Certified Public Accountants
and Financial Advisors

**Burn Institute**
Financial Statements
December 31, 2015

# INDEX TO FINANCIAL STATEMENTS

# INDEPENDENT AUDITOR'S REPORT

Board of Directors
Burn Institute
San Diego, California

We have audited the accompanying financial statements of the Burn Institute (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015, 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 Responsibility for the Financial Statements***

Management is responsible for the preparation and fair representation 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 representation 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 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 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 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 Burn Institute as of December 31, 2015, and the changes in its net assets and its cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matter***

The prior year comparative information has been derived from the December 31, 2014 financial statements dated February 24, 2015, which were audited by other independent auditors, on which they expressed an unqualified opinion.

Squar Milner LLP

**SQUAR MILNER LLP**

San Diego, California
August 10, 2016

**BURN INSTITUTE**
**STATEMENTS OF FINANCIAL POSITION**
**December 31, 2015 and 2014**

| | 2015 | 2014 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 435,443 | $ 213,107 |
| Grants and contracts receivable | 3,425 | 18,875 |
| Prepaid expenses and deposits | 21,217 | 13,533 |
| Fixed assets, net | 23,340 | 35,024 |
| Endowment Funds | 574,086 | 560,621 |
| **TOTAL ASSETS** | $ 1,057,511 | $ 841,160 |
| | | |
| **LIABILITIES AND NET ASSETS** | | |
| Liabilities: | | |
| Accounts payable and accrued expense | $ 80,408 | $ 32,973 |
| Deferred rent | 4,656 | – |
| Total liabilities | 85,064 | 32,973 |
| | | |
| **NET ASSETS** | | |
| Temporarily restricted | 573,370 | 589,410 |
| Permanently restricted | 54,338 | 58,162 |
| Unrestricted | 344,739 | 160,615 |
| Total net assets | 972,447 | 808,187 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 1,057,511 | $ 841,160 |

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

**BURN INSTITUTE**
**STATEMENTS OF ACTIVITIES**
**For the Year Ended December 31, 2015**
***(WITH SUMMARIZED FINANCIAL INFORMATION***
***For the Year Ended December 31, 2014)***

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Totals 2015 | Totals 2014 |
|---|---|---|---|---|---|
| **REVENUES AND OTHER SUPPORT** | | | | | |
| Contributions and donations | $ 388,596 | $ 385,025 | $ – | $ 773,621 | $ 966,567 |
| Grants and contracts | 106,022 | – | – | 106,022 | 35,398 |
| Special events | 374,556 | – | – | 374,556 | 66,134 |
| Support for campaigns | 29,340 | – | – | 29,340 | 48,063 |
| Miscellaneous income | 38,612 | – | – | 38,612 | – |
| Net investment income (loss) | 17,289 | – | (3,824) | 13,465 | 15,057 |
| Total revenues | 925,788 | 385,025 | (3,824) | 1,306,989 | 1,131,219 |
| Net assets released from temporary restrictions | 401,065 | (401,065) | – | – | – |
| **TOTAL REVENUES AND OTHER SUPPORT** | 1,326,853 | (16,040) | (3,824) | 1,306,989 | 1,131,219 |
| **EXPENSES** | | | | | |
| Program services | 1,102,396 | – | – | 1,102,396 | 955,074 |
| Management and general | 50,797 | – | – | 50,797 | 43,356 |
| Special events | 3,647 | – | – | 3,647 | 22,312 |
| Fundraising | 14,516 | – | – | 14,516 | 12,391 |
| **TOTAL EXPENSES** | 1,171,356 | – | – | 1,171,356 | 1,033,133 |
| **CHANGES IN NET ASSETS** | 184,124 | (16,040) | (3,824) | 164,260 | 98,086 |
| **NET ASSETS, BEGINNING OF YEAR** | 160,615 | 589,410 | 58,162 | 808,187 | 710,101 |
| **NET ASSETS, END OF YEAR** | $ 344,739 | $ 573,370 | $ 54,338 | $ 972,447 | $ 808,187 |


