

THE DALMATIAN DREAMS FOUNDATION
dba DREAM FOUNDATION
FINANCIAL STATEMENTS
DECEMBER 31, 2015

THE DALMATIAN DREAMS FOUNDATION dba DREAM FOUNDATION

December 31, 2015

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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, 2015, 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, 2015, 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 2014 financial statements, and we expressed an unmodified audit opinion on those statements in our report dated June 18, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

McGowan Guntermann

Santa Barbara, California

August 15, 2016

THE DALMATIAN DREAMS FOUNDATION dba DREAM FOUNDATION

STATEMENT OF FINANCIAL POSITION
December 31, 2015
(With Comparative Totals for December 31, 2014)

	ASSETS				(Memo)
	Unrestricted	Temporarily Restricted	Permanently Restricted	2015 Total	2014 Total
CURRENT ASSETS					
Cash and cash equivalents	\$ 1,274,369	\$ 950,000	\$ -	\$ 2,224,369	\$ 977,887
Pledges and grants receivable, current portion	-	81,275	-	81,275	\$ 102,837
Prepaid expenses and deposits	6,368	-	-	6,368	4,594
	<u>1,280,737</u>	<u>1,031,275</u>	<u>-</u>	<u>2,312,012</u>	<u>1,085,318</u>
Total Current Assets					
INVESTMENTS	<u>1,216,801</u>	<u>95,842</u>	<u>442,197</u>	<u>1,754,840</u>	<u>3,365,084</u>
PROPERTY AND EQUIPMENT					
Furniture	163,891	-	-	163,891	158,153
Equipment	76,980	-	-	76,980	79,894
Vehicle	47,588	-	-	47,588	47,588
	<u>288,459</u>	<u>-</u>	<u>-</u>	<u>288,459</u>	<u>285,635</u>
Less: Accumulated depreciation	<u>(222,566)</u>	<u>-</u>	<u>-</u>	<u>(222,566)</u>	<u>(195,612)</u>
Net Property and Equipment	<u>65,893</u>	<u>-</u>	<u>-</u>	<u>65,893</u>	<u>90,023</u>
OTHER ASSETS					
Pledges and grants receivable, net of current portion	-	30,000	-	30,000	-
Donated airline mileage	66,308	-	-	66,308	40,675
	<u>66,308</u>	<u>30,000</u>	<u>-</u>	<u>96,308</u>	<u>40,675</u>
Total Other Assets					
TOTAL ASSETS	<u>\$ 2,629,739</u>	<u>\$ 1,157,117</u>	<u>\$ 442,197</u>	<u>\$ 4,229,053</u>	<u>\$ 4,581,100</u>
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable and accrued liabilities	\$ 23,361	\$ -	\$ -	\$ 23,361	\$ 49,537
NET ASSETS					
Unrestricted					
Undesignated	1,594,553	-	-	1,594,553	2,354,546
Board restricted	1,011,825	-	-	1,011,825	1,027,203
Total Unrestricted	<u>2,606,378</u>	<u>-</u>	<u>-</u>	<u>2,606,378</u>	<u>3,381,749</u>
Temporarily restricted	-	1,157,117	-	1,157,117	707,617
Permanently restricted	-	-	442,197	442,197	442,197
	<u>-</u>	<u>-</u>	<u>442,197</u>	<u>442,197</u>	<u>442,197</u>
Total Net Assets	<u>2,606,378</u>	<u>1,157,117</u>	<u>442,197</u>	<u>4,205,692</u>	<u>4,531,563</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,629,739</u>	<u>\$ 1,157,117</u>	<u>\$ 442,197</u>	<u>\$ 4,229,053</u>	<u>\$ 4,581,100</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, 2015

