Sonnenberg & Company CPA • AUDITS • TAXES • RESERVE STUDIES

Sonnenberg & Company, CPAs
A Professional Corporation

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Sonnenberg & Company 40 YEARS IN PRACTICE

Leonard C. Sonnenberg, CPA

Burn Institute
Audited Financial Statements
December 31, 2016

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RESERVE STUDIES

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Burn Institute

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, 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.

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 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 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 Burn Institute as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The prior year summarized comparative information has been derived from the Organization's December 31, 2015 financial statements, which were audited by other auditors whose report dated August 10, 2016 expressed an unmodified opinion on those financial statements.

June 29, 2017

Sonnenberg & Company, CPAs

BURN INSTITUTE
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016
(WITH TOTALS FOR DECEMBER 31, 2015)

	2016	2015
ASSETS		
Cash and cash equivalents	$ 593,362	$ 435,443
Grants and contracts receivable	2,875	3,425
Prepaid expenses and deposits	19,511	21,217
Fixed assets, net	31,929	23,340
Investments non-endowment	12,276	-
Endowment funds	680,608	574,086
TOTAL ASSETS	1,340,561	1,057,511
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	41,670	80,408
Deferred rent	-	4,656
Total Liabilities	41,670	85,064
Net Assets		
Temporarily restricted	637,312	573,370
Permanently restricted	55,572	54,338
Unrestricted	606,007	344,739
Total Net Assets	1,298,891	972,447
TOTAL LIABILITIES AND NET ASSETS	$ 1,340,561	$ 1,057,511

The accompanying notes are an integral part of these financial statements

BURN INSTITUTE

STATEMENTS OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2016

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2015)

		Temporarily	Permanently	Totals	
REVENUE AND SUPPORT	Unrestricted	Restricted	Restricted	2016	2015
Contributions and donations	$ 647,700	$ 143,550	$ -	$ 791,250	$ 773,621
Grants and contracts	327,720	261,919	-	589,639	106,022
Special event	48,875	-	-	48,875	374,556
Less: direct expenses	(33,873)	-	-	(33,873)	(3,647)
Support for campaigns	39,560	-	-	39,560	29,340
Miscellaneous income	261	-	-	261	38,612
Investment income, net	-	30,639	3,786	34,425	13,465
Net assets released from restrictions:	374,718	(372,166)	(2,552)	-	-
TOTAL REVENUES AND SUPPORT	1,404,961	63,942	1,234	1,470,137	1,331,969
EXPENSES					
Program services	1,076,764	-	-	1,076,764	1,102,396
Supporting Services					
Management and general	51,508	-	-	51,508	50,797
Fundraising	15,421	-	-	15,421	14,516
Total Supporting Services	66,929	-	-	66,929	65,313
TOTAL EXPENSES	1,143,693	-	-	1,143,693	1,167,709
CHANGES IN NET ASSETS	261,268	63,942	1,234	326,444	164,260
NET ASSETS, BEGINNING OF YEAR	344,739	573,370	54,338	972,447	808,187
NET ASSETS, END OF YEAR	$ 606,007	$ 637,312	$ 55,572	$ 1,298,891	$ 972,447

The accompanying notes are an integral part of these financial statements

BURN INSTITUTE

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2016

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2015)

	Program Services	Management and General	Fundraising	Totals 2016	Totals 2015
PERSONNEL AND RELATED					
Staff Salaries	$ 393,490	$ 30,269	$ 8,648	$ 432,407	$ 376,931
Payroll taxes and benefits	79,695	6,051	1,538	87,284	84,444
TOTAL PERSONNEL AND RELATED	473,185	36,320	10,186	519,691	461,375
OPERATIONS					
Printing, publications, visual aids	11,027	1,075	307	12,409	8,947
Community outreach	144,347	-	-	144,347	213,890
Burn care research and patient support	229,971	-	-	229,971	228,121
Occupancy	90,251	4,852	1,941	97,044	106,380
Travel	19,307	1,487	425	21,219	18,872
Educational	14,140	-	-	14,140	10,149
Professional Fees	15,944	1,226	351	17,521	18,113
Special event fees - other	4,098	827	551	5,476	25,548
Office supplies and expense	12,668	1,113	301	14,082	19,642
Postage	3,505	273	78	3,856	7,988
Telephone	6,540	352	140	7,032	5,442
Insurance	15,843	1,219	349	17,411	8,873
Repairs and maintenance	15,676	1,206	345	17,227	14,664
Depreciation	14,290	1,099	315	15,704	11,684
Utilities	5,972	459	132	6,563	8,021
TOTAL OPERATIONS	603,579	15,188	5,235	624,002	706,334
TOTAL FUNCTIONAL EXPENSES	$ 1,076,764	$ 51,508	$ 15,421	$ 1,143,693	$ 1,167,709

The accompanying notes are an integral part of these financial statements

BURN INSTITUTE

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2016

(WITH TOTALS FOR DECEMBER 31, 2015)

	2016	2015
Cash flows from operating activities:		
Change in net assets	$ 326,444	$ 164,260
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	15,704	11,684
Realized and unrealized (gain) on investments	(34,425)	(21,474)
(Increase) decrease in operating assets:		
Grants and contracts receivable	550	15,450
Prepaid expenses and deposits	1,706	(7,684)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(38,738)	47,435
Deferred rent	(4,656)	4,656
Net cash provided by operating activities	266,585	214,327
Cash flows from investing activities:		
Purchase of fixed assets	(24,293)	-
Purchase of investments	(87,836)	-
Endowment distributions	3,463	8,009
Net cash (used in) provided by investing activities	(108,666)	8,009
Net change in cash and cash equivalents	157,919	222,336
Cash and cash equivalents, beginning of year	435,443	213,107
Cash and cash equivalents, end of year	$ 593,362	$ 435,443

The accompanying notes are an integral part of these financial statements

BURN INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 $637,312 as of December 31, 2016.

