THE CHILDREN'S BURN FOUNDATION

(A California Nonprofit Corporation)

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

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(A California Nonprofit Corporation)

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

CONTENTS

Green
Hasson
Janks

10990 Wilshire Boulevard
16th Floor
Los Angeles, CA 90024

310.873.1600 T
310.873.6600 F
www.greenhassonjanks.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
The Children's Burn Foundation

Report on the Financial Statements
We have audited the accompanying financial statements of The Children's Burn Foundation (a California nonprofit corporation) (the Foundation), which comprise the statement of financial position as of June 30, 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 Foundation as of June 30, 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.

Report on Summarized Comparative Information
We have previously audited the Foundation's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 6, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Green Hasson & Janks LLP

December 21, 2016
Los Angeles, California

THE CHILDREN'S BURN FOUNDATION

(A California Nonprofit Corporation)

STATEMENT OF FINANCIAL POSITION
June 30, 2016
With Summarized Totals at June 30, 2015

	2016				2015
ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Cash and Cash Equivalents	$ 336,444	$ -	$ -	$ 336,444	$ 681,569
Investments	3,373,551	299,874	514,275	4,187,700	4,525,561
Pledges and Other Receivables	5,770	-	-	5,770	6,178
Prepaid Expenses	36,443	-	-	36,443	34,514
Property and Equipment (Net)	8,930	-	-	8,930	13,427
TOTAL ASSETS	$ 3,761,138	$ 299,874	$ 514,275	$ 4,575,287	$ 5,261,249
LIABILITIES AND NET ASSETS					
LIABILITIES:					
Accounts Payable and Accrued Liabilities	$ 189,204	$ -	$ -	$ 189,204	$ 98,300
NET ASSETS:					
Unrestricted	3,571,934	-	-	3,571,934	4,355,800
Temporarily Restricted	-	299,874	-	299,874	292,874
Permanently Restricted	-	-	514,275	514,275	514,275
TOTAL NET ASSETS	3,571,934	299,874	514,275	4,386,083	5,162,949
TOTAL LIABILITIES AND NET ASSETS	$ 3,761,138	$ 299,874	$ 514,275	$ 4,575,287	$ 5,261,249

The Accompanying Notes are an Integral Part of These Financial Statements

THE CHILDREN'S BURN FOUNDATION
(A California Nonprofit Corporation)

STATEMENT OF ACTIVITIES
Year Ended June 30, 2016
With Summarized Totals for the Year Ended June 30, 2015

	2016				2015
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
REVENUE, SUPPORT AND OTHER:					
Contributions	$ 202,749	$ 362,611	$ -	$ 565,360	$ 930,842
Bequests	25,350			25,350	28,232
Special Events (Net of $310,632 of Direct Benefit to Donors)	1,016,521	-	-	1,016,521	833,801
In-Kind Contributions	1,243,005	-	-	1,243,005	872,413
Investment Loss (Net)	(337,724)	-	-	(337,724)	(241,698)
Net Assets Released from Purpose Restrictions	355,611	(355,611)	-	-	-
TOTAL REVENUE, SUPPORT AND OTHER	2,505,512	7,000		2,512,512	2,423,590
EXPENSES:					
Program Services	2,716,451	-	-	2,716,451	2,231,132
Supporting Services:					
Management and General	225,704	-	-	225,704	212,050
Fundraising	347,223	-	-	347,223	254,325
TOTAL EXPENSES	3,289,378	-	-	3,289,378	2,697,507
CHANGE IN NET ASSETS	(783,866)	7,000	-	(776,866)	(273,917)
Net Assets - Beginning of Year	4,355,800	292,874	514,275	5,162,949	5,436,866
NET ASSETS - END OF YEAR	$ 3,571,934	$ 299,874	$ 514,275	$ 4,386,083	$ 5,162,949

THE CHILDREN'S BURN FOUNDATION

(A California Nonprofit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2016
With Summarized Totals for the Year Ended June 30, 2015

