

THE DALMATIAN DREAMS FOUNDATION
dba DREAM FOUNDATION
FINANCIAL STATEMENTS
DECEMBER 31, 2018

THE DALMATIAN DREAMS FOUNDATION dba DREAM FOUNDATION

December 31, 2018

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CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Dalmatian Dreams Foundation dba Dream Foundation
Santa Barbara, California

We have audited the accompanying financial statements of The Dalmatian Dreams Foundation dba Dream Foundation (a non-profit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and changes in net assets, 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 Dalmatian Dreams Foundation dba Dream Foundation as of December 31, 2018, and the change 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 Dalmatian Dreams Foundation dba Dream Foundation 2017 financial statements, and we expressed an unmodified audit opinion on those statements in our report dated August 22, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

McGowan Guntermann

Santa Barbara, California

April 30, 2019

THE DALMATIAN DREAMS FOUNDATION dba DREAM FOUNDATION

STATEMENT OF FINANCIAL POSITION
December 31, 2018
(With Comparative Totals for December 31, 2017)

	ASSETS			(Memo)
	Without Donor Restrictions	With Donor Restrictions	2018 Total	2017 Total
CURRENT ASSETS				
Cash and cash equivalents	\$ 190,802	\$ 450,000	\$ 640,802	\$ 284,793
Pledges and grants receivable, current portion	-	176,154	176,154	268,150
Prepaid expenses and deposits	<u>1,108</u>	<u>-</u>	<u>1,108</u>	<u>1,252</u>
 Total Current Assets	 <u>191,910</u>	 <u>626,154</u>	 <u>818,064</u>	 <u>554,195</u>
 INVESTMENTS	 <u>-</u>	 <u>379,922</u>	 <u>379,922</u>	 <u>202,727</u>
PROPERTY AND EQUIPMENT				
Furniture	179,780	-	179,780	179,780
Equipment	78,078	-	78,078	78,078
Vehicle	<u>47,588</u>	<u>-</u>	<u>47,588</u>	<u>47,588</u>
	305,446	-	305,446	305,446
Less: Accumulated depreciation	<u>(283,271)</u>	<u>-</u>	<u>(283,271)</u>	<u>(273,805)</u>
 Net Property and Equipment	 <u>22,175</u>	 <u>-</u>	 <u>22,175</u>	 <u>31,641</u>
OTHER ASSETS				
Pledges and grants receivable, net of current portion	-	330,000	330,000	460,000
Donated airline mileage	250,464	-	250,464	162,167
Due from other funds	<u>-</u>	<u>62,275</u>	<u>62,275</u>	<u>239,470</u>
 Total Other Assets	 <u>250,464</u>	 <u>392,275</u>	 <u>642,739</u>	 <u>861,637</u>
 TOTAL ASSETS	 <u>\$ 464,549</u>	 <u>\$ 1,398,351</u>	 <u>\$ 1,862,900</u>	 <u>\$ 1,650,200</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	\$ 33,364	\$ -	\$ 33,364	\$ 33,673
Note payable	<u>-</u>	<u>278,854</u>	<u>278,854</u>	<u>329,077</u>
Total Current Liabilities	<u>33,364</u>	<u>278,854</u>	<u>312,218</u>	<u>362,750</u>
OTHER LIABILITIES				
Due to other funds	<u>62,275</u>	<u>-</u>	<u>62,275</u>	<u>239,470</u>
 TOTAL LIABILITIES	 <u>95,639</u>	 <u>278,854</u>	 <u>374,493</u>	 <u>602,220</u>
 NET ASSETS	 <u>368,910</u>	 <u>1,119,497</u>	 <u>1,488,407</u>	 <u>1,047,980</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 464,549</u>	 <u>\$ 1,398,351</u>	 <u>\$ 1,862,900</u>	 <u>\$ 1,650,200</u>

The accompanying notes are an integral part of these financial statements.