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

# BURN INSTITUTE
## STATEMENTS OF FUNCTIONAL EXPENSES
### For the Year Ended December 31, 2015
### *(WITH SUMMARIZED FINANCIAL INFORMATION*
### *For the Year Ended December 31, 2014)*

| | Program Services | Management and General | Fundraising | Special Events | Totals 2015 | Totals 2014 |
|---|---|---|---|---|---|---|
| Staff salaries | $ 343,007 | $ 26,385 | $ 7,539 | $ – | $ 376,931 | $ 314,110 |
| Payroll taxes and benefits | 76,844 | 5,911 | 1,689 | – | 84,444 | 82,044 |
| Printing, publications, visual aids | 8,142 | 626 | 179 | – | 8,947 | 18,951 |
| Community outreach | 213,890 | – | – | – | 213,890 | 194,602 |
| Burn care research and patient support | 228,121 | – | – | – | 228,121 | 196,827 |
| Occupancy | 96,806 | 7,447 | 2,127 | – | 106,380 | 59,154 |
| Travel (van) | 17,174 | 1,321 | 377 | – | 18,872 | 19,442 |
| Banquet | – | – | – | 3,647 | 3,647 | 22,311 |
| Educational | 9,236 | 710 | 203 | – | 10,149 | 5,463 |
| Professional fees | 16,483 | 1,268 | 362 | – | 18,113 | 41,606 |
| Special event expense - other | 23,249 | 1,788 | 511 | – | 25,548 | 5,017 |
| Office supplies and expense | 17,874 | 1,375 | 393 | – | 19,642 | 17,505 |
| Postage | 7,269 | 559 | 160 | – | 7,988 | 8,720 |
| Telephone | 4,952 | 381 | 109 | – | 5,442 | 5,803 |
| Insurance | 8,074 | 621 | 178 | – | 8,873 | 5,420 |
| Repairs and maintenance | 13,344 | 1,026 | 294 | – | 14,664 | 17,177 |
| Depreciation | 10,632 | 818 | 234 | – | 11,684 | 11,296 |
| Utilities | 7,299 | 561 | 161 | – | 8,021 | 7,685 |
| | $ 1,102,396 | $ 50,797 | $ 14,516 | $ 3,647 | $ 1,171,356 | $ 1,033,133 |



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

**BURN INSTITUTE**
**STATEMENTS OF CASH FLOWS**
**For the Years Ended December 31, 2015 and 2014**

| | | 2015 | | 2014 |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Change in net assets | $ | 164,260 | $ | 98,086 |
| Adjustments to reconcile change in net assets to net cash provided from operating activities: | | | | |
| Depreciation | | 11,684 | | 11,296 |
| Realized and unrealized loss (gain) on endowment funds | | (21,474) | | 49,219 |
| (Increase) decrease in operating assets: | | | | |
| Grants and contracts receivable | | 15,450 | | (5,007) |
| Prepaid expenses and deposits | | (7,684) | | 38 |
| (Increase) decrease in operating liabilities: | | | | |
| Accounts payable and accrued expenses | | 47,435 | | (19,300) |
| Deferred rent | | 4,656 | | – |
| Net cash flows provided by operating activities | | 214,327 | | 134,329 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Purchase of Fixed assets | | – | | (2,796) |
| Proceeds from endowment fund distributions | | 8,009 | | |
| Net cash flows (used in) provided by investing activities | | 8,009 | | (2,796) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Payments on short-term loan | | – | | (43,081) |
| Net cash flows used in financing activities | | – | | (43,081) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | 222,336 | | 88,452 |
| **CASH AND CASH EQUIVALENTS– BEGINNING OF YEAR** | | 213,107 | | 124,655 |
| **CASH AND CASH EQUIVALENTS – END OF YEAR** | $ | 435,443 | $ | 213,107 |

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

## 1. ORGANIZATION AND MISSION

The Burn Institute ("Organization") was incorporated in the State of California under the Non Profit Public Benefit Corporation Law on January 16, 1973. The Organization was originally incorporated under the name of Institute for Burn Medicine and amended its articles of incorporation on June 14, 1983, changing its name to the Burn Institute.