(With Comparative Totals for the Year Ended December 31, 2014)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2015 Total	(Memo) 2014 Total
REVENUE, GAINS AND OTHER SUPPORT					
Donations and grants - general	\$ 371,694	\$ 70,000	\$ -	\$ 441,694	\$ 461,578
Donations and grants - corporate	827,650	950,000	-	1,777,650	1,251,243
Non-cash contributions (in-kind)	1,088,067	-	-	1,088,067	931,167
Special events (net of expenses of \$464,492 and \$424,632)	599,095	41,275	-	640,370	842,283
Interest and dividends	41,795	24,284	-	66,079	105,031
Unrealized gain (loss) on value of securities	348,854	(21,212)	-	327,642	(491,495)
Realized gain (loss) on sale of securities	(9,717)	(5,646)	-	(15,363)	225,938
Net assets released from restrictions	<u>609,201</u>	<u>(609,201)</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Total Revenue, Gains and Other Support	 <u>3,876,639</u>	 <u>449,500</u>	 <u>-</u>	 <u>4,326,139</u>	 <u>3,325,745</u>
 EXPENSES					
Program services:					
Cash	2,826,339	-	-	2,826,339	2,400,262
Non-cash (in-kind)	<u>1,031,736</u>	<u>-</u>	<u>-</u>	<u>1,031,736</u>	<u>947,427</u>
Total Program Services	<u>3,858,075</u>	<u>-</u>	<u>-</u>	<u>3,858,075</u>	<u>3,347,689</u>
Support services:					
Management and general - cash	360,761	-	-	360,761	302,327
Management and general - non-cash (in-kind)	30,719	-	-	30,719	12,645
Fundraising - cash	369,436	-	-	369,436	350,036
Fundraising - non-cash (in-kind)	<u>33,019</u>	<u>-</u>	<u>-</u>	<u>33,019</u>	<u>13,653</u>
Total Support Services	<u>793,935</u>	<u>-</u>	<u>-</u>	<u>793,935</u>	<u>678,661</u>
 Total Expenses	 <u>4,652,010</u>	 <u>-</u>	 <u>-</u>	 <u>4,652,010</u>	 <u>4,026,350</u>
 CHANGE IN NET ASSETS	 (775,371)	 449,500	 -	 (325,871)	 (700,605)
 NET ASSETS, BEGINNING OF YEAR	 <u>3,381,749</u>	 <u>707,617</u>	 <u>442,197</u>	 <u>4,531,563</u>	 <u>5,232,168</u>
 NET ASSETS, END OF YEAR	 <u>\$ 2,606,378</u>	 <u>\$ 1,157,117</u>	 <u>\$ 442,197</u>	 <u>\$ 4,205,692</u>	 <u>\$ 4,531,563</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, 2015

(With Comparative Totals for the Year Ended December 31, 2014)

EXPENSES	Program Services		Support Services				(Memo)	
	Cash	Non-Cash	Management and General		Fundraising		2015	2014
			Cash	Non-Cash	Cash	Non-Cash	Total	Total
Dreams and direct program expense	\$ 1,280,409	\$ 864,433	\$ -	\$ -	\$ -	\$ -	\$ 2,144,842	\$ 1,967,093
Salary	785,369	-	181,239	-	241,652	-	1,208,260	1,130,266
Benefits	194,768	-	44,943	-	59,929	-	299,640	346,741
Professional fees	214,040	72,073	33,814	15,390	18,985	15,390	369,692	114,623
Travel, seminars, and retreats	138,860	-	13,484	-	13,202	-	165,546	53,027
Rent	47,221	34,448	10,119	7,382	10,119	7,382	116,671	117,830
Telephone and video	47,997	-	3,779	-	3,779	-	55,555	26,930
Printing and reproduction	31,220	9,950	1,857	-	6,805	2,300	52,132	42,060
Supplies	18,084	13,958	2,947	2,991	3,218	2,991	44,189	32,469
Depreciation	-	23,128	-	4,956	-	4,956	33,040	33,787
Utilities	22,215	-	4,760	-	4,760	-	31,735	33,972
Postage and delivery	18,678	-	2,242	-	3,138	-	24,058	20,886
Bad debt	-	-	23,000	-	-	-	23,000	-
Repairs and maintenance	13,530	-	2,899	-	2,899	-	19,328	17,765
Public awareness	4,722	13,746	-	-	-	-	18,468	43,532
Investment fee	-	-	17,782	-	-	-	17,782	17,261
Bank service charges	-	-	12,854	-	-	-	12,854	16,357
Insurance	4,432	-	950	-	950	-	6,332	6,228
Volunteer and sponsor recognition	4,794	-	-	-	-	-	4,794	5,523
Loss on disposition of property and equipment	-	-	4,092	-	-	-	4,092	-
2015 TOTAL EXPENSES	\$ 2,826,339	\$ 1,031,736	\$ 360,761	\$ 30,719	\$ 369,436	\$ 33,019	\$ 4,652,010	
	83%		8%		9%			
2014 TOTAL EXPENSES (MEMO)	\$ 2,400,262	\$ 947,427	\$ 302,327	\$ 12,645	\$ 350,036	\$ 13,653		\$ 4,026,350

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, 2015

(With Comparative Totals for the Year Ended December 31, 2014)