THE DALMATIAN DREAMS FOUNDATION dba DREAM FOUNDATION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended December 31, 2018

(With Comparative Totals for the Year Ended December 31, 2017)

	Without Donor Restrictions	With Donor Restrictions	2018 Total	(Memo) 2017 Total
REVENUE, GAINS AND OTHER SUPPORT				
Donations and grants - general	\$ 767,533	\$ 16,154	\$ 783,687	\$ 382,626
Donations and grants - corporate	553,949	950,000	1,503,949	1,328,916
Non-cash contributions (in-kind)	1,428,479	-	1,428,479	1,384,578
Special events (net of expenses of \$89,863 and \$585,769)	499,937	-	499,937	546,347
Investment income (loss)	-	(557)	(557)	102,318
Net assets released from restrictions	<u>737,593</u>	<u>(737,593)</u>	<u>-</u>	<u>-</u>
 Total Revenue, Gains and Other Support	 <u>3,987,491</u>	 <u>228,004</u>	 <u>4,215,495</u>	 <u>3,744,785</u>
 EXPENSES				
Program services:				
Cash	1,866,829	-	1,866,829	3,352,468
Non-cash (in-kind)	<u>1,309,698</u>	<u>-</u>	<u>1,309,698</u>	<u>1,331,359</u>
Total Program Services	<u>3,176,527</u>	<u>-</u>	<u>3,176,527</u>	<u>4,683,827</u>
Support services:				
Management and general - cash	284,889	-	284,889	724,304
Management and general - non-cash (in-kind)	15,242	-	15,242	10,957
Fundraising - cash	283,168	-	283,168	436,947
Fundraising - non-cash (in-kind)	<u>15,242</u>	<u>-</u>	<u>15,242</u>	<u>10,957</u>
Total Support Services	<u>598,541</u>	<u>-</u>	<u>598,541</u>	<u>1,183,165</u>
 Total Expenses	 <u>3,775,068</u>	 <u>-</u>	 <u>3,775,068</u>	 <u>5,866,992</u>
 CHANGE IN NET ASSETS	 212,423	 228,004	 440,427	 (2,122,207)
 NET ASSETS, BEGINNING OF YEAR	 <u>156,487</u>	 <u>891,493</u>	 <u>1,047,980</u>	 <u>3,170,187</u>
 NET ASSETS, END OF YEAR	 <u>\$ 368,910</u>	 <u>\$ 1,119,497</u>	 <u>\$ 1,488,407</u>	 <u>\$ 1,047,980</u>

The accompanying notes are an integral part of these financial statements.

THE DALMATIAN DREAMS FOUNDATION dba DREAM FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2018
(With Comparative Totals for the Year Ended December 31, 2017)

EXPENSES	Program Services		Support Services				(Memo)	
	Cash	Non-Cash	Management and General		Fundraising		2018 Total	2017 Total
			Cash	Non-Cash	Cash	Non-Cash		
Dreams and direct program expense	\$ 739,315	\$ 971,349	\$ -	\$ -	\$ -	\$ -	\$ 1,710,664	\$ 2,619,316
Salary	499,071	-	115,170	-	153,560	-	767,801	1,218,600
Benefits	118,956	-	27,451	-	36,602	-	183,009	317,894
Professional fees	257,306	33,849	69,565	7,253	55,093	7,253	430,319	722,802
Travel, seminars, and retreats	36,069	-	7,729	-	7,729	-	51,527	158,135
Rent	48,867	37,281	10,472	7,989	10,472	7,989	123,070	150,751
Telephone and video	24,873	-	3,760	-	3,760	-	32,393	75,727
Printing and reproduction	8,936	-	1,138	-	2,044	-	12,118	33,373
Supplies	12,236	-	969	-	1,469	-	14,674	24,322
Depreciation	6,626	-	1,420	-	1,420	-	9,466	20,141
Utilities	25,648	-	5,496	-	5,496	-	36,640	36,826
Postage and delivery	15,338	-	1,417	-	2,091	-	18,846	16,723
Bad debt	-	-	13,000	-	-	-	13,000	350,000
Repairs and maintenance	10,868	-	2,329	-	2,329	-	15,526	41,185
Public awareness	54,553	267,219	-	-	-	-	321,772	67,937
Interest expense	-	-	8,308	-	-	-	8,308	-
Bank and credit card fees	-	-	15,562	-	-	-	15,562	140
Insurance	5,145	-	1,103	-	1,103	-	7,351	7,321
Volunteer and sponsor recognition	3,022	-	-	-	-	-	3,022	5,799
2018 TOTAL EXPENSES	<u>\$ 1,866,829</u>	<u>\$ 1,309,698</u>	<u>\$ 284,889</u>	<u>\$ 15,242</u>	<u>\$ 283,168</u>	<u>\$ 15,242</u>	<u>\$ 3,775,068</u>	
	84%		8%		8%			
2017 TOTAL EXPENSES (MEMO)	<u>\$ 3,352,468</u>	<u>\$ 1,331,359</u>	<u>\$ 724,304</u>	<u>\$ 10,957</u>	<u>\$ 436,947</u>	<u>\$ 10,957</u>		<u>\$ 5,866,992</u>

The accompanying notes are an integral part of these financial statements.

