Sonnenberg & Company CPA • AUDITS • TAXES • RESERVE STUDIES

Sonnenberg & Company, CPAs

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5190 Governor Drive, Suite 201, San Diego, California 92122

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Sonnenberg & Company 45 YEARS IN PRACTICE

Leonard C. Sonnenberg, CPA

Burn Institute
Audited Financial Statements
December 31, 2020

Sonnenberg & Company
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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, 2020, 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, 2020, 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 Institute's December 31, 2019 financial statements, in our report dated July 30, 2020, we 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, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

June 4, 2021

Sonnenberg & Company, CPAs

BURN INSTITUTE

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2020

(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2019)

		2020		2019
ASSETS				
Cash and cash equivalents (Note 2 & 4)	$	527,473	$	367,164
Grants and contributions receivable		17,454		5,287
Prepaid expenses and deposits		26,897		36,608
Property and equipment, net (Note 5)		21,482		34,421
Board-designated investment (Note 6)		1,640,775		1,301,489
Beneficial interest in endowment (Note 7)		64,861		60,650
TOTAL ASSETS	$	2,298,942	$	1,805,619
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable	$	42,151	$	11,967
Accrued expenses		50,558		40,569
Total Liabilities		92,709		52,536
Net Assets				
Without donor restrictions				
Undesignated		478,001		362,354
Board-designated (Note 6)		1,640,775		1,301,489
With donor restrictions (Note 2 & 9)		87,457		89,240
Total Net Assets		2,206,233		1,753,083
TOTAL LIABILITIES AND NET ASSETS	$	2,298,942	$	1,805,619

The accompanying notes are an integral part of these financial statements

BURN INSTITUTE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2020

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2019)

	Without Donor Restrictions	With Donor Restrictions	Totals 2020	Totals 2019
REVENUE AND SUPPORT				
Contributions and donations	$ 756,260	$ -	$ 756,260	$ 838,591
Grants and contracts	435,344	-	435,344	592,388
Paycheck protection program federal grant	116,700	-	116,700	-
Support for campaigns	23,852	-	23,852	27,052
Special event	25,350	-	25,350	39,980
Less: direct expenses	(8,606)	-	(8,606)	(39,621)
Miscellaneous income	197	-	197	6,050
Investment income, net	176,295	6,801	183,096	174,313
Net assets released from restrictions:	8,584	(8,584)	-	-
TOTAL REVENUE AND SUPPORT	1,533,976	(1,783)	1,532,193	1,638,753
EXPENSES				
Program Services	812,171	-	812,171	1,080,101
Supporting Services				
Management and general	153,640	-	153,640	162,124
Fundraising	113,232	-	113,232	146,550
Total Supporting Services	266,872	-	266,872	308,674
TOTAL EXPENSES	1,079,043	-	1,079,043	1,388,775
CHANGES IN NET ASSETS	454,933	(1,783)	453,150	249,978
NET ASSETS, BEGINNING OF YEAR	1,663,843	89,240	1,753,083	1,503,105
NET ASSETS, END OF YEAR	$ 2,118,776	$ 87,457	$ 2,206,233	$ 1,753,083

The accompanying notes are an integral part of these financial statements

BURN INSTITUTE

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2020

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2019)

	Program Services	Management and General	Fundraising	Totals 2020	Totals 2019
PERSONNEL AND RELATED					
Staff Salaries	$ 320,645	$ 82,711	$ 68,468	$ 471,824	$ 572,775
Payroll taxes and benefits	93,195	24,033	19,882	137,110	137,992
TOTAL PERSONNEL AND RELATED	413,840	106,744	88,350	608,934	710,767
OPERATIONS					
Banquet	-	-	-	-	27,402
Burn care research and patient support	61,165	-	-	61,165	166,476
Community outreach	147,406	-	-	147,406	240,199
Depreciation	9,545	2,268	1,126	12,939	12,563
Educational	4,904	1,165	578	6,647	22,874
Insurance	15,810	3,757	1,864	21,431	18,651
Occupancy	86,970	20,664	10,255	117,889	106,386
Office supplies and expense	46,870	10,960	7,047	64,877	24,331
Postage	1,685	400	199	2,284	2,255
Printing, publications, visual aids	6,108	1,451	720	8,279	14,252
Professional fees	8,823	2,096	1,040	11,959	22,825
Repairs and maintenance	4,472	1,063	527	6,062	19,290
Special event fees - other	-	-	-	-	6,223
Telephone	7,316	1,737	864	9,917	9,512
Travel	246	-	-	246	18,195
Utilities	5,617	1,335	662	7,614	6,195
TOTAL OPERATIONS	406,937	46,896	24,882	478,715	717,629
TOTAL EXPENSES	820,777	153,640	113,232	1,087,649	1,428,396
Less expenses reported net of revenue on the statement of activities	(8,606)	-	-	(8,606)	(39,621)
TOTAL EXPENSES PER STATEMENT OF ACTIVITIES	$ 812,171	$ 153,640	$ 113,232	$ 1,079,043	$ 1,388,775