The mission of the Organization is to reduce the number of burn injuries and deaths in San Diego and Imperial Counties through burn prevention education, the funding of burn research and specialized equipment for the treatment of burn patients, and providing patient support services.

The following is a brief description of the Organization's programs:

- *Public Education* - The Organization provides school-based and community-based fire and burn prevention education programs (in both English and Spanish) and distributes fire and burn prevention literature to child care centers, preschools, grade schools K-6, community health centers, community resource centers, libraries, at health fairs and senior centers in an effort to prevent fire and burn injuries and deaths. The Organization's juvenile firesetter intervention program, wildfire prevention and preparation, and senior fire and burn prevention programs all provide the public with services that save lives and property through education.

- *Burn Care, Research and Patient Support* - The Organization grants funds for burn care and research projects to further advancements in burn care treatment. Patient support (burn survivor support) services include Camp Beyond the Scars for burn injured children, a retreat for adult burn survivors, and emergency housing and transportation for burn survivors and their families for burn care treatment and follow-up clinical visits.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *Financial Statement Presentation*

The financial statements are presented in conformity with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-205, *Not-For-Profit Entities – Presentation of Financial Statements*. Under ASC 958-205, the Organization reports information regarding its financial position and activities according to three classes of net assets, as follows:

*Unrestricted net assets*: Unrestricted net assets are available to support all activities of the Organization and are not subject to donor-imposed stipulations. These generally result from revenues generated by providing services, receiving unrestricted contributions, and receiving interest from investments, less expenses incurred in

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

***Financial Statement Presentation*** (continued)

providing program-related services, securing contributions, and performing administrative functions.

*Temporarily restricted net assets*: Net assets that are subject to donor-imposed stipulations that will be met either by actions of the Organization and/or the passage of time. 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 are reported in the statement of activities as net assets released from restrictions. There were temporarily restricted net assets of $573,370 and $589,410 as of December 31, 2015 and 2014, respectively.

*Permanently restricted net assets*: Net assets that are subject to donor-imposed stipulations that the restrictions be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on the related investments for general or specific purposes. There were permanently restricted net assets of $54,338 and $58,162 as of December 31, 2015 and 2014, respectively.

***Accounting Method - Basis of Accounting***

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported on the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied. The Organization uses the accrual basis of accounting. Revenues are recognized when they are earned and expenditures are recognized in the accounting period in which the liability is incurred.

***Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### *Income Taxes*

The Organization is exempt from income taxes under Internal Revenue Code Section 501(c)(3). It is, however, subject to income taxes from activities unrelated to its tax-exempt purpose. The Organization uses the same accounting methods for tax and financial reporting.

GAAP provides accounting and disclosure guidance about positions taken by an entity in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Organization's returns are subject to examination by federal and state taxing authorities, generally for three years and four years, respectively, after they are filed.

### *Cash and Cash Equivalents*

Cash and cash equivalents are from time to time variously composed of cash on hand, cash in banks, and liquid investments with original maturities of three months or less.

### *Fixed Assets*

Fixed assets are recorded at cost and depreciated under the straight-line method over their estimated useful lives of 5 to 7 years. Repair and maintenance costs, which do not extend the useful lives of the asset, are charged to expense. The cost of assets, sold or retired, and related amounts of accumulated depreciation are eliminated from the respective accounts, and any resulting gain or loss is included in earnings in the year of disposal. Management has elected to capitalize and depreciate all assets costing $5,000 or more; all other assets are charged to expense in the year incurred.

### *Donated services and support*

The Organization utilizes the services of many volunteers throughout the year. This contribution of services by the volunteers is not recognized in the financial statements unless the services received (a) create or enhance nonfinancial assets, or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The donated services for the years ended December 31, 2015 and 2014 did not meet the requirements above, therefore no amounts were recognized in the financial statements.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

***Net Investment Income (Loss)***

Net investment income (loss) on the Statement of Activities represents the realized and unrealized gain/(loss) on endowment funds net of distributions received.