THE DALMATIAN DREAMS FOUNDATION dba DREAM FOUNDATION

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2018

(With Comparative Totals for the Year Ended December 31, 2017)

	2018	(Memo) 2017
	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 440,427	\$ (2,122,207)
Adjustments to reconcile change in net assets to net cash provided used by operating activities:		
Depreciation	9,466	20,141
Unrealized loss on value of securities	33,538	131,538
Realized gain on sale of securities	(32,908)	(211,062)
(Increase) decrease in:		
Pledges receivable	221,996	151,850
Deposits	144	513
Donated airline mileage	(88,297)	(31,305)
Increase (decrease) in accounts payable and accrued liabilities	<u>(50,532)</u>	<u>329,325</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>533,834</u>	<u>(1,731,207)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	-	(10,998)
Purchase of securities	(337,826)	(335,355)
Proceeds from sale of securities	<u>160,001</u>	<u>1,919,832</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(177,825)</u>	<u>1,573,479</u>
NET DECREASE (INCREASE) IN CASH AND CASH EQUIVALENTS	356,009	(157,728)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>284,793</u>	<u>442,521</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 640,802</u>	<u>\$ 284,793</u>

The accompanying notes are an integral part of these financial statements.

THE DALMATIAN DREAMS FOUNDATION dba DREAM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 1 – ORGANIZATION

The Dalmatian Dreams Foundation dba Dream Foundation (the Organization) began in July, 1994, as a project implemented by Access Theatre. The Organization was granted independent 501(c)(3) status from the Internal Revenue Service in 1996. The Organization's fictitious business name statement (Dream Foundation) was filed on September 3, 1998. The purpose of the Organization is to grant wishes to adults in the United States whose clinical life expectancy is less than one year, and whose limited resources leave them unable to manifest such dreams for themselves.

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting. The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

New Accounting Pronouncements

The December 31, 2018 financial statements reflect adoption of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. ASU 2014-15 defines management's responsibility to evaluate whether there is a substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. The Organization adopted this ASU and concluded there was not substantial doubt of its continued operations.

During 2018, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; recognition of underwater endowment funds as a reduction in net assets with donor restrictions; and reporting investment income net of external and direct internal investment expenses. The guidance also enhances disclosures for board designated amounts, compositions of net assets with donor restrictions and how the restrictions affect the use of resources, qualitative and quantitative information about the liquidity and availability of financial assets to meet general expenditures within one year of the balance sheet (statement of financial position) date, and expenses by both their natural and functional classification, including methods used to allocate costs among program and support functions and underwater endowments.

THE DALMATIAN DREAMS FOUNDATION dba DREAM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Pronouncements (continued)

Due to the adoption of ASU 2016-14 as of December 31, 2018, net assets have been reclassified as of December 31, 2017 as follows:

Net Asset Classification 12/31/17	ASU 2016-14 Classifications		Total Net Assets
	Without Donor Restrictions	With Donor Restrictions	
Unrestricted	\$ 156,487	\$ -	\$ 156,487
Temporarily Restricted	-	449,296	449,296
Permanently Restricted	-	442,197	442,197
Net Assets as previously presented	156,487	891,493	1,047,980
Net assets as reported after adoption of ASU 2016-14	<u>\$ 156,487</u>	<u>\$ 891,493</u>	<u>\$ 1,047,980</u>

Description of Net Assets

The Organization reports information regarding its financial position and activities in two classes of net assets - with donor restrictions and without donor restrictions - based on the existence or absence of donor-imposed restrictions.

Without Donor Restrictions

Net assets without donor restrictions represent net assets that are not subject to donor-imposed time or use restrictions. Net assets without donor restrictions include board designated funds.

With Donor Restrictions

Net assets with donor restrictions represent net assets that are subject to donor-imposed time or use restrictions. Net assets with donor restrictions generally include contributions and bequests receivable and planned gifts. Earnings on net assets with donor restrictions are reported as an increase in net assets with donor restrictions. Earnings on donor-restricted endowment funds that have not yet been appropriated are also classified as net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as “Net assets released from restrictions”. Net assets with donor restrictions include perpetual income trusts for which the related income is reported as contributions without donor restrictions when received on the Statement of Activities. The change in value of the underlying assets is recorded as an unrealized gain or loss in net assets with donor restrictions on the Statement of Activities. Net assets with donor restrictions also consist of those donor-restricted endowments held by the Organization as defined under the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

THE DALMATIAN DREAMS FOUNDATION dba DREAM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain amounts and disclosures. Those estimates and assumptions affect the reported amounts of assets, liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. It is at least reasonably possible that the significant estimates could change in the coming year.