The accompanying notes are an integral part of these financial statements

BURN INSTITUTE

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2020

(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2019)

	2020	2019
Cash flows from operating activities:		
Change in net assets	$ 453,150	$ 249,978
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	12,939	12,563
Realized and unrealized gain on investments	(154,897)	(134,661)
(Increase) decrease in operating assets:		
Grants and contribution receivable	(12,167)	(4,462)
Prepaid expenses and deposits	9,711	11,368
Increase (decrease) in operating liabilities:		
Accounts payable	30,184	(9,896)
Accrued expenses	9,989	6,197
Net cash provided by operating activities	348,909	131,087
Cash flows from investing activities:		
Purchase of fixed assets	-	(22,700)
Purchase of investments	-	(10,483)
Reinvested investment income	(28,199)	(39,652)
Purchase of Board-designated investments	(162,984)	(5,166)
Distribution from Beneficial interest in endowment	2,583	2,536
Net cash used in investing activities	(188,600)	(75,465)
Net change in cash and cash equivalents	160,309	55,622
Cash and cash equivalents, beginning of year	367,164	311,542
Cash and cash equivalents, end of year	$ 527,473	$ 367,164

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 educate and inspire our communities to reduce burn injuries and empower those affected by burn trauma.

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 childcare 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, emergency housing and transportation for burn survivors and their families for burn care treatment and follow-up clinical visits, and other medical therapies not covered by insurance.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting, which is in accordance with accounting principles generally accepted in the United States of America (GAAP) and, accordingly, reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes thereon are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and specific programs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Statement Presentation, continued

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both, and are reported in the statement of activities as net assets released from restrictions.

The Organization had net assets with donor restrictions of $87,457 at December 31, 2020.

Accounting Pronouncements Adopted

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement, Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement.* This standard removed, modified, and added additional disclosure requirements on fair value measurements, specifically surrounding: (a) the amount of and reasons for transfers between Level 1 and Level 2 investments, (b) the policy for timing of these transfers, (c) the valuation process for Level 3 fair value measurements, and (d) the changes in unrealized gains and losses for the period including earnings on Level 3 fair value measurements held at the end of the reporting period. The Organization has adopted this ASU for the year ended December 31, 2020. The adoption had no material effect on the 2020 financial statements.

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, 2019, 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 under different assumptions or conditions.

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)

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. Accordingly, there are no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The Organization's returns are subject to examination by federal and state taxing authorities, generally for three to four 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.

Fair Value Measurements

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

> 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 within Level 1 that are observable for the investment, either directly or indirectly.
>
> Level 3 inputs are unobservable inputs for the investment.

The Organization's statement of financial position includes the following financial instruments that are required to be measured at fair value on a recurring basis:

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

Beneficial interests in perpetual trusts are determined by the Organization using present value techniques and risk- adjusted discount rates designed to reflect the assumptions market participants would use in pricing the underlying assets and are based on the fair values of trust investments as reported by the trustees. The fair value of the Organization's beneficial interest in assets held by The San Diego Foundation is based on the fair value of fund investments as reported by The San Diego Foundation. This is considered to be a Level 3 measurement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Grants and Contributions Receivable

Grants and contributions receivable are recorded at net realizable value consisting of the carrying amount less an allowance for uncollectible amounts. The allowance, if any, is established based on factors such as historical experience and the age of the account balances. Grants and contributions receivable as of December 31, 2020 are fully collectible, therefore, no allowance for uncollectible accounts has been recorded. All amounts are due within one year.

