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Leonard C. Sonnenberg, CPA

Burn Institute
Audited Financial Statements
December 31, 2017

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Sonnenberg & Company 40 YEARS IN PRACTICE

Leonard C. Sonnenberg, CPA

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, 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 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, 2017, 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

We have previously audited the Burn Institutes December 31, 2016 financial statements, and our report dated June 29, 2017, expressed an unmodified audit opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

May 3, 2018

Sonnenberg & Company, CPAs

BURN INSTITUTE
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017
(WITH TOTALS FOR DECEMBER 31, 2016)

		2017		Restated 2016
ASSETS				
Cash and cash equivalents (Note 2 & 5)	$	394,975	$	593,362
Grants and contracts receivable		2,650		2,875
Prepaid expenses and deposits		11,977		19,511
Fixed assets, net (Note 6)		30,020		31,929
Investments non-endowment (Note 7)		24,955		12,276
Board-designated investment (Note 8)		1,064,555		625,036
Beneficial interest in endowment (Note 9)		60,718		55,572
TOTAL ASSETS	$	1,589,850	$	1,340,561
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable and accrued expenses	$	40,477	$	41,670
Total Liabilities		40,477		41,670
Net Assets				
Temporarily restricted (Note 2 & 10)		35,518		-
Permanently restricted (Note 2 & 10)		60,718		55,572
Unrestricted		1,453,137		1,243,319
Total Net Assets		1,549,373		1,298,891
TOTAL LIABILITIES AND NET ASSETS	$	1,589,850	$	1,340,561

The accompanying notes are an integral part of these financial statements

BURN INSTITUTE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2017

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2016)

				Totals	
REVENUE AND SUPPORT	Unrestricted	Temporarily Restricted	Permanently Restricted	2017	Restated 2016
Contributions and donations	$ 741,809	$ 83,026	$ -	$ 824,835	$ 791,250
Grants and contracts	362,531	194,283	-	556,814	589,639
Special event	42,495	-	-	42,495	48,875
Less: direct expenses	(33,541)	-	-	(33,541)	(33,873)
Support for campaigns	42,416	-	-	42,416	39,560
Miscellaneous income	204	-	-	204	261
Investment income, net	96,915		7,657	104,572	34,425
Net assets released from restrictions:	244,302	(241,791)	(2,511)	-	-
TOTAL REVENUE AND SUPPORT	1,497,131	35,518	5,146	1,537,795	1,470,137
EXPENSES					
Program services	1,184,254	-	-	1,184,254	1,076,764
Supporting Services					
Management and general	58,994	-	-	58,994	51,508
Fundraising	44,065	-	-	44,065	15,421
Total Supporting Services	103,059	-	-	103,059	66,929
TOTAL EXPENSES	1,287,313	-	-	1,287,313	1,143,693
CHANGES IN NET ASSETS	209,818	35,518	5,146	250,482	326,444
NET ASSETS, BEGINNING OF YEAR	1,243,319	-	55,572	1,298,891	972,447
NET ASSETS, END OF YEAR	$ 1,453,137	$ 35,518	$ 60,718	$ 1,549,373	$ 1,298,891

The accompanying notes are an integral part of these financial statements

BURN INSTITUTE

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2017

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2016)

	Program Services	Management and General	Fundraising	Totals 2017	Totals Restated 2016
PERSONNEL AND RELATED					
Staff Salaries	$ 418,134	$ 33,851	$ 15,852	$ 467,837	$ 432,407
Payroll taxes and benefits	96,821	7,836	3,647	108,304	87,284
TOTAL PERSONNEL AND RELATED	514,955	41,687	19,499	576,141	519,691
OPERATIONS					
Printing, publications, visual aids	2,251	1,012	10,797	14,060	12,409
Community outreach	199,484	-	-	199,484	144,347
Burn care research and patient support	231,929	-	-	231,929	229,971
Occupancy	94,007	7,591	3,974	105,572	97,044
Travel	18,576	1,503	793	20,872	21,219
Educational	39,952	-	-	39,952	14,140
Professional Fees	10,028	1,456	4,807	16,291	17,521
Special event fees - other	-	-	-	-	5,476
Office supplies and expense	14,472	1,171	618	16,261	14,082
Postage	1,570	221	1,280	3,071	3,856
Telephone	5,416	438	231	6,085	7,032
Insurance	15,469	1,251	660	17,380	17,411
Repairs and maintenance	16,789	1,358	717	18,864	17,227
Depreciation	12,862	1,040	549	14,451	15,704
Utilities	6,141	497	262	6,900	6,563
TOTAL OPERATIONS	668,946	17,538	24,688	711,172	624,002
TOTAL FUNCTIONAL EXPENSES	$ 1,183,901	$ 59,225	$ 44,187	$ 1,287,313	$ 1,143,693