	2015	(Memo) 2014
	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (325,871)	\$ (700,605)
Adjustments to reconcile change in net assets to net cash provided used by operating activities:		
Depreciation	33,040	33,787
Loss on disposition of property and equipment	4,092	-
Unrealized loss (gain) on value of securities	(327,642)	491,495
Realized loss (gain) on sale of securities	15,363	(225,938)
(Increase) decrease in:		
Pledges receivable	21,562	(38,757)
Deposits	(1,774)	1,500
Donated airline mileage	(25,633)	9,202
Increase (decrease) in accounts payable and accrued liabilities	<u>(26,176)</u>	<u>41,589</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(633,039)</u>	<u>(387,727)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(14,602)	(7,254)
Proceeds from disposition of property and equipment	1,600	-
Purchase of securities	(1,797,849)	(2,030,782)
Proceeds from sale of securities	<u>3,720,372</u>	<u>1,443,920</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>1,909,521</u>	<u>(594,116)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,276,482	(981,843)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>977,887</u>	<u>1,959,730</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 2,254,369</u>	<u>\$ 977,887</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.

Financial Statement Presentation

In accordance with generally accepted accounting principles, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted Net Assets

Unrestricted net assets consist of funds free of any donor-imposed restrictions and which the governing board has discretionary control for use in carrying out the general operations of the Organization.

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of contributions and other inflows of funds temporarily subject to donor-imposed restrictions. The restrictions are temporary in that they are expected to expire with the passage of time or be satisfied and removed by actions of the Organization that fulfill donor stipulations. At December 31, 2015, the temporarily restricted net assets represent pledges receivable, grants restricted by the donor to be used to fulfill Dreams subsequent to December 31, 2015, and investment earnings on donor-restricted endowment funds that have not yet been appropriated for expenditure.

Permanently Restricted Net Assets

Permanently restricted net assets consist of contributions subject to donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Organization. Permanently restricted net assets consist of endowment fund assets to be held indefinitely. The income from the endowment fund assets can be used to support the Organization's general activities and are reported with unrestricted amounts on the statement of activities.

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, 2015, 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, 2015, totaled \$33,040.

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, 2015, 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 2012 and 2011, 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.

Subsequent Events

The Organization has evaluated subsequent events through August 15, 2016, the date which the financial statements were available to be issued.

Note 3 – PLEDGES RECEIVABLE

Unconditional promises to give at December 31, 2015, represent temporarily restricted pledges of \$111,275, of which \$81,275 is expected to be collected in 2016, while the remaining \$30,000 is expected to be collected in equal annual installments in subsequent years. At December 31, 2015, 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 ten years beginning January 2006, and ending December 2016 at \$4,970 monthly. In addition, the Organization received in-kind rent valued at \$49,212 for the year ended December 31, 2015, for the Santa Barbara office.

Total rent expense, inclusive of related parking, storage, and common area expenses allocations, for the Organization was \$116,671 for the year ended December 31, 2015.

The future minimum lease payments the year ending December 31, 2016 total \$59,640.

THE DALMATIAN DREAMS FOUNDATION dba DREAM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

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, 2015, investments consist of the following:

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
Cash held for investment	\$ 96,172	\$ 96,172	\$ -
Fixed income	437,565	419,540	(18,025)
Equities and mutual funds	992,699	1,034,152	41,453
Limited partnership interest	<u>120,978</u>	<u>204,976</u>	<u>83,998</u>
Total	<u>\$ 1,647,414</u>	<u>\$ 1,754,840</u>	<u>\$ 107,426</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	\$ 1,647,414	\$ 1,754,840	\$ 107,426
Balance at beginning of the year	3,585,300	3,365,084	<u>(220,216)</u>
Net change in unrealized loss			<u>\$ 327,642</u>

The following summarizes the investment return included as unrestricted revenue in the statement of activities for the year ended December 31, 2015:

Investment and dividend income	\$ 66,079
Unrealized gain on value of securities	327,642
Realized loss on value of securities	(15,363)
Investment fees	<u>(17,782)</u>
Net Investment Return	<u>\$ 360,576</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:

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;

THE DALMATIAN DREAMS FOUNDATION dba DREAM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 6 – FAIR VALUE MEASUREMENT (continued)

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.

Fixed income – Corporate bonds and bond funds provide a hedge against deflation, provide a stable return, and to minimize the overall volatility of the account. They are valued utilizing quoted market prices available in active markets for identical investments at the reporting date.

Equities and mutual funds – Equities and mutual funds include a variety of publically traded stocks and mutual funds from various industries invested for both growth and value. They are valued utilizing quoted market prices available in active markets for identical investments at the reporting date.