Property and Equipment

Property and equipment 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

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, 2020 did not meet the requirements above, therefore no amounts were recognized in the financial statements.

Donated Property and Equipment

Donations of property and equipment are recorded as contributions at fair value at the date of donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time. The Organization did not receive any donated property and equipment during the year ending December 31, 2020.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

Contributions are recognized when cash, or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met or the donor has explicitly released the restriction. All donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Grant and contract revenue is recognized in the period in which the related work is performed in accordance with the terms of the grant or contract. Grant and contract receivables are recorded when revenue earned under the grant exceeds the cash received. Deferred revenue is recorded when the cash received under the grant exceeds the revenue earned. There was no deferred revenue at December 31, 2020.

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 Organization allocates its expenses on a functional basis among its various programs and supporting services. Expenditures which can be identified with a specific program or support service are allocated directly, according to their natural expenditure classification. Costs that are common to several functions are allocated among the program and supporting services on the basis of time records, space utilized, and estimates made by the Organization's management.

Risks and Uncertainties

The Organization invests in various types of investment securities which are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statement of financial position.

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. FAIR VALUE MEASUREMENTS

The following table summarizes assets measured at fair value by classification within the fair value hierarchy at December 31, 2020:

	Quoted Prices in Active markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Rancho Santa Fe Foundation -				
Jerry and Carolyn Davee Fund	$ -	$ 691,428	$ -	$ 691,428
The Burn Institute Fund	-	882,132	-	882,132
Red Line of Courage Fund	-	67,215	-	67,215
Beneficial interest in endowment at				
The San Diego Foundation	-	-	64,861	64,861
Total Investments	$ -	$ 1,640,775	$ 64,861	$ 1,705,636

The following table represents the Organizations Level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and the range of values for those inputs for 2020:

Instrument	Fair value	Principal valuation technique	Unobservable inputs	Significant input values	Weighted average
Beneficial interest in endowment at The San Diego Foundation	$ 64,861	Valuation of underlying assets as provided by issuer	Base price	N/A	N/A

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31, 2020 consisted of the following:

Cash in banks:	
Checking	$ 99,996
Money Market	427,077
Cash on hand:	
Petty cash	400
Total cash and cash equivalents	$ 527,473

4. CASH AND CASH EQUIVALENTS (continued)

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, 2020, the Organization had approximately $277,000 in excess of FDIC insured limits. Management believes that the Organization is not exposed to any significant risk with respect to its cash and cash equivalent accounts.

5. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2020 consisted of the following:

Equipment	$	98,850
Automobiles		176,530
		275,380
Less: accumulated depreciation		(253,898)
Property and equipment, net	$	21,482

Depreciation expense for the year ended December 31, 2020 was $12,939.

6. BOARD-DESIGNATED INVESTMENT FUNDS

In 2004, the Board of Directors established the Jerry & Carolyn Davee Fund with the Rancho Santa Fe Foundation (RSFF) to be used for Camp Beyond the Scars, Emergency Needs and Special Assistance for Burn Survivors, College Scholarships for Burn Surviving Children, and Burn Research and Equipment. The investment is carried at fair value and at December 31, 2020 totaled $691,428, as reported by RSFF.

In 2006, the Board of Directors established The Burn Institute Fund with the Rancho Santa Fe Foundation as an operating reserve and, if needed, can be used for general expenses to support the mission of the Organization. The investment is carried at fair value and at December 31, 2020 totaled $882,132, as reported by RSFF.

In 2016, the Board of Directors established the Red Line of Courage Fund with the Rancho Santa Fe Foundation 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, 2020 totaled $67,215, as reported by RSFF.

6. 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, 2020 were as follows:

Board-designated investment, December 31, 2019	$	1,301,489
Contributions		162,984
Investment income		189,447
Distributions		-
		1,653,920
Investment fees		(13,145)
Board-designated investment, December 31, 2020	$	1,640,775

7. BENEFICIAL INTEREST IN ENDOWMENT

The Organization has a beneficial interest in an endowment fund held by The San Diego Foundation (TSDF). TSDF 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 TSDF 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, 2020 were as follows:

Endowment net assets at December 31, 2019	$	60,650
Contributions		-
Investment income		7,074
Distributions		(2,583)
		65,141
Investment fees		(280)
Endowment net assets at December 31, 2020	$	64,861

7. BENEFICIAL INTEREST IN ENDOWMENT (continued)

The endowment funds held in TSDF are classified as net assets with donor restrictions as these investments must be maintained in perpetuity. The beneficial interest in TSDF 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 TSDF. TSDF 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 is carried at fair value and at December 31, 2020 totaled $64,861, as reported by TSDF.