	2016				
		Supporting Services			
	Program Services	Management and General	Fundraising	Total	2015 Total
In-Kind Medical Treatments	$ 1,141,995	$ -	$ -	$ 1,141,995	$ 777,470
Direct Program Services (Note 5)	1,085,702	-	-	1,085,702	955,591
Salaries and Benefits	346,846	48,531	242,134	637,511	446,974
Other In-Kind Professional Services and Goods	42,638	58,372	-	101,010	94,943
Office Rent and Parking	43,928	6,146	30,666	80,740	77,240
Consulting Fees	2,167	36,303	10,785	49,255	118,326
Unrelated Business Income Tax	-	30,000	-	30,000	-
Accounting Fees	-	26,640	-	26,640	25,700
Travel, Meetings and Conferences	11,528	853	9,884	22,265	18,038
Supplies	5,539	775	6,334	12,648	8,182
Dues and Subscriptions	1,352	189	9,089	10,630	15,064
Bank Charges	-	10,529	-	10,529	26,636
Insurance	5,724	801	3,996	10,521	9,161
Marketing	5,657	792	3,949	10,398	14,430
Equipment Rental and Repair	4,740	663	3,309	8,712	7,639
Telephone	4,073	570	2,843	7,486	7,371
Donor Relations	-	-	6,725	6,725	23,908
Miscellaneous Expenses	9,352	1,409	6,878	17,639	7,015
Printing	231	32	6,064	6,327	7,591
Postage and Shipping	2,532	354	2,859	5,745	2,061
Depreciation	2,447	342	1,708	4,497	6,669
Bad Debt Expense	-	2,403	-	2,403	-
Temporary Support	-	-	-	-	47,498
TOTAL FUNCTIONAL EXPENSES - 2016	$ 2,716,451	$ 225,704	$ 347,223	$ 3,289,378	
	83%	7%	10%	100%	
TOTAL FUNCTIONAL EXPENSES - 2015	$ 2,231,132	$ 212,050	$ 254,325		$ 2,697,507
	83%	8%	9%		100%

THE CHILDREN'S BURN FOUNDATION
(A California Nonprofit Corporation)

STATEMENT OF CASH FLOWS
Year Ended June 30, 2016
With Summarized Totals for the Year Ended June 30, 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	$ (776,866)	$ (273,917)
Adjustments to Reconcile Change in Net Assets		
to Net Cash Provided by (Used in) Operating Activities:		
Depreciation	4,497	6,669
Realized and Unrealized Losses on		
Investments (Net)	453,756	324,626
Loss on Disposal of Property and Equipment	-	3,696
Bad Debt Expense	2,403	-
(Increase) Decrease in:		
Pledges and Other Receivables	(1,995)	19,806
Prepaid Expenses	(1,929)	16,480
Increase (Decrease) in:		
Accounts Payable and Accrued Liabilities	90,904	(16,563)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(229,230)	80,797
CASH FLOWS FROM INVESTING ACTIVITIES:		
Reinvested Interest and Dividends	(115,893)	(82,714)
Purchase of Investments	(615,287)	(1,381,288)
Proceeds from Sale of Investments	615,285	1,380,238
Purchase of Property and Equipment	-	(11,175)
NET CASH USED IN INVESTING ACTIVITIES	(115,895)	(94,939)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(345,125)	(14,142)
Cash and Cash Equivalents - Beginning of Year	681,569	695,711
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 336,444	$ 681,569

NOTE 1 - ORGANIZATION

The Children's Burn Foundation (the Foundation) is a tax-exempt, nonprofit public benefit corporation located in Sherman Oaks, California. The Foundation was founded in 1985 to meet the needs of young burn survivors who, because of lack of financial resources and/or insurance, could not otherwise benefit from state-of-the-art medical treatment and much needed post-acute services. The goals of the Foundation are to assist children who have been severely burned to reach their full potential, physically, socially and psychologically, and to prevent and lessen the seriousness of burns that do occur through education and training.