***Functional allocation of expenses***

The costs of providing the program services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program services based on employees' time incurred and management's estimates of the usage of resources.

***Summarized Comparative Information***

The accompanying 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 principal generally accepted in the United States of America ("GAAP"). Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31. 2014, from which the summarized information was derived.

## 3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31, 2015 and 2014 consisted of the following:

| | 2015 | 2014 |
|---|---|---|
| Cash in banks: | | |
| Checking | $ 237,690 | $ 13,970 |
| Money Market | 197,353 | 198,737 |
| Cash on hand: | | |
| Petty cash | 400 | 400 |
| Total cash and cash equivalents | $ 435,443 | $ 213,107 |

Cash balances held in banks are insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC). The Organization maintains its cash in bank deposit accounts that at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts. At December 31, 2015 and 2014, the Organization had $193,471 and $0 in excess of FDIC insured limits, respectively.

## 4. FIXED ASSETS

Fixed assets at December 31, 2015 and 2014 consisted of the following:

| | 2015 | 2014 |
|---|---|---|
| Equipment | $ 81,138 | $ 81,138 |
| Automobiles | 129,537 | 129,537 |
| Gross fixed assets | 210,675 | 210,675 |
| Less: accumulated depreciation | (187,335) | (175,651) |
| Total fixed assets, net depreciation | $ 23,340 | $ 35,024 |

Depreciation expense for the years ended December 31, 2015 and 2014, was $11,684 and $11,296, respectively.

## 5. ENDOWMENT FUNDS

The endowment fund investments of the Organization are held by the San Diego Foundation ("SDF") and the Rancho Santa Fe Foundation ("RSFF"). The SDF and RSFF funds are managed in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The investment objectives are to maintain the purchasing power (real value) of the endowment funds. However, from time to time, the fair value of the assets in the endowment fund may fall below the level that the donors require the Organization to retain as a fund of perpetual duration.

Net assets held by the RSFF and SDF are comprised of:

1. The original value of gifts donated to the fund,
2. The original value of Organization funds transferred to the fund,
3. The original value of subsequent gifts donated to the fund,
4. Investment income and realized and unrealized gains and losses on investments, less
5. Distributions from the fund in accordance with spending policy.

Changes in endowment net assets for the years ended December 31:

| | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|
| Endowment net assets at December 31, 2013 | $ 550,895 | $ 58,942 | $ 609,837 |
| Contributions | 6,697 | - | 6,697 |
| Investment (loss) | - | 1,920 | 1,920 |
| Distributions | (45,000) | (2,401) | (47,401) |
| Appropriation of endowment assets for expenditure | (10,133) | (299) | (10,432) |
| Endowment net assets at December 31, 2014 | 502,459 | 58,162 | 560,621 |
| Investment income | 22,485 | (1,011) | 21,474 |
| Distributions | (5,196) | (2,813) | (8,009) |
| Endowment net assets at December 31, 2015 | $ 519,748 | $ 54,338 | $ 574,086 |

## 5. ENDOWMENT FUNDS (continued)

*Investments in Rancho Santa Fe Foundation*

Endowment funds held in the Rancho Santa Fe Foundation are classified as temporarily restricted. The funds held may be released to the Organization with 30 days notice. Variance power is granted to the Organization so long as the Organization is a qualifying tax-exempt entity under federal and California law. The funds are held in an investment pool structured for long-term total return consisting of index funds, fixed income funds, money market funds, emerging market funds and REITs. The Organization receives distributions of earnings on an annual basis. The distributions are used to further the Organization's mission. The investment is carried at fair value and at December 31, 2015 and 2014 totaled $519,748 and $502,459, respectively, as reported by RSFF.