TSDF'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 TSDF's endowment funds distributions will be limited to income received, which is approximately 2.5% of the endowment principal.

8. PAYCHECK PROTECTION PROGRAM

In May 2020, the Organization entered into term note ("PPP Term Note") with Bank of Southern California, with a principal amount of $116,700 pursuant to the Paycheck Protection Program ("PPP") under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). The term on the loan is two years and annual interest is one percent (1%), with the first six months of interest deferred. Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of the loan granted under PPP. Such forgiveness will be determined based on the use of the loan proceeds for eligible purposes, including payroll costs, rent and utilities.

The Organization expects to meet the PPP's eligibility criteria and has concluded that the PPP loan represents, in substance, a grant that is expected to be forgiven, and accordingly has accounted for the PPP loan as a conditional contribution. For the year ended December 31, 2020, the Organization recognized the total loan of $116,700 in Paycheck Protection Program federal grant revenue based on qualifying expenditures in compliance with promissory note provisions.

9. NET ASSETS WITH DONOR RESTRICTIONS

As of December 31, 2020, net assets with donor restrictions are restricted for the following purposes or periods:

Subject to expenditure for specific purpose:		
Burn survivor services - Thomas	$	22,596
Endowments		
Subject to TSDF endowment spending policy and appropriation:		
General use		64,861
Total nets assets with donor restrictions	$	87,457

Net assets totaling $8,584 were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors for the year ended December 31, 2020.

10. OPERATING LEASES

In September 2020, the Organization extended the office space lease for an additional 24-month period commencing May 1, 2021 and terminating April 30, 2023. Total lease expense for the year ending December 31, 2020 was $117,889. Future minimum lease payments at December 31, 2020 are as follows:

For the year ending December 31,		
2021	$	110,859
2022		113,076
2023		38,061
Total future lease payments	$	261,996

11. LIQUIDITY AND AVAILABILITY

The following reflects the Organization's financial assets as of December 31, 2020, reduced by the amounts not available for general use because of donor-imposed restrictions within one year of the statement of financial position date.

Financial assets at year end:		
Cash and cash equivalents	$	527,473
Grants and contracts receivable		17,454
Investments		1,640,775
Total financial assets		2,185,702
Less amounts not available for general expenditures within one year:		
Restricted by donors for burn survivors		(22,596)
Board designated - Jerry & Carolyn Davee Fund		(691,428)
Board designated - Red Line of Courage Fund		(67,215)
Financial assets available to meet general expenditures within one year	$	1,404,463

11. LIQUIDITY AND AVAILABILITY (continued)

The Organization receives contributions with donor restrictions to be used in accordance with the associated purpose restrictions. The Organization must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditures within one year.

As part of the Organization's liquidity management, the Organization invests cash in excess of daily requirements in short-term investments and money market funds. Occasionally, the Board designates a portion of any operating surplus to its operating reserve. During 2020, the Board designated an additional $162,984 to its operating reserve. Total operating reserve at December 31, 2020 was $882,132.

12. CORONAVIRUS PANDEMIC CONTINGENCY

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders, including California, where the Organization is located. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings and shelter in place orders. It is reasonably possible that this matter will negatively impact the Organization. However, the financial impact and duration cannot be reasonably estimated at this time. Accordingly, the extent to which COVID-19 may impact the Organization's financial position, results of operations and cash flows is uncertain and the accompanying financial statements include no adjustments relating to the effects of this pandemic.

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 that does not exceed 4% of the employee's compensation received during the year. For the year ending December 31, 2020, the Organization made contributions totaling $8,409 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 June 4, 2021, which is the date the financial statements were available to be issued.

On January 22, 2021, the Paycheck Protection Program loan of $116,700 was forgiven.

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.