The Foundation programs include:

- The Full Recovery Program which provides support to children up to the age of 19 for medical, surgical and post/surgical needs, including reconstructive surgery, specialized pressure garments, equipment, prescriptions and supplies, assistance with emergency needs; recreational camps; support groups for children and parents; support during school reentry; and other medical and psychosocial services that facilitate recovery and healing.

- Fire Safety and Burn Prevention Programs which provide educational presentations and performances to children, parents, caregivers and teachers in an effort to prevent fire and burn related injuries.

- YABSS (Young Adult Burn Survivors & Supporters Group) outreaches locally to adolescent burn survivors in the Los Angeles area. Through meetings, activities, retreats and workshops, the program promotes community service, teamwork and friendship. Teens develop leadership skills and confidence that they can apply to their everyday world.

- International Program supports teams of healthcare professionals who travel to third world countries to teach burn care at local hospitals. In 2011, the Foundation added a burn prevention program as a part of the international program to Zambia. In March 2013, the Foundation, in partnership with the American Burn Association, sent a team of burn care professionals for a site assessment to Bolivia. In addition, a burn team traveled to Ludhiana, India in March 2013 to teach best practices in burn care and the Foundation hosted the visiting professor from India in the United States for an educational exchange.

- The Foundation also has a volunteer group, The Council, consisting of 70 dedicated members who support the Foundation's fundraising efforts.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) BASIS OF PRESENTATION

The accompanying financial statements have been prepared on the accrual basis of accounting.

(b) ACCOUNTING

To ensure observance of certain constraints and restrictions on the use of resources, the accounts of the Foundation are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

- **Unrestricted.** These generally result from revenues generated by receiving unrestricted contributions, providing services and receiving income from investments less expenses incurred in providing program related services, raising contributions, and performing administrative functions.

- **Temporarily Restricted.** The Foundation reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from purpose or time restrictions. Temporarily restricted net assets as of June 30, 2016 are $299,874.

- **Permanently Restricted.** These net assets are received from donors who stipulate that resources are to be maintained permanently, but permit the Foundation to expend all of the income (or other economic benefits) derived from the donated assets. Permanently restricted net assets as of June 30, 2016 are $514,275.

(c) CASH AND CASH EQUIVALENTS

The Foundation has defined cash and cash equivalents as cash in banks and other financial instruments with an original maturity of three months or less. The carrying value of cash and cash equivalents at June 30, 2016 approximates its fair value.

The Foundation maintains its cash and cash equivalents in bank checking and savings accounts, which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) INVESTMENTS

Investments in mutual funds and marketable securities with readily determinable market values are reported at fair value. The fair value of investments is valued at the closing price on the last day of the fiscal year. Realized gains and losses are calculated based on the underlying cost of the securities traded. Interest and dividend income is recorded when earned. Gains and losses, and interest and dividend income are reflected in the statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily restricted by donor stipulations or by law.

Non-marketable securities, for which there is no readily available market, are valued by the Foundation with assistance from an external investment manager using methods that management believes provide a reasonable estimate of fair value.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain long-term investments, it is reasonably possible that changes could materially affect the amounts reported in the statement of financial position.

Investments are made according to the investment policies, guidelines and objectives adopted by the Foundation's Board of Trustees. These guidelines provide for investments in equities, fixed income and other securities with performance measured against appropriate indices. The investments are generally managed by an outside investment manager contracted by the Foundation. Market values of such investments and credit ratings of bond issuers are routinely reviewed by the Board of Trustees.

(e) PLEDGES RECEIVABLE AND CONTRIBUTIONS

Unconditional contributions are recorded at fair value in the period received. The Foundation reports unconditional contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets. All pledges are due within one year. Management has determined that no allowance for uncollectible pledges and other receivables is deemed necessary at June 30, 2016.

