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CONSOLIDATED FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

December 31, 2019 and 2018

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
DreamSpring and Subsidiaries

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of DreamSpring (a nonprofit organization) and Subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to DreamSpring's preparation and fair presentation of the consolidated 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 DreamSpring'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of DreamSpring and Subsidiaries as of December 31, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Atkinson & Co., Ltd.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
April 27, 2020

DreamSpring and Subsidiaries

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31,

ASSETS

	2019	2018
ASSETS		
Cash	$ 6,041,597	$ 9,679,802
Restricted cash	84,427	78,333
Accrued interest on small business loans and other receivables	255,702	293,334
Contributions receivable, net of discounts and allowance for doubtful accounts of $53,465 in 2019 and $77,200 in 2018	221,849	494,401
Grants receivable	628,228	951,591
Small business loans receivable, net	39,912,882	40,095,643
Derivative instrument	152,948	165,886
Prepaid expenses	75,659	100,441
Investment securities	1,227,695	1,011,885
Property, equipment and software, net	2,247,240	2,272,027
Land	1,003,216	1,003,216
Property held for sale	250	250
Total assets	$ 51,851,693	$ 56,146,809

LIABILITIES AND NET ASSETS

	2019	2018
LIABILITIES		
Accounts payable	$ 91,113	$ 163,498
Accrued payroll	133,812	265,900
Third-party participation on small business loans	115,763	-
Other accrued liabilities	71,120	166,286
Capital lease obligation	65,589	-
Unsecured lines-of-credit	5,500,000	8,100,000
Unsecured notes payable	16,992,335	16,556,112
Secured debt	7,512,790	7,330,207
Total liabilities	30,482,522	32,582,003
NET ASSETS		
Without donor restrictions		
Undesignated	10,488,043	11,114,161
Noncontrolling interest in LLC companies	8,187,208	8,187,194
With donor restrictions	2,693,920	4,263,451
Total net assets	21,369,171	23,564,806
Total liabilities and net assets	$ 51,851,693	$ 56,146,809

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

DreamSpring and Subsidiaries

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Years Ended December 31,

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Loan interest and fees	$ 5,793,524	$ 180,171	$ 5,973,695
Contributions	964,087	1,888,037	2,852,124
Federal awards	635,901	-	635,901
In-kind contributions	339,564	-	339,564
Net realized/unrealized gains (losses) on investments	473	191,911	192,384
Other revenue	55,024	-	55,024
Investment income, net	3,505	29,989	33,494
Loss on disposal of assets	-	-	-
Total revenue and support	7,792,078	2,290,108	10,082,186
Net assets released from restrictions	3,859,639	(3,859,639)	-
EXPENSES			
Program services	11,193,066	-	11,193,066
Fundraising	612,498	-	612,498
Support	472,271	-	472,271
Total expenses	12,277,835	-	12,277,835
CHANGES IN NET ASSETS FROM OPERATIONS BEFORE NONCONTROLLING INTEREST IN LLC COMPANIES	(626,118)	(1,569,531)	(2,195,649)
CHANGES IN NET ASSETS FROM NONCONTROLLING INTEREST IN LLC COMPANIES			
Gain on LLC activity	137,002	-	137,002
Distributions	(136,988)	-	(136,988)
Total changes in net assets from noncontrolling interest in LLC companies	14	-	14
CHANGES IN NET ASSETS	(626,104)	(1,569,531)	(2,195,635)
Net assets, beginning of year	19,301,355	4,263,451	23,564,806
Net assets, end of year	$ 18,675,251	$ 2,693,920	$ 21,369,171

2018		
Without Donor Restrictions	With Donor Restrictions	Total
$ 5,514,080	$ 182,385	$ 5,696,465
625,097	4,133,508	4,758,605
930,334	-	930,334
248,508	-	248,508
-	(95,634)	(95,634)
56,186	-	56,186
1,731	22,021	23,752
(1,339)	-	(1,339)
7,374,597	4,242,280	11,616,877
2,616,534	(2,616,534)	-
9,002,719	-	9,002,719
503,288	-	503,288
337,948	-	337,948
9,843,955	-	9,843,955
147,176	1,625,746	1,772,922
136,982	-	136,982
(120,493)	-	(120,493)
16,489	-	16,489
163,665	1,625,746	1,789,411
19,137,690	2,637,705	21,775,395
$ 19,301,355	$ 4,263,451	$ 23,564,806

