

**THE CHILDREN'S BURN  
FOUNDATION**

(A California Nonprofit Corporation)

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

**THE CHILDREN'S BURN FOUNDATION**

(A California Nonprofit Corporation)

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2017**

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## 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, 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 Foundation as of June 30, 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.

### Report on Summarized Comparative Information

We have previously audited the Foundation's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 21, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Green Hasson & Janks LLP*

December 22, 2017  
Los Angeles, California

**THE CHILDREN'S BURN FOUNDATION**

(A California Nonprofit Corporation)

## STATEMENT OF FINANCIAL POSITION

June 30, 2017

With Summarized Totals at June 30, 2016

ASSETS	2017				2016 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
Cash and Cash Equivalents	\$ 661,391	\$ -	\$ -	\$ 661,391	\$ 336,444
Investments	3,349,456	349,141	514,275	4,212,872	4,187,700
Pledges and Other Receivables	238,952	-	-	238,952	5,770
Prepaid Expenses	47,198	-	-	47,198	36,443
Property and Equipment (Net)	5,335	-	-	5,335	8,930
<b>TOTAL ASSETS</b>	<b>\$ 4,302,332</b>	<b>\$ 349,141</b>	<b>\$ 514,275</b>	<b>\$ 5,165,748</b>	<b>\$ 4,575,287</b>
<b>LIABILITIES AND NET ASSETS</b>					
<b>LIABILITIES:</b>					
Accounts Payable and Accrued Liabilities	\$ 134,901	\$ -	\$ -	\$ 134,901	\$ 189,204
<b>NET ASSETS:</b>					
Unrestricted	4,167,431	-	-	4,167,431	3,571,934
Temporarily Restricted	-	349,141	-	349,141	299,874
Permanently Restricted	-	-	514,275	514,275	514,275
<b>TOTAL NET ASSETS</b>	<b>4,167,431</b>	<b>349,141</b>	<b>514,275</b>	<b>5,030,847</b>	<b>4,386,083</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 4,302,332</b>	<b>\$ 349,141</b>	<b>\$ 514,275</b>	<b>\$ 5,165,748</b>	<b>\$ 4,575,287</b>

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, 2017

With Summarized Totals for the Year Ended June 30, 2016

	2017				2016 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
<b>REVENUE, SUPPORT AND OTHER:</b>					
Contributions	\$ 209,117	\$ 388,541	\$ -	\$ 597,658	\$ 565,360
Bequests	238,744	-	-	238,744	25,350
In-Kind Contributions	1,367,625	-	-	1,367,625	1,243,005
Special Events (Net of \$317,002 of Costs of Direct Benefits to Donors)	1,213,876	-	-	1,213,876	1,016,521
Investment Income (Loss) (Net)	367,324	-	-	367,324	(337,724)
Net Assets Released from Purpose Restrictions	339,274	(339,274)	-	-	-
<b>TOTAL REVENUE, SUPPORT AND OTHER</b>	<b>3,735,960</b>	<b>49,267</b>	<b>-</b>	<b>3,785,227</b>	<b>2,512,512</b>
<b>EXPENSES:</b>					
Program Services	2,592,226	-	-	2,592,226	2,716,451
Supporting Services:					
Management and General	240,892	-	-	240,892	225,704
Fundraising	307,345	-	-	307,345	347,223
<b>TOTAL EXPENSES</b>	<b>3,140,463</b>	<b>-</b>	<b>-</b>	<b>3,140,463</b>	<b>3,289,378</b>
<b>CHANGE IN NET ASSETS</b>	<b>595,497</b>	<b>49,267</b>	<b>-</b>	<b>644,764</b>	<b>(776,866)</b>
Net Assets - Beginning of Year	3,571,934	299,874	514,275	4,386,083	5,162,949
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 4,167,431</b>	<b>\$ 349,141</b>	<b>\$ 514,275</b>	<b>\$ 5,030,847</b>	<b>\$ 4,386,083</b>