(f) LEGACIES AND BEQUESTS

The Foundation has been designated as the beneficiary in certain wills. Bequests are not recognized as support until all of the following conditions are met: the demise of testator, the amount of bequest is known, and the Foundation is certain that, based on the estate's net assets, the amount bequeathed is realizable.

The Foundation also owns nine-tenths of a share in a publishing company. However, a value for the publishing company is indeterminable as the litigation that began in a prior year continues to be ongoing. In view of the uncertainty of the ultimate amount to be received, the Foundation has not recognized the value of its interest in the publishing company. Accordingly, the financial statements will not reflect an amount until such time as it is received in the form of cash, or until actual amounts to be received can be determined with reasonable certainty.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets as follows:

Furniture and Equipment	3 - 5 Years

Expenditures for maintenance and repairs are charged to operations as incurred while renewals and betterments are capitalized. Property and equipment are capitalized if the cost of an asset is equal to or greater than $500 and the useful life is greater than one year.

(h) LONG-LIVED ASSETS

The Foundation reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the book value of the assets may not be recoverable. An impairment loss is recognized when the sum of the undiscounted future cash flows is less than the carrying amount of the assets, in which case a write-down is recorded to reduce the related asset to its estimated fair value. No impairment losses were recognized during the year ended June 30, 2016.

(i) CONTRIBUTED GOODS AND SERVICES

Contributions of donated noncash assets are recorded at fair values in the period received. Contributions of donated services are recognized if the services received create or enhance long-lived assets or require specialized skills, and are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. For the year ended June 30, 2016, the Foundation received the following in-kind goods and services:

Medical Supplies and Other Goods	$	220,547
Medical and Professional Services		911,423
Hospital Rooms and Other Use of Facilities		111,035
TOTAL IN-KIND CONTRIBUTIONS	$	1,243,005

(j) INCOME TAXES

The Foundation is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d. The Foundation may, from time-to-time, be subject to unrelated business income tax on certain investments in partnerships. For the year ended June 30, 2016, the Foundation incurred unrelated business income tax of $30,000.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the Foundation's programs and other activities have been presented in the statement of functional expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. The Foundation uses proportional salary dollars to allocate indirect costs.

(l) USE OF ESTIMATES

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

(m) COMPARATIVE TOTALS

The 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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2015 from which the summarized information was derived.

(n) NEW ACCCOUNTING PRONOUNCEMENTS

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases*, which is intended to improve financial reporting about leasing transactions. The new standard will require organizations that lease assets with terms of more than 12 months to recognize on the statement of financial position the assets and liabilities for the rights and obligations created by those leases. The ASU also will require disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements and providing additional information about the amounts recorded in the financial statements. For the Foundation, the ASU will be effective for the year ending June 30, 2021.

In May 2015, the FASB issued ASU No. 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*, which is effective for fiscal years beginning after December 15, 2016 for entities other than public business entities. The ASU eliminates the requirement to categorize investments in the fair value hierarchy if the fair value is measured at net asset value (NAV) per share (or its equivalent) using the practical expedient in the FASB's fair value measurement guidance. As permitted by ASU 2015-07, the Foundation has early adopted this pronouncement and investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) NEW ACCCOUNTING PRONOUNCEMENTS (continued)

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, which is intended to reduce complexity in financial reporting. The ASU focuses on improving the current net asset classification requirements and information presented in financial statements that is useful in assessing a nonprofit's liquidity, financial performance, and cash flows. For the Foundation, the ASU will be effective for the year ending June 30, 2019.

(o) SUBSEQUENT EVENT

The Foundation has evaluated events and transactions occurring subsequent to the statement of financial position date of June 30, 2016 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through December 21, 2016, the date these financial statements were available to be issued. No such events were noted, except as described in Note 10.

NOTE 3 - INVESTMENTS

The Foundation has implemented the accounting standard for those assets (and liabilities) that are re-measured and reported at fair value at each reporting period. This standard establishes a single authoritative definition of fair value, sets out a framework for measuring fair value based on inputs used, and requires additional disclosures about fair value measurements. This standard applies to fair value measurements already required or permitted by existing standards.