Significant estimates used in the preparation of these financial statements include: allocation of certain expenses by function, fair value of donated in-kind contributions, fair value of donated airline miles, fair value of limited partnership interest, and depreciable lives of property and equipment.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include cash on hand, amounts in checking, savings, money market accounts, and certificates of deposit with maturities of 90 days or less.

Investments

Investments in marketable securities with readily determinable fair values and all investments in marketable debt securities are valued at their fair values in the statement of financial position. The investment in a limited partnership, for which quoted market price is not readily available, are determined by management in good faith with the assistance of an independent third-party appraiser using methods they consider appropriate. Realized and unrealized gains and losses are included in the change in net assets. Donated securities are recorded at their estimated value at date of receipt.

Contributions

All contributions and grants are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted.

The Organization solicits donations of items to be sold at auction or various fundraising events. The Organization has adopted the policy of recording these gifts in-kind at their estimated fair market value on the date of donation.

The estimated fair value of the contribution of limited partnership interest was determined by management in good faith with the assistance of an independent third-party appraiser using methods they consider appropriate.

THE DALMATIAN DREAMS FOUNDATION dba DREAM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated Airline Mileage

Airline mileage is donated by individuals to support the programs of the Organization. Airline companies have stipulated a value of four cents per mile, which is recorded in the Organization's books as a contribution when received and an expense when used. Unused mileage at December 31, 2018, is recorded as donated airline mileage on the statement of financial position.

Property and Equipment

Property and Equipment are recorded at cost or, if donated, at fair market value at the time of the donation. Such donations are reported as unrestricted support 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 support.

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 as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. It is management's policy to capitalize certain purchases and donations with a useful life greater than one year and a value greater than \$1,000.

Depreciation is computed using the straight-line method over estimated useful lives as follows:

Furniture	7 years
Equipment	5 years
Vehicles	5 years

Depreciation expense for the year ended December 31, 2018, totaled \$9,466.

Tax Exempt Status

The Organization is a California nonprofit public benefit corporation, which is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and State of California Revenue and Taxation Code Section 23701(d); therefore, no provision for income taxes is required. The Organization qualifies for the charitable contribution deduction under Section 170(b) (1) (A) and has been classified as an organization that is not a private foundation under Section 509(a) (1).

The Organization evaluates uncertain tax positions, whereby the effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimable. As of December 31, 2018, the Organization had no uncertain tax positions requiring accrual.

The Organization files tax returns in California and U.S. federal jurisdictions. The Organization is no longer subject to U.S. federal and state examinations by tax authorities for years before 2015 and 2014, respectively.

THE DALMATIAN DREAMS FOUNDATION dba DREAM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional Expenses

The Organization allocates its expenses on a functional basis among its various program and support services. Expenses that can be identified with a specific program and support service are allocated directly, according to their expenditure classification. Other expenses that are common to several functions are allocated by various statistical bases.

Donated Services

Some individuals and organizations have donated time to the Organization to further its programs and objectives. Donated items are reflected as contributions in the accompanying statements at their estimated fair market values at the date of receipt. Donated services, which meet certain authoritative criteria and can be objectively valued, have also been reflected as contributions in-kind in the accompanying statements.

Comparative Amounts

The amounts shown for 2017 in the accompanying financial statements are included to provide a basis for comparison with 2018 and are not intended to present all information necessary for a fair presentation of the 2017 financial statements in conformity with accounting principles generally accepted in the United States of America.

Subsequent Events

The Organization has evaluated subsequent events through April 30, 2019, the date which the financial statements were available to be issued.

Note 3 – PLEDGES RECEIVABLE

Unconditional promises to give at December 31, 2018, represent pledges with donor restrictions of \$506,154, of which \$176,154 is expected to be collected in 2019, while the remaining \$330,000 is expected to be collected in 2020. At December 31, 2018, these amounts are considered fully collectible and therefore no allowance for uncollectible promises to give has been recorded.

Note 4 – LEASES

The Organization leases office space in Santa Barbara, California for a term of five years beginning December 2016, and ending December 2021 at \$4,550 monthly. In addition, the Organization received in-kind rent valued at \$42,180 for the year ended December 31, 2018, for the Santa Barbara office.