*Beneficial Interest in San Diego Foundation*

The Organization has a beneficial interest in endowment funds held in San Diego Foundation, which are classified as permanently restricted as these investments must be maintained in perpetuity. The beneficial interest in San Diego Foundation is invested in a portfolio of equity and debt securities, which is structured for long-term total return, consisting of domestic equities, international equities, alternative investments, fixed income and real estate investments. Variance power is granted to the San Diego Foundation. SDF holds all fund contributions and monitors fund distributions. The Organization receives distributions of earnings on an annual basis. The distributions are used to further the Organization's mission in the San Diego and Imperial Counties. The beneficial interest carried at fair value and at December 31, 2015 and 2014 totaled $54,338 and $58,162, respectively, as reported by SDF.

SDF's spending policy is to disburse 5% annually, based upon endowment principal market value over the last 36 months. These calculations are made on a monthly basis. If the market value of the endowment principal of any fund, at the end of each month, is less than the initial value of all contributions made to the endowment principal, then distributions will be limited to interest and dividends received. Given the recent market declines, many of the SDF's endowment funds distributions will be limited to income received, which is approximately 2.5% of the endowment principal.

## 6. OPERATING LEASES

The Organization leases office space under lease agreements expiring in 2018. The future lease payments are as follows:

| Year Ending December 31, | | Lease Payments |
|---|---|---|
| 2016 | | $ 92,060 |
| 2017 | | 94,492 |
| 2018 | | 16,166 |
| | Total future lease payments | $ 202,718 |

The Organization receives no sublease rental revenues nor pays any contingent rentals associated with these leases. Operating lease expense for the years ended December 31, 2015 and 2014 was $101,724 and $59,154, respectively. The total future lease payments for the year ended December 31, 2018 only include the first two months of the year.

## 7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of funds received but not expended as of December 31, 2015 and 2014. Temporarily restricted net assets consist of the following at December 31:

| | 2015 | 2014 |
|---|---|---|
| Varshock | $ – | $ 57,998 |
| Rancho Santa Fe Foundation - Jerry and Carolyn Davee Fund | 491,139 | 496,875 |
| Rancho Santa Fe Foundation - The Burn Institute Foundation | 28,609 | – |
| Marius Fund | – | 3,625 |
| Boshard Fund | – | 775 |
| San Diego County Funds | 53,622 | – |
| Derek Thomas Fund | – | 23,147 |
| SDGE Grant | – | 5,000 |
| It’s Your Choice | – | 2,000 |
| Total temporarily restricted net assets | $ 573,370 | $ 589,410 |

## 7. TEMPORARILY RESTRICTED NET ASSETS (continued)

Net assets were released from donor restrictions due to the satisfaction of purpose or time restrictions as follows for the year ended December 31, 2015:

| | | |
|---|---|---|
| Varshock | $ | 52,426 |
| Marius Fund | | 3,530 |
| San Diego County Funds | | 2,485 |
| Rancho Santa Fe Fund | | 29,325 |
| Derek Thomas Fund | | 22,490 |
| SDGE Grant | | 150,616 |
| Emergency Needs/Special Assistance | | 73,193 |
| It's Your Choice | | 2,000 |
| CERT Grants | | 65,000 |
| Total net assets released from restrictions | $ | 401,065 |

## 8. COMBINED HEALTH AGENCIES

The Organization has an agreement with the Combined Health Agencies whereby the Organization receives a portion of the benefits derived from the United Way - CHAD campaign. The agreement provides that the Organization must conform to the Combined Health Agencies' bylaws, participate in the United Way - CHAD activities and promote the Combined Health Agencies' interest in the community. The agreement is a year-to-year agreement and can be terminated by either party. Contributions totaling $7,443 and $31,524 were recognized from the Combined Health Agencies and are included with support from campaigns in the accompanying statement of activities for the years ended December 31, 2015 and 2014, respectively.

## 9. PENSION PLAN

The Organization maintains a SEP-IRA (Simplified Employee Pension Individual Retirement Account) for all employees with three or more years of service. The plan provides for a contribution for each employee eligible of up to 15% of the employee's annual compensation. Contributions totaled $0 and $2,756 for the year ended December 31, 2015 and 2014, respectively.

## 10. SUBSEQUENT EVENTS

The Organization's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through August 10, 2016, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on, or require disclosure in, the current year financial statements.