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 $55,572 as of December 31, 2016.

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.

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 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 year ended December 31, 2016 did not meet the requirements above, therefore no amounts were recognized in the financial statements.

Net Investment Income (Loss)

Net investment income (loss) on the Statement of Activities represents the realized and unrealized gain/(loss), interest and dividends on investment and endowment funds, net of fees.

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, 2015, from which the summarized information was derived.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

3. FAIR VALUE MEASUREMENTS

The Organization categorizes its fair value measurements within the fair value hierarchy established by general accepted accounting principles. The following levels indicate the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

> Level 1 inputs are quoted prices in active markets for identical investments that the investment manager has the ability to access at the measurement date.
>
> Level 2 inputs are inputs other than quoted prices included in level 1 that are observable for the investment, either directly or indirectly.
>
> Level 3 inputs are unobservable inputs for the investment and may require a degree of professional judgement.

The following table summarizes the Organizations investments within the fair value hierarchy at December 31, 2016:

	Level 1	Level 2	Level 3
Rancho Santa Fe Foundation -			
Jerry and Carolyn Davee Fund	$ -	$ 516,823	$ -
The Burn Institute Foundation	-	108,213	-
Red Line of Courage Fund	-	12,276	-
Beneficial interest in San Diego Foundation	-	55,572	-
Total Investments	$ -	$ 692,884	$ -

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at December 31, 2016.

Beneficial interest in Rancho Santa Fe Foundation is considered a Level 2 assets and are reported at fair value based on the Organization's investment allocation of the "investment pool" held by Rancho Santa Fe Foundation.

Beneficial interest in the San Diego Foundation is considered a Level 2 asset and is reported at fair value based on the Organization's investment allocation of the investment portfolio held by the San Diego Foundation.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31, 2016 consisted of the following:

Cash in banks:		
Checking	$	262,731
Money Market		330,231
Cash on hand:		
Petty cash		400
Total cash and cash equivalents	$	593,362

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, 2016, the Organization had $361,322 in excess of FDIC insured limits.

5. FIXED ASSETS

Fixed assets at December 31, 2016 consisted of the following:

Equipment	$	81,138
Automobiles		153,830
Gross fixed assets		234,968
Less: accumulated depreciation		(203,039)
Total fixed assets, net depreciation	$	31,929

Depreciation expense for the year ended December 31, 2016 was $15,704.

6. INVESTMENTS – NON ENDOWMENT

In 2016, the Organization established the Red Line of Courage Fund to provide support services to local firefighters who sustain a burn injury while on duty. The fund is designated to supplement those services already in place for professional firefighters and make resources available for the more immediate and long-term needs that other programs do not offer. Distributions from this fund will follow the Organizations existing guidelines for Emergency Needs and Special Assistance Funds. The investment is carried at fair value and at December 31, 2016 totaled $12,276, as reported by RSFF.

6. INVESTMENTS – NON ENDOWMENT (continued)

		Temporarily Restricted
Investment at December 31, 2015	$	-
Contributions		11,881
Investment income		464
Distributions		-
Net investment income before investment fees		12,345
Investment fees		(69)
Investment at December 31, 2016	$	12,276

7. 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 year ended December 31:

		RSFF Temporarily Restricted		SDF Permanently Restricted		Total
Endowment net assets at December 31, 2015	$	519,748	$	54,338	$	574,086
Contributions		75,954		-		75,954
Investment income		35,799		4,054		39,853
Distributions		(911)		(2,552)		(3,463)
Net investment income before investment fees		630,590		55,840		686,430
Investment fees		(5,554)		(268)		(5,822)
Endowment net assets at December 31, 2016	$	625,036	$	55,572	$	680,608

7. ENDOWMENT FUNDS (continued)

Beneficial Interest in San Diego Foundation

The Organization has a beneficial interest in endowment funds held in SDF, which are classified as permanently restricted as these investments must be maintained in perpetuity. The beneficial interest in SDF 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 SDF. 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, 2016 totaled $55,572, 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.

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, 2016 $625,036, as reported by RSFF.

8. OPERATING LEASES

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

Year Ending December 31,		
2017	$	94,492
2018		16,166
Total future lease payments	$	110,658

9. RESTRICTED NET ASSETS

Restricted net assets consist of funds received but not expended as of December 31, 2016. Temporarily and permanently restricted net assets consist of the following at December 31, 2016:

	Temporarily Restricted	Permanently Restricted
Rancho Santa Fe Foundation -		
Jerry and Carolyn Davee Fund	$ 516,823	$ -
The Burn Institute Foundation	108,213	-
Red Line of Courage Fund	12,276	-
San Diego Foundation	-	55,572
	$ 637,312	$ 55,572

Net assets were released from donor restrictions due to satisfaction of purpose or time restrictions as follows for the year ended December 31, 2016:

	Temporarily Restricted	Permanently Restricted
Varshock	$ 33,213	$ -
San Diego County Funds	69,190	-
Rancho Santa Fe Fund	911	-
San Diego Foundation	-	2,552
Derek Thomas Fund	22,501	-
SDGE Grant	99,000	-
Emergency Needs/Special Assistance	79,851	-
CERT Grants	67,500	-
Net assets released from restrictions	$ 372,166	$ 2,552

10. RETIREMENT PLAN

The Organization began a 403(b) plan in December 2016. All employees are eligible to participate in the plan. The Organization will make matching contribution equal to 50% of the employee's contribution during the year that does not exceed 4% of the employees compensation received during the year. During the year ending December 31, 2016, the Organization made contributions totaling $593 to the plan.

11. 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 June 29, 2017, 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.