The accompanying notes are an integral part of these financial statements

BURN INSTITUTE

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2017

(WITH TOTALS FOR DECEMBER 31, 2016)

	2017	Restated 2016
Cash flows from operating activities:		
Change in net assets	$ 250,482	$ 326,444
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	14,451	15,704
Realized and unrealized (gain) on investments	(104,572)	(34,425)
(Increase) decrease in operating assets:		
Grants and contracts receivable	225	550
Prepaid expenses and deposits	7,534	1,706
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(1,193)	(38,738)
Deferred rent	-	(4,656)
Net cash provided by operating activities	166,927	266,585
Cash flows from investing activities:		
Purchase of fixed assets	(12,546)	(24,293)
Purchase of investments	(10,279)	(11,882)
Purchase of Board-designated investments	(345,000)	(75,954)
Beneficial interest in endowment	2,511	3,463
Net cash (used in) investing activities	(365,314)	(108,666)
Net change in cash and cash equivalents	(198,387)	157,919
Cash and cash equivalents, beginning of year	593,362	435,443
Cash and cash equivalents, end of year	$ 394,975	$ 593,362

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 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, a family retreat for burn survivors and their immediate family, scholarship opportunities for adult burn survivors to attend World Burn Congress and teenagers to attend a young adult retreat in Georgia, 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 $35,518 as of December 31, 2017.

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 $60,718 as of December 31, 2017.

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.

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, 2016, from which the summarized information was derived.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes, continued

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.

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 goods and services

Contributions of donated goods are recorded at fair market value at the date of donation. 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, 2017 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reclassifications

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

3. CORRECTION OF AN ERROR

In previously issued financial statements, the Organization reported its Board-designated investment funds as temporarily restricted. Since these funds were the result of an internal designation and is not donor-restricted, it should be classified and reported as unrestricted net assets. Correcting this error increased unrestricted net assets and decreased temporarily restricted net assets by $637,312 in the statement of financial position at December 31, 2016.

This correction resulted in the following restatement in the statement of financial position for December 31, 2016:

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
Balance, December 31, 2016 as previously stated	$ 606,007	$ 637,312	$ 55,572	$ 1,298,891
Restatement of Board-designated net assets	637,312	(637,312)		-
Balance, December 31, 2016 as restated	$ 1,243,319	$ -	$ 55,572	$ 1,298,891

4. 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.

4. FAIR VALUE MEASUREMENTS (continued)

The following table summarizes the Organizations investments within the fair value hierarchy at December 31, 2017:

	Level 1	Level 2	Level 3
Rancho Santa Fe Foundation -			
Jerry and Carolyn Davee Fund	$ -	$ 577,122	$ -
The Burn Institute Foundation	-	487,433	-
Red Line of Courage Fund	-	24,955	-
Beneficial interest in San Diego Foundation	-	60,718	-
Total Investments	$ -	$ 1,150,228	$ -

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, 2017.

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.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31, 2017 consisted of the following:

Cash in banks:	
Checking	$ 161,339
Money Market	233,236
Cash on hand:	
Petty cash	400
Total cash and cash equivalents	$ 394,975

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, 2017, the Organization had $144,575 in excess of FDIC insured limits.