In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets (or liabilities). Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset (or liability) and include situations where there is little, if any, market activity for the asset (or liability).

The following table presents information about the Foundation's assets that are measured at fair value on a recurring basis at June 30, 2016, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

		Fair Value Measurements Using			
	Year Ended June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value Per Share or its Equivalent (NAV)
Money Market	$ 37,082	$ 37,082	$ -	$ -	$ -
Mutual Funds	2,524,207	2,524,207	-	-	-
Index Funds - Fixed Income	200,964	200,964	-	-	-
International Bonds	107,142	107,142	-	-	-
Corporate Bonds	160,182	-	160,182	-	-
Real Estate Funds	217,293	-	217,293	-	-
Limited Partnerships	735,179	-	-	-	735,179
L.A. Northpoint Limited Partnership	205,651	-	-	-	205,651
TOTAL INVESTMENTS	$ 4,187,700	$ 2,869,395	$ 377,475	$ -	$ 940,830

NOTE 3 - INVESTMENTS (continued)

The fair values of marketable securities within Level 1 inputs were obtained based on quoted market prices at the closing of the last business day of the fiscal year.

The fair values of investments within Level 2 inputs were obtained based on data points that are observable, such as quoted prices in active markets, interest rates and yield curves. Level 2 investments include corporate bonds with maturity dates ranging from 2016 through 2025.

Investments valued using NAV are comprised of various partnership interests. These investments (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. Investments are valued using the NAV provided by the fund managers or general partners. It is probable that the investments will be sold at an amount different from their fair value at June 30, 2016.

The Foundation recognizes transfers at the beginning of each reporting period. Transfers between Level 1 and Level 2 investments generally relate to whether a market becomes active or inactive. Transfers between Level 2 and Level 3 investments relate to whether significant relevant observable inputs are available for the fair value measurement in their entirety and when redemption rules become more or less restrictive. There were no transfers between Level 2 and 3 investments.

Investment loss (net) is comprised of the following for the year ended June 30, 2016:

Interest and Dividends - Investment Accounts	$	128,146
Interest and Dividends - Cash Accounts		139
Net Unrealized Gain on Limited Partnership		876
Net Realized and Unrealized Losses		(454,632)
Less: Investment Management Fees		(12,253)
NET INVESTMENT LOSS	$	(337,724)

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2016 are summarized as follows:

Furniture and Equipment	$	54,024
Less: Accumulated Depreciation		(45,094)
PROPERTY AND EQUIPMENT (NET)	$	8,930

Depreciation expense for the year ended June 30, 2016 was $4,497.

NOTE 5 - COMMITMENTS AND CONTINGENCIES

(a) OPERATING LEASES

The Foundation leases office facilities and equipment under operating leases with various terms expiring through September 2019. Future minimum payments, by year, and in the aggregate, under these leases consist of the following:

Years Ending June 30		
2017	$	85,230
2018		87,769
2019		90,421
2020		23,167
TOTAL	$	286,587

Rent and parking expense under facility and equipment operating leases for the year ended June 30, 2016 was $80,740. Equipment rental for the year ended June 30, 2016 was $8,712.

(b) DIRECT PROGRAM SERVICES

As part of the programs offered by the Foundation, the Foundation incurs expenses related to providing medical care for young burn survivors. The amount incurred by the Foundation in a fiscal year is dependent upon the timing and stage of the medical needs of the survivor. Direct program expenses of $1,085,702 for the year ended June 30, 2016 includes expenses incurred for providing such medical care along with $1,141,995 of in-kind medical treatments. Direct program expenses also include expenditures for the other components of the Full Recovery Program, Fire Safety and Burn Prevention Program, Young Adult Burn Survivors & Support Group and the International Program.