Limited partnership interest – Limited partnership interest includes approximately ownership in one limited partnership that provides products used by wireless network operators. Distributions from this partnership vary from year to year and are controlled by the general partner. The partnership interest is in full redemption, with \$1,379,022 received for the year ended December 31, 2015, and an additional \$204,976 anticipated to be received in 2017.

THE DALMATIAN DREAMS FOUNDATION dba DREAM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 6 – FAIR VALUE MEASUREMENT (continued)

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, 2015:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash held for investment	\$ 96,172	\$ -	\$ -	\$ 96,172
Limited partnership interest	-	-	204,976	204,976
Fixed Income				
Domestic fixed income	297,140	-	-	297,140
International fixed income	<u>122,400</u>	-	-	<u>122,400</u>
Total Fixed Income	<u>419,540</u>	-	-	<u>419,540</u>
Equities				
International mutual funds	205,105	-	-	205,105
Domestic mutual funds	343,388	-	-	343,388
Information technology	118,131	-	-	118,131
Consumer discretionary	84,409	-	-	84,409
Healthcare	62,468	-	-	62,468
Consumer staples	54,975	-	-	54,975
Industrials	47,323	-	-	47,323
Financials	38,666	-	-	38,666
Materials	30,948	-	-	30,948
Utilities	20,913	-	-	20,913
Telecommunications	18,488	-	-	18,488
Energy	<u>9,338</u>	-	-	<u>9,338</u>
Total Equities	<u>1,034,152</u>	-	-	<u>1,034,152</u>
Total assets measured at fair value	<u>\$ 1,549,864</u>	<u>\$ -</u>	<u>\$ 204,976</u>	<u>\$ 1,754,840</u>

The following provides a reconciliation of limited partnership interest measured at fair value using significant unobservable inputs (Level 3) during 2015:

Beginning balance	\$ 1,206,860
Redemption proceeds	(1,379,022)
Unrealized gain	<u>377,138</u>
Ending balance	<u>\$ 204,976</u>

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.

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

THE DALMATIAN DREAMS FOUNDATION dba DREAM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 7 – ENDOWMENT FUNDS (continued)

Endowment Investment and Spending Policies (continued)

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, 2015, endowment net asset composition by type is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted	\$ -	\$ 95,842	\$ 442,197	\$ 538,039
Board-restricted	<u>1,011,825</u>	<u>-</u>	<u>-</u>	<u>1,011,825</u>
Total endowment funds	<u>\$ 1,011,825</u>	<u>\$ 95,842</u>	<u>\$ 442,197</u>	<u>\$ 1,549,864</u>

Changes in endowment net assets for the year ended December 31, 2015, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, including board designated, beginning of year	\$ 1,027,203	\$ 154,780	\$ 442,197	\$ 1,624,180
Net investment return (investment income, realized and unrealized gains and losses)	(15,378)	(8,938)	-	(24,316)
Contributions	-	-	-	-
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(50,000)</u>	<u>-</u>	<u>(50,000)</u>
Endowment net assets, end of year	<u>\$ 1,011,825</u>	<u>\$ 95,842</u>	<u>\$ 442,197</u>	<u>\$ 1,549,846</u>

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, 2015, the passage of time restrictions resulted in net assets released from restrictions of \$609,201.

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NOTES TO FINANCIAL STATEMENTS

Note 9 – CONCENTRATIONS AND MARKET RISK

Concentration of Revenue

For the year ended December 31, 2015, approximately 90% of the corporate donation and grants revenue was from three donors, with over 50% 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, 2015 uninsured cash and cash equivalent balances totaled approximately \$1,840,000.

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.

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. Total Organization did not to make contributions for the year ended December 31, 2015.

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.

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NOTES TO FINANCIAL STATEMENTS

Note 11 – NET ASSETS

Unrestricted Net Assets

As of December 31, 2015, unrestricted net assets consist of the following:

Operating net assets	\$ 1,257,376
Board restricted endowments	1,011,825
Limited partnership interest (in redemption)	204,976
Property and equipment, net	65,893
Donated airline mileage (illiquid)	<u>66,308</u>
Total Unrestricted Net Assets	<u>\$ 2,606,378</u>

Temporarily Restricted Net Assets

As of December 31, 2015, temporarily restricted net assets consist of the following:

Donations subject to program restrictions	\$ 950,000
Receivables	111,275
Unappropriated earnings on endowments	<u>95,842</u>
Total Temporarily Restricted Net Assets	<u>\$ 1,157,117</u>

Permanently Restricted Net Assets

As of December 31, 2015, permanently restricted net assets consist of the following:

Donor-restricted endowments	<u>\$ 442,197</u>
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