6. FIXED ASSETS

Fixed assets at December 31, 2017 consisted of the following:

Equipment	$	93,683
Automobiles		153,830
Gross fixed assets		247,513
Less: accumulated depreciation		(217,493)
Total fixed assets, net depreciation	$	30,020

Depreciation expense for the year ended December 31, 2017 was $14,451.

7. INVESTMENTS – NON ENDOWMENT

In 2016, the Organization established the Red Line of Courage Fund with the Rancho Santa Fe Foundation ("RSFF") 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 Organization's existing guidelines for Emergency Needs and Special Assistance Funds. The investment is carried at fair value and at December 31, 2017 totaled $24,955, as reported by RSFF.

Investment at December 31, 2016	$	12,276
Contributions		10,283
Investment income		2,586
Distributions		-
Net investment before investment fees		25,145
Investment fees		(190)
Investment at December 31, 2017	$	24,955

8. BOARD-DESIGNATED INVESTMENT FUNDS

As of December 31, 2017, the Board of Directors had designated $1,064,555 of unrestricted net assets as general investment funds to support the mission of the Organization. Since that amount resulted from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets.

8. BOARD-DESIGNATED INVESTMENT FUNDS (continued)

The funds are held by the Rancho Santa Fe Foundation. The funds 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.

Changes in Board-designated investment funds for the year ended December 31, 2017 were as follows:

Board-designated investment, December 31, 2016	$	625,036
Contributions		345,000
Investment income		102,679
Distributions		-
Net investment before investment fees		1,072,715
Investment fees		(8,160)
Board-designated investment, December 31, 2017	$	1,064,555

9. BENEFICIAL INTEREST IN ENDOWMENT

The Organization has a beneficial interest in an endowment fund held by the San Diego Foundation ("SDF"). The SDF 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 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.

9. BENEFICIAL INTEREST IN ENDOWMENT (continued)

Changes in endowment net assets for the year ended December 31, 2017 were as follows:

		Permanently Restricted
Endowment net assets at December 31, 2016	$	55,572
Contributions		-
Investment income		7,945
Distributions		(2,511)
Net investment before investment fees		61,006
Investment fees		(288)
Endowment net assets at December 31, 2017	$	60,718

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, 2017 totaled $60,718, 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.

10. RESTRICTED NET ASSETS

Restricted net assets consist of funds received but not expended as of December 31, 2017. Temporarily and permanently restricted net assets consist of the following at December 31, 2017:

		Temporarily Restricted		Permanently Restricted
Varshock	$	13,003	$	-
Derek Thomas Fund		22,515		-
San Diego Foundation		-		60,718
	$	35,518	$	60,718

10. RESTRICTED NET ASSETS (continued)

Net assets were released from donor restrictions due to satisfaction of purpose or time restrictions as follows for the year ended December 31, 2017:

	Temporarily Restricted	Permanently Restricted
San Diego County Funds	$ 18,726	$ -
Imperial County Funds	37,557	-
SDGE Grant	73,000	-
Emergency Needs/Special Assistance	47,508	-
CERT Grants	65,000	-
San Diego Foundation	-	2,511
Net assets released from restrictions	$ 241,791	$ 2,511

11. OPERATING LEASES

The Organization leases office space under lease agreements expiring in February 2018. Rent expense for the year ending December 31, 2017 was $105,572. The remaining lease payments as of December 31, 2017 total $16,166.

12. DONATED GOODS

During the year ending December 31, 2017, the Organization received in-kind donations of media spots contributed by local television stations. These are recorded at the retail value of $52,000.

13. 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, 2017, the Organization made contributions totaling $7,955 to the plan.

14. 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 May 3, 2018, which is the date the financial statements were available to be issued.

The Organization renewed the office space lease on March 1, 2018 for an additional 38 month period through April 30, 2021. Future minimum lease payments are as follows:

For the year ending December 31,		
2018	$	84,464
2019		103,996
2020		107,164
2021		36,953
Total future lease payments	$	332,577

Management is not aware of any other subsequent events or transactions that would have a material impact on, or require disclosure in, the current year financial statements.