The Accompanying Notes are an Integral Part of These Financial Statements

# THE CHILDREN'S BURN FOUNDATION

(A California Nonprofit Corporation)

## STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2017

With Summarized Totals for the Year Ended June 30, 2016

	2017				2016 Total
	Program Services	Supporting Services		Total	
		Management and General	Fundraising		
In-Kind Medical Treatments	\$ 1,265,324	\$ -	\$ -	\$ 1,265,324	\$ 1,141,995
Direct Program Services (Note 5)	764,601	-	-	764,601	1,085,702
Salaries and Benefits	369,782	69,096	196,076	634,954	637,511
Consulting Fees	53,875	46,067	37,302	137,244	49,255
Other In-Kind Professional Goods and Services	41,547	60,699	55	102,301	101,010
Office Rent and Parking	51,045	9,538	27,066	87,649	80,740
Accounting Fees	-	25,598	-	25,598	26,640
Bank Charges	-	24,472	-	24,472	10,529
Travel, Meetings and Conferences	5,147	886	11,066	17,099	22,265
Miscellaneous Expenses	10,167	(1,207)	5,391	14,351	17,639
Dues and Subscriptions	2,471	462	9,702	12,635	10,630
Insurance	7,054	1,318	3,740	12,112	10,521
Marketing	5,285	988	2,802	9,075	10,398
Equipment Rental and Repair	4,850	906	2,572	8,328	8,712
Supplies	4,146	775	3,049	7,970	12,648
Telephone	4,137	773	2,193	7,103	7,486
Depreciation	2,093	392	1,110	3,595	4,497
Donor Relations	-	-	2,691	2,691	6,725
Printing	163	30	1,490	1,683	6,327
Postage and Shipping	539	99	1,040	1,678	5,745
Unrelated Business Income Tax	-	-	-	-	30,000
Bad Debt Expense	-	-	-	-	2,403
<b>TOTAL FUNCTIONAL EXPENSES - 2017</b>	<b>\$ 2,592,226</b>	<b>\$ 240,892</b>	<b>\$ 307,345</b>	<b>\$ 3,140,463</b>	
	82%	8%	10%	100%	
<b>TOTAL FUNCTIONAL EXPENSES - 2016</b>	<b>\$ 2,716,451</b>	<b>\$ 225,704</b>	<b>\$ 347,223</b>		<b>\$ 3,289,378</b>
	83%	7%	10%		100%

The Accompanying Notes are an Integral Part of These Financial Statements

**THE CHILDREN'S BURN FOUNDATION**

(A California Nonprofit Corporation)

**STATEMENT OF CASH FLOWS**

Year Ended June 30, 2017

With Summarized Totals for the Year Ended June 30, 2016

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in Net Assets	\$ 644,764	\$ (776,866)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Depreciation	3,595	4,497
Net Realized and Unrealized (Gains) Losses on Investments	(276,182)	453,756
Bad Debt Expense	-	2,403
(Increase) Decrease in:		
Pledges and Other Receivables	(233,182)	(1,995)
Prepaid Expenses	(10,755)	(1,929)
Increase (Decrease) in:		
Accounts Payable and Accrued Liabilities	(54,303)	90,904
	<u>(54,303)</u>	<u>90,904</u>
<b><i>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</i></b>	73,937	(229,230)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Reinvested Interest and Dividends	(91,040)	(115,893)
Purchase of Investments	(744,068)	(615,287)
Proceeds from Sale of Investments	1,086,118	615,285
	<u>1,086,118</u>	<u>615,285</u>
<b><i>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</i></b>	251,010	(115,895)
<b><i>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</i></b>	324,947	(345,125)
Cash and Cash Equivalents - Beginning of Year	336,444	681,569
<b><i>CASH AND CASH EQUIVALENTS - END OF YEAR</i></b>	<u>\$ 661,391</u>	<u>\$ 336,444</u>

The Accompanying Notes are an Integral Part of These Financial Statements

# **THE CHILDREN'S BURN FOUNDATION**

(A California Nonprofit Corporation)

## **NOTES TO FINANCIAL STATEMENTS**

**June 30, 2017**

### **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 Outreach Program forges relationships with partners in the developing world in several areas including medical service provision, burn care education and burn prevention education. The Foundation has developed medical partnerships with centers of excellence including Nigeria, Nicaragua, China, India, Israel, Ukraine and Pakistan, where child burn survivors can be treated closer to their homes whenever possible. The Foundation has provided funds for the purchase of medical supplies and equipment for burn centers in these countries to help provide more advanced burn care and has acquired in-kind donations to help achieve better surgical results including artificial skin, wound care products, medical equipment and supplies. Currently, the Foundation partners with burn centers in countries where there is strong in-reach into the health and education systems to create burn prevention programs that are effective. The Foundation's expansion for burn prevention education will continue with medical partnerships in Ukraine, Pakistan and some Syrian refugee communities.
- The Foundation also has a volunteer group, The Council, consisting of 77 dedicated members who support the Foundation's fundraising efforts.



# THE CHILDREN'S BURN FOUNDATION

(A California Nonprofit Corporation)

## NOTES TO FINANCIAL STATEMENTS

June 30, 2017

### 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, 2017 are \$349,141.
- **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, 2017 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, 2017 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.

# **THE CHILDREN'S BURN FOUNDATION**

(A California Nonprofit Corporation)

## **NOTES TO FINANCIAL STATEMENTS**

June 30, 2017

### **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, 2017.

#### **(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 one share in a publishing company. However, the value of the Foundation's investment in 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.

**THE CHILDREN'S BURN FOUNDATION**

(A California Nonprofit Corporation)

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2017

**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
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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 \$5,000 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, 2017.

**(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, 2017, the Foundation received the following in-kind goods and services:

Medical Supplies and Other Goods	\$ 444,776
Medical and Professional Services	730,005
Hospital Rooms and Other Use of Facilities	<u>192,844</u>
<b>TOTAL IN-KIND CONTRIBUTIONS</b>	<b><u>\$ 1,367,625</u></b>

**(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, 2017, the Foundation's unrelated business income tax was insignificant.

# THE CHILDREN'S BURN FOUNDATION

(A California Nonprofit Corporation)

## NOTES TO FINANCIAL STATEMENTS

June 30, 2017

### 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, 2016 from which the summarized information was derived.

#### **(n) NEW ACCOUNTING 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 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.

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

NOTES TO FINANCIAL STATEMENTS  
June 30, 2017

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(o) SUBSEQUENT EVENTS**

The Foundation has evaluated events and transactions occurring subsequent to the statement of financial position date of June 30, 2017 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through December 22, 2017, the date these financial statements were available to be issued. No such events were noted.

**NOTE 3 - INVESTMENTS**

The Foundation has implemented the accounting standard for those assets (and liabilities) that are remeasured 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, 2017, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	Year Ended June 30, 2017	Fair Value Measurements Using			Net Asset Value Per Share or its Equivalent (NAV)
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Money Market	\$ 59,158	\$ 59,158	\$ -	\$ -	\$ -
Mutual Funds	2,715,911	2,715,911	-	-	-
Index Funds - Fixed Income	264,952	264,952	-	-	-
International Bonds	88,032	88,032	-	-	-
Corporate Bonds	58,198	-	58,198	-	-
Real Estate Funds	163,056	-	163,056	-	-
Limited Partnerships	667,990	-	-	-	667,990
L.A. Northpoint Limited Partnership	195,575	-	-	-	195,575
<b>TOTAL INVESTMENTS</b>	<b>\$ 4,212,872</b>	<b>\$ 3,128,053</b>	<b>\$ 221,254</b>	<b>\$ -</b>	<b>\$ 863,565</b>

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

NOTES TO FINANCIAL STATEMENTS  
June 30, 2017

**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 in 2018.

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, 2017. Such investments can only be sold or transferred with the general partner's consent according to the limited partnership agreements. There were no unfunded commitments at June 30, 2017.

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 income (net) is comprised of the following for the year ended June 30, 2017:

Interest and Dividends - Investment Accounts	\$ 103,545
Interest and Dividends - Cash Accounts	102
Net Unrealized Gain on Limited Partnerships	22,733
Net Realized and Unrealized Gains	253,449
Less: Investment Management Fees	<u>(12,505)</u>
<b><i>NET INVESTMENT INCOME</i></b>	<b><u>\$ 367,324</u></b>

**NOTE 4 - PROPERTY AND EQUIPMENT**

Property and equipment at June 30, 2017 is summarized as follows:

Furniture and Equipment	\$ 54,024
Less: Accumulated Depreciation	<u>(48,689)</u>
<b><i>PROPERTY AND EQUIPMENT (NET)</i></b>	<b><u>\$ 5,335</u></b>

Depreciation expense for the year ended June 30, 2017 was \$3,595.

# THE CHILDREN'S BURN FOUNDATION

(A California Nonprofit Corporation)

## NOTES TO FINANCIAL STATEMENTS

June 30, 2017

### 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

2018	\$	85,485
2019		89,175
2020		<u>22,450</u>
<b>TOTAL</b>	<b>\$</b>	<b><u>197,110</u></b>

Rent and parking expense under facility and equipment operating leases for the year ended June 30, 2017 was \$87,649. Equipment rental for the year ended June 30, 2017 was \$8,328.

#### (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 \$764,601 for the year ended June 30, 2017 includes expenses incurred for providing such medical care along with \$1,265,324 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 - LINE OF CREDIT

The Foundation has a line of credit agreement with a financial institution, with available financing of \$1,000,000. The line of credit bears a rate of interest equal to the greater of (i) 1% or (ii) the prime rate plus one half percent (the prime rate was 4.25% at June 30, 2017). The line matures in August 2018 and is secured by the Foundation's investments held at the financial institution. There were no amounts outstanding on the line of credit at June 30, 2017.

### NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2017 consist of the following:

Fire House	\$	171,874
California Science Center		<u>177,267</u>
<b>TOTAL TEMPORARILY RESTRICTED NET ASSETS</b>	<b>\$</b>	<b><u>349,141</u></b>

# THE CHILDREN'S BURN FOUNDATION

(A California Nonprofit Corporation)

## NOTES TO FINANCIAL STATEMENTS

June 30, 2017

### NOTE 8 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at June 30, 2017 consist of the following:

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

### NOTE 9 - 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.



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**NOTES TO FINANCIAL STATEMENTS**

June 30, 2017

**NOTE 9 - ENDOWMENTS** (continued)

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 \$28,466 at June 30, 2017.

<b>Endowment Net Asset Composition by Type of Fund at June 30, 2017</b>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Designated	\$ (28,466)	\$ -	\$ 514,275	\$ 485,809
<b>Changes in Endowment Net Assets for the Year Ended June 30, 2017</b>				
Endowment Net Assets - Beginning of Year	\$ (66,005)	\$ -	\$ 514,275	\$ 448,270
Investment Return:				
Interest and Dividends	10,585	-	-	10,585
Net Realized and Unrealized Gain	28,232	-	-	28,232
Less: Investment Fees	(1,278)	-	-	(1,278)
Appropriation of Endowment Assets for Expenditure	-	-	-	-
<b><i>ENDOWMENT NET ASSETS - END OF YEAR</i></b>	<b>\$ (28,466)</b>	<b>\$ -</b>	<b>\$ 514,275</b>	<b>\$ 485,809</b>

**NOTE 10 - 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 \$13,922 during the year ended June 30, 2017.