Total rent expense, inclusive of related parking, storage, and common area expenses allocations, for the Organization was \$123,070 for the year ended December 31, 2018.

THE DALMATIAN DREAMS FOUNDATION dba DREAM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 4 – LEASES (continued)

Future minimum lease payments for the years ending December 31 are as follows:

2019	\$ 54,600
2020	54,600
2021	<u>54,600</u>
Total	<u>\$ 163,800</u>

Note 5 – INVESTMENTS

Investments are presented in the financial statements at fair market value, which is derived from quoted market prices at year end. At December 31, 2018, investments consist of the following:

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
Cash held for investment	<u>\$ 379,922</u>	<u>\$ 379,922</u>	<u>\$ 379,922</u>
Total	<u>\$ 379,922</u>	<u>\$ 379,922</u>	<u>\$ 379,922</u>

The following summarizes the net change in unrealized gain on investments:

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
Balance at end of the year	\$ 379,922	\$ 379,922	\$ -
Balance at beginning of the year	169,189	202,727	<u>33,538</u>
Net change in unrealized loss			<u>\$ (33,538)</u>

The following summarizes the investment return included as unrestricted revenue in the statement of activities for the year ended December 31, 2018:

Investment and dividend income	\$ 1,126
Unrealized loss on value of securities	(33,538)
Realized gain on value of securities	32,908
Investment fees	<u>(1,053)</u>
Net Investment Income (Loss)	<u>\$ (557)</u>

Note 6 – FAIR VALUE MEASUREMENT

The Organization has established a framework for measuring fair value and expanding disclosures about fair value measurements. Accounting principles define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3). The standard describes three levels of inputs that may be used to measure fair value:

THE DALMATIAN DREAMS FOUNDATION dba DREAM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 6 – FAIR VALUE MEASUREMENT (continued)

- Level 1: Quoted prices in active markets for identical assets or liabilities;
Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; discounted cash flows; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities;
Level 3: Unobservable inputs that are supported by little or no market activity;

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying Statement of Financial Position, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then Level 2 fair values are estimated by using pricing models quoted prices of securities with similar characteristics or discounted cash flows. The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Fair market valuation of Level 3 investments are determined by management in good faith with the assistance of an independent third-party appraiser using methods they consider appropriate. Because of the inherent uncertainty of valuations, however, those estimated values may differ from the values that would have been used had a ready market existed, and the differences could be material.

The following is a description of the general classification of investments pursuant to the valuation hierarchy:

Cash held for investment – Cash held for investment purposes includes money market funds and cash equivalent assets and is valued at face value.

The following table presents assets and liabilities recognized in the accompanying Statement of Financial Position measured at fair value on a recurring basis and the level in which the fair value measurements fall at December 31, 2018:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash held for investment	\$ 379,922	\$ -	\$ -	\$ 379,922
Total assets measured at fair value	\$ 379,922	\$ -	\$ -	\$ 379,922

THE DALMATIAN DREAMS FOUNDATION dba DREAM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 7 – ENDOWMENT FUNDS

Interpretation of Relevant Law

The Board of Directors of the Organization has interpreted the California adopted Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring a long-term investment strategy designed to preserve the value of the original gift, as of the gift date. As a result of this interpretation, the Organization has classified, with the explicit prohibition by the donor, as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the donor at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment funds that are not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard for prudence prescribed by UPMIFA.

In accordance with California UPMIFA, the Organization considers the following factors in making a determination to appropriate or invest donor restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

Endowment Investment and Spending Policies

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the long-term purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity for donor-specified periods. The endowment assets are invested in a manner that is intended to produce results that provide a reasonable balance between the quest for growth and the need to protect principal. The investment policy calls for a diversified portfolio utilizing various asset classes with a goal of reducing portfolio volatility and risk.

The Organization's endowment is invested in a diversified portfolio of cash, equities, and fixed income. The portfolio's objective is to achieve a total return equivalent to or greater than the Organization's financial requirements over the long-term time horizon. Long-term investment strategies are used to manage risk and ensure that charitable dollars grow and are available forever.

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NOTES TO FINANCIAL STATEMENTS

Note 7 – ENDOWMENT FUNDS (continued)

Endowment Investment and Spending Policies (continued)

The Organization uses a total investment return methodology for determining its spending policy each year. The portfolio's total returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The spending policy calculates the amount of money annually distributed from the Organization's endowed funds for Dreams and administrative support. The spending policy is reviewed annually in light of changing market assumptions, investment returns and the rate of inflation. Accordingly, over the long-term, the Organization expects the current spending policy to allow its endowment assets to grow. Historically, the Organization has used a 6% spending policy when the fair market value is in excess of corpus.

