET ASSETS, ending	<u>\$ 1,830,037</u>		<u>\$ 1,761,758</u>	

THE ARMENIAN EYECARE PROJECT
 STATEMENTS OF CASH FLOWS
 Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 68,279	\$ 57,584
Adjustment to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	308,357	309,111
Net investment (gains) losses	(63,767)	(5,105)
Donations of in-kind equipment	(202,714)	(142,000)
(Increase) decrease in:		
Prepaid expenses	-	10,000
Increase (decrease) in:		
Accrued expenses	<u>(22,847)</u>	<u>(43,365)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>87,308</u>	<u>186,225</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(49,912)</u>	<u>(55,544)</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(49,912)</u>	<u>(55,544)</u>
NET INCREASE (DECREASE) IN CASH	37,396	130,681
BEGINNING CASH BALANCE	<u>420,301</u>	<u>289,620</u>
ENDING CASH BALANCE	<u>\$ 457,697</u>	<u>\$ 420,301</u>

THE ARMENIAN EYECARE PROJECT
NOTES TO FINANCIAL STATEMENTS

NOTE 1: THE ORGANIZATION

The Armenian EyeCare Project (AECPP), a California Non-Profit Public Benefit Corporation, (the Organization) was incorporated on January 22, 2002. The purpose of the AECPP is to provide eye care and to assist in the prevention and treatment of blindness, eye disease and eye injuries in Armenia and such other places throughout the world as designated by the Board of Directors.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Public support and revenue

Contributions are generally available for unrestricted use in the related period unless specifically restricted by the donor. Grants and other contributions of cash and other assets are reported 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 purpose 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 restrictions.

Contributions of donated non-cash assets are recorded at their fair values in the period received. Equipment with a fair value greater than \$500 is capitalized while equipment with a fair value less than \$500 is expensed as program costs. All consumables, regardless of fair value, such as medical supplies and pharmaceuticals are expensed at their fair value and are reflected in program costs. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

Cash and cash equivalents

For purposes of the statement of cash flows the Organization considers all highly liquid short-term investments purchased with a maturity of three months or less to be cash equivalents.

Concentration of credit risk from financial instruments

The Organization maintains cash accounts with one financial institution. The Organization from time to time may have bank deposits in excess of the FDIC insurance limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles necessarily requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

THE ARMENIAN EYECARE PROJECT
NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and exempt from California franchise tax under Section 23701d of the California Revenue and Taxation Code.

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for 2012 and 2011.

The Organization files its Form 990 in the U.S. federal jurisdiction and the office of the state's attorney general for the State of California and its Form 199 with the California Franchise Tax Board. The Organization is generally no longer subject to examination by the Internal Revenue Service or the California Franchise Tax Board for years before 2008.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

Property and equipment

Property and equipment are stated at cost. Depreciation of property and equipment is computed using the straight-line method. Estimated useful lives of the assets are as follows:

Mobile hospital	10 years
Medical equipment	7 years
Vehicles	5-10 years
Tent	5 years
Office equipment, furniture and fixtures	5-7 years
Computer equipment	5 years
Computer software	3 years

The cost of normal maintenance and repairs is charged to operations as incurred, whereas expenditures which materially extend property lives are capitalized. When depreciable property is retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in income.

THE ARMENIAN EYECARE PROJECT
NOTES TO FINANCIAL STATEMENTS

NOTE 3: INVESTMENTS

Aggregate market value of investments as of December 31, 2012 and 2011, are summarized as follows:

	<u>2012</u>	<u>2011</u>
Unrestricted		
RMA Money Market Portfolio	\$ 88,826	\$ 71,713
FNMA Gtd Pass thru Pool	33,509	42,020
Russell 2000 Value Index Fund	20,916	18,182
Russell 1000 Value Index Fund	19,443	16,949
Russell 1000 Growth Index Fund	20,367	17,973
Standard and Poors Depository	19,653	17,319
Ishares MSCI Emerging Markets	16,587	14,189
Western Asset Management High Income Fund	48,866	47,837
Calvert Short Duration Income Fund	57,210	53,732
Clough Global Allocation Fund	18,098	15,440
FT Templeton Global Bond A	68,384	59,050
FT Franklin Strategic Income A	52,850	47,042
Loomis Sayles Strategic Income Fund	45,799	40,331
Neuberger Strategic Income Fund	52,315	46,871
Pioneer Strategic Income Fund	51,182	46,021
Blackrock Global Allocation Fund	46,638	42,393
ACM Income Fund	<u>50,220</u>	<u>50,034</u>
 Total unrestricted investments	 <u>\$ 710,863</u>	 <u>\$ 647,096</u>

The following schedule summarizes the investment return and its classification in the statements of activities for the years ended December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Interest and dividend income	\$ 29,628	\$ 31,861
Net unrealized gains (losses)	36,481	(24,523)
Investment fees	<u>(2,342)</u>	<u>(2,233)</u>
 Net investment return	 <u>\$ 63,767</u>	 <u>\$ 5,105</u>

THE ARMENIAN EYECARE PROJECT
NOTES TO FINANCIAL STATEMENTS

NOTE 4: PROPERTY AND EQUIPMENT

The balance of property and equipment as of December 31, 2012 and 2011 is summarized as follows:

	<u>2012</u>	<u>2011</u>
Mobile hospital	\$ 274,054	\$ 274,054
Medical equipment	2,422,208	2,169,582
Vehicles	72,687	72,687
Tent	12,052	12,052
Office equipment	26,314	26,314
Furniture and fixtures	20,315	20,315
Computer equipment	8,898	8,898
Computer software, website and database	<u>93,383</u>	<u>93,383</u>
 Total property and equipment	 2,929,911	 2,677,285
Less accumulated depreciation	<u>(2,254,870)</u>	<u>(1,946,513)</u>
 Property and equipment, net	 <u>\$ 675,041</u>	 <u>\$ 730,772</u>

Depreciation and amortization expense charged to operations for the years ended December 31, 2012 and 2011 totaled \$308,357 and \$309,111, respectively.

NOTE 5: FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing program services and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among program and supporting services benefited.

NOTE 6: U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID) GRANT

During the year ended December 31, 2012 the AECF was awarded a \$1,000,000 cost sharing (matching) grant from USAID to provide support for a program; "Center of Excellence for Prevention of Childhood Blindness" for the period from August 29, 2012 through August 28, 2015. According to the grant provisions, the AECF has agreed to expend an amount not less than \$276,314. If at the end of the funding period, the AECF has expended an amount of non-Federal funds less than the agreed upon amount, the Agreement Officer may apply the difference to reduce the amount of USAID incremental funding in the following funding period. If the award has expired or has been terminated, the Agreement Officer may require the AECF to refund the difference to USAID.

The AECF completed a \$1,550,000 cost sharing (matching) grant from USAID which provided support for a program in "Bringing Sight to Armenian Eyes" for the period from October 1, 2004 through September 30, 2011.

THE ARMENIAN EYECARE PROJECT
NOTES TO FINANCIAL STATEMENTS

NOTE 7: FUNCTIONAL EXPENSES

The following schedules summarize the functional expenses and their classification in the statements of activities for the years ended December 31, 2012 and 2011:

December 31, 2012

	<u>Program</u>	<u>Fund Development</u>	<u>Administrative and General</u>	<u>Total</u>
Banking	\$ 4	\$ 3,136	\$ 2,488	\$ 5,628
Computer expenses	14,824	12,141	11,781	38,746
Depreciation	284,527	21,685	2,145	308,357
Dues and subscriptions	380	-	-	380
Education	-	-	424	424
Equipment and supplies	60,731	52	6,132	66,915
Events and meetings	2,540	87,699	1,452	91,691
Insurance	8,937	-	3,940	12,877
Marketing and public relations	28,029	8,685	58	36,772
Office space	30,693	-	1,708	32,401
Personnel	254,575	45,692	33,878	334,145
Postage and shipping	17,099	20,608	588	38,295
Printing and production	5,083	37,489	396	42,968
Professional services	82,485	3,829	23,201	109,515
Taxes, licenses and fees	6,873	425	510	7,808
Telephone	247	-	2,441	2,688
Travel	42,645	-	-	42,645
Vehicles	14,264	-	12,267	26,531
	<u>853,936</u>	<u>241,441</u>	<u>103,409</u>	<u>1,198,786</u>
In-kind expenses				
Physician services	22,000	-	-	22,000
Equipment and supplies	144,032	-	-	144,032
Travel	23,800	-	-	23,800
	<u>189,832</u>	<u>-</u>	<u>-</u>	<u>189,832</u>
Totals	<u>\$1,043,768</u>	<u>\$ 241,441</u>	<u>\$ 103,409</u>	<u>\$1,388,618</u>

THE ARMENIAN EYECARE PROJECT
NOTES TO FINANCIAL STATEMENTS

NOTE 7: FUNCTIONAL EXPENSES (continued)

December 31, 2011

	<u>Program</u>	<u>Fund Development</u>	<u>Administrative and General</u>	<u>Total</u>
Banking	\$ 45	\$ 5,253	\$ 495	\$ 5,793
Computer expenses	3,585	40,991	6,439	51,015
Depreciation	286,326	20,713	2,072	309,111
Dues and subscriptions	134	-	-	134
Equipment and supplies	54,690	240	7,158	62,088
Events and meetings	266	92,986	2,880	96,132
Insurance	15,676	-	343	16,019
Marketing and public relations	28,933	20,301	63	49,297
Office space	24,279	788	4,759	29,826
Personnel	192,357	80,364	35,559	308,280
Postage and shipping	4,189	598	1,125	5,912
Printing and production	32,786	54,939	635	88,360
Professional services	70,936	19,917	21,782	112,635
Taxes, licenses and fees	135	-	888	1,023
Telephone	234	50	2,425	2,709
Travel	34,130	586	400	35,116
Vehicles	6,634	-	11,256	17,890
Website	<u>118</u>	<u>-</u>	<u>-</u>	<u>118</u>
	<u>755,453</u>	<u>337,726</u>	<u>98,279</u>	<u>1,191,458</u>
In-kind expenses				
Physician services	10,600	-	-	10,600
Professional services	-	1,650	-	1,650
Equipment and supplies	394,573	-	-	394,573
Travel	4,115	1,205	-	5,320
Other	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>5,000</u>
	<u>414,288</u>	<u>2,855</u>	<u>-</u>	<u>417,143</u>
Totals	<u>\$1,169,741</u>	<u>\$ 340,581</u>	<u>\$ 98,279</u>	<u>\$1,608,601</u>

THE ARMENIAN EYECARE PROJECT
NOTES TO FINANCIAL STATEMENTS

NOTE 8: FAIR VALUE MEASUREMENTS

Fair value of assets measured on a recurring basis at December 31, 2012 and 2011 are as follows:

<u>December 31, 2012</u>	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>
Investments – registered investment companies	\$ <u>710,863</u>	\$ <u>710,863</u>
Total	\$ <u>710,863</u>	\$ <u>710,863</u>
 <u>December 31, 2011</u>		
Investments – registered investment companies	\$ <u>647,096</u>	\$ <u>647,096</u>
Total	\$ <u>647,096</u>	\$ <u>647,096</u>

Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions.

NOTE 9: RELATED PARTY TRANSACTIONS

During the years ended December 31, 2012 and 2011, the Organization paid \$0 and \$8,994, respectively in computer related and marketing costs to an entity owned and controlled by the Executive Director's sister.

NOTE 10: SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 6, 2013, the date on which the financial statements were available to be issued.