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2016 consist of the following:

Fire House	$	171,874
California Science Center		128,000
TOTAL TEMPORARILY RESTRICTED NET ASSETS	$	299,874

NOTE 7 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at June 30, 2016 consist of the following:

Harold and Lillian Kraus Endowment Fund	$	264,486
Ross's Hope Fund		149,789
General Endowment		100,000
TOTAL PERMANENTLY RESTRICTED NET ASSETS	$	514,275

NOTE 8 - ENDOWMENTS

The Foundation's endowments consist of funds established for a variety of purposes. Endowment funds are established by donor-restricted gifts to provide a permanent endowment, which are to provide a permanent source of income to the Foundation.

The earnings from the Harold and Lillian Kraus Endowment Fund and the General Endowment Fund are available for the general support of the Foundation's programs and operations. Earnings from the Ross's Hope Fund are restricted to be spent for the Full Recovery Program.

The Foundation's management understands California State law as (1) requiring the preservation of the fair value of the original gifts as of the gift date of the donor restricted endowment funds, absent donor stipulations to the contrary and (2) allowing the spending of income and gains on permanently restricted endowments, absent explicit donor stipulations that all or a portion of such gains be maintained in perpetuity.

The primary long-term financial objective for the Foundation's endowment is to preserve the real (inflation-adjusted) purchasing power of endowment assets and income after accounting for endowment spending, annual growth percentage and costs of portfolio management. Performance of the overall endowment against this objective is measured over an investment horizon of three years. The endowments are also managed to optimize the long run total rate of return on invested assets, assuming a prudent level of risk. The goal for this rate of return is one that funds the Foundation's existing spending policy and allows sufficient reinvestment to grow the endowment principal at a rate that exceeds inflation (as measured by the Consumer Price Index). Over the short term, the return for each element of the endowment portfolio should match or exceed each of the returns for the broader capital markets in which the assets are invested.

The Foundation annually utilizes a spending policy that dictates a specific payout rate of the endowment base to support the Foundation's programs. The endowment base is defined as a three-year moving average of the market value of the total endowment portfolio (calculated as of the last day of December for the prior three years). The distribution or payout rate is calculated at a specific fixed percentage of the base. Such a policy allows for a greater predictability of spendable income for budgeting purposes and for gradual steady growth for the support of operations by the endowment. In addition, this policy minimizes the probability of invading the principal over the long term.

At times, the fair value of assets associated with these endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. Deficiencies may result from unfavorable market fluctuations. In accordance with generally accepted accounting principles, deficiencies of this nature that are reported in unrestricted net assets were $66,005 at June 30, 2016.

NOTE 8 - ENDOWMENTS (continued)

Endowment Net Asset Composition by Type of Fund at June 30, 2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Designated	$ (66,005)	$ -	$ 514,275	$ 448,270
Changes in Endowment Net Assets for the Year Ended June 30, 2016				
Endowment Net Assets - Beginning of Year	$ (26,659)	$ -	$ 514,275	$ 487,616
Investment Return:				
Interest and Dividends	-	14,923	-	14,923
Net Realized and Unrealized Losses	(39,346)	(13,496)	-	(52,842)
Less: Investment Fees	-	(1,427)	-	(1,427)
Appropriation of Endowment Assets for Expenditure	-	-	-	-
ENDOWMENT NET ASSETS - END OF YEAR	$ (66,005)	$ -	$ 514,275	$ 448,270

NOTE 9 - DEFINED CONTRIBUTION PLAN

The Foundation offers a defined contribution employee benefit plan, whereby eligible employees may elect to make voluntary contributions (up to limits set by law) to the plan through a payroll deduction. The Foundation made matching contributions of $9,643 during the year ended June 30, 2016.

NOTE 10 - SUBSEQUENT EVENT

On August 1, 2016, the Foundation entered into a line of credit agreement with a bank, with available financing of $1,000,000. The line of credit bears interest equal at the greater of (i) 1% or (ii) the prime rate plus one half percent.