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

DreamSpring and Subsidiaries

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended December 31,

	2019			
	Program Services	Fundraising	Support	Total
Loan loss provision	$ 3,763,240	$ -	$ -	$ 3,763,240
Salaries	3,005,263	313,724	241,516	3,560,503
Interest	1,261,822	-	-	1,261,822
Professional fees	980,873	111,623	103,808	1,196,304
Software fees and licensing	397,585	6,954	23,108	427,647
Employee benefits	252,785	26,389	20,314	299,488
Travel	242,391	38,625	4,089	285,105
Payroll taxes	218,965	22,858	17,597	259,420
Loan servicing expense	221,102	-	-	221,102
Depreciation and amortization	192,795	9,751	9,228	211,774
Marketing and development	133,175	41,508	-	174,683
Telephone	140,063	12,572	11,898	164,533
Occupancy	99,893	8,549	12,255	120,697
Conferences and meetings	64,171	7,369	3,138	74,678
Miscellaneous expense	53,206	3,998	2,529	59,733
Temporary services	34,602	2,472	12,357	49,431
Supplies	39,144	2,175	2,175	43,494
Subscriptions and dues	38,568	674	224	39,466
Postage	29,315	3,257	-	32,572
Insurance	24,108	-	8,035	32,143
Total	$ 11,193,066	$ 612,498	$ 472,271	$ 12,277,835

2018			
Program Services	Fundraising	Support	Total
$ 2,523,222	$ -	$ -	$ 2,523,222
2,800,645	285,579	196,295	3,282,519
1,136,427	-	-	1,136,427
734,827	77,426	58,271	870,524
291,826	6,144	9,215	307,185
207,932	21,203	14,573	243,708
186,450	32,433	-	218,883
210,229	21,437	14,735	246,401
257,336	-	-	257,336
94,474	9,521	7,527	111,522
106,465	14,025	-	120,490
118,798	8,316	5,716	132,830
106,994	11,616	8,412	127,022
56,821	1,148	789	58,758
48,905	4,512	1,192	54,609
34,488	2,463	12,318	49,269
32,689	1,816	1,816	36,321
14,329	3,583	-	17,912
18,594	2,066	-	20,660
21,268	-	7,089	28,357
$ 9,002,719	$ 503,288	$ 337,948	$ 9,843,955

DreamSpring and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31,

Increase (Decrease) in Cash

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Small business loan payments received	$ 6,165,280	$ 5,507,277
Contributions received	3,114,559	4,517,926
Federal awards received	959,264	1,059,903
Other cash receipts	172,819	140,690
Payments for salaries, benefits and payroll taxes	(4,257,535)	(3,627,962)
Payments to vendors	(2,971,472)	(2,261,425)
Interest paid	(980,435)	(946,606)
Net cash provided by operating activities	2,202,480	4,389,803
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	372,186	718,119
Purchase of investments	(385,495)	(684,394)
Purchase of property, equipment and software	(98,901)	(442,507)
Investment in small business loans	(21,122,809)	(18,733,974)
Repayments and recoveries of small business loans	17,542,330	14,750,621
Net cash used in investing activities	(3,692,689)	(4,392,135)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from secured debt	3,362,841	2,653,828
Repayment of secured debt	(3,180,258)	(2,656,274)
Proceeds from unsecured notes payable	2,435,000	2,965,000
Repayment of unsecured notes payable	(2,000,000)	-
Repayments of unsecured lines-of-credit, net	(2,600,000)	-
Repayments on capital lease obligation	(22,497)	-
Distributions to noncontrolling interests in consolidated LLC companies	(136,988)	(120,493)
Net cash (used in) provided by financing activities	(2,141,902)	2,842,061
NET (DECREASE) INCREASE IN CASH	(3,632,111)	2,839,729
Cash, beginning of year	9,758,135	6,918,406
Cash, end of year	$ 6,126,024	$ 9,758,135

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

CONSOLIDATED STATEMENTS OF CASH FLOWS – CONTINUED

Years Ended December 31,

Increase