As of December 31, 2018, endowment net assets were composed of \$442,197 with donor restrictions. There were no changes in the endowment net assets for the year.

Note 8 – NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by satisfying the restricted purposes specified by donors. For the year ended December 31, 2018, the passage of time restrictions resulted in net assets released from restrictions of \$737,593.

Note 9 – CONCENTRATIONS AND MARKET RISK

Concentration of Revenue

For the year ended December 31, 2018, approximately 64% of the corporate donation and grants revenue was from two donors, with over 44% coming from one donor.

Credit Risk

The Organization maintains cash balances insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. As of December 31, 2018, uninsured cash and cash equivalent balances totaled approximately \$390,000.

Market Risk

The Organization holds its investments in a diversified portfolio. Nevertheless, these investments are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

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NOTES TO FINANCIAL STATEMENTS

Note 10 – RETIREMENT PLANS

The Organization provides a Simplified Employee Pension Individual Retirement Account (SEP IRA) employer sponsored plan. An employee over 21 years old who has worked for the Organization for three consecutive years and has made at least \$400 during the prior calendar year is eligible to participate in the Plan. Once an employee is eligible, they are immediately 100% vested. The Organization makes a percentage contribution of employee compensation to be determined on an annual basis by approval of the board of directors. The Organization did not make contributions for the year ended December 31, 2018.

The Organization also offers an employee elective-deferral plan under Internal Revenue Code 403(b). Any full or part-time employee is eligible to participate in the Plan. The minimum contribution amount in order to participate in the Plan is \$50 per month. An employee may borrow up to 50% of their account balance with a minimum loan of \$1,000.

Note 11 – RECLASSIFICATION

Certain amounts from the December 31, 2017 financial statements have been reclassified to conform to the December 31, 2018 financial statement presentation.

Note 12 – NET ASSETS

Net Assets Without Donor Restrictions

As of December 31, 2018, net assets without donor restrictions consist of the following:

Undesignated funds	\$ 96,271
Property and equipment, net	22,175
Donated airline mileage (illiquid)	<u>250,464</u>
Total Net Assets Without Donor Restrictions	<u>\$ 368,910</u>

Net Assets With Donor Restrictions

As of December 31, 2018, net assets with donor restrictions consist of the following:

Cash	\$ 450,000
Receivables	506,154
Accrued expenses	(278,854)
Donor-restricted endowments	<u>442,197</u>
Total Net Assets With Donor Restrictions	<u>\$ 1,119,497</u>

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NOTES TO FINANCIAL STATEMENTS

Note 13 – LIQUIDITY

Financial assets available to meet cash needs for general expenditure for the following year are comprised of current assets and investments, adjusted for amounts unavailable due to illiquidity, endowments and other funds spending policy appropriations beyond one year, and current liabilities payable to vendors, financial institutions, and nonprofit organizations.

Financial assets available to meet cash needs for general expenditures within one year as of December 31, 2018:

Current assets	
Cash and cash equivalents available within one year	\$ 190,802
Pledges and grants receivable, current portion	176,154
Other current assets	<u>1,108</u>
Total Current Assets	<u>368,064</u>
Investments	379,922
Less investments unavailable for general expenditures within one year:	
Endowments and other funds subject to spending policy appropriations beyond one year:	
With donor restrictions	<u>(379,922)</u>
Investments available for general expenditures within one year	<u>-</u>
Current liabilities	<u>(312,218)</u>
Financial assets available to meet cash needs for general expenditures within one year as of December 31, 2018	<u>\$ 55,846</u>

Note 14 – NOTE PAYABLE

Effective May 9, 2018, the Organization converted an accrued expense into a note payable in the amount of \$278,854. The agreement called for interest payments only, due monthly at Prime Rate with principal payments due quarterly that are equal to one-half of qualifying donations received the preceding quarter. Principal balance was due in full as of December 31, 2018. The outstanding principal at December 31, 2018 was \$278,854.

Effective January 15, 2019, the agreement was amended and calls for a principal payment of \$25,000 within ten days of the new agreement date and \$2,000 monthly principal payments effective February 1, 2019, and all unpaid principal due December 31, 2019. Interest payments remain the same as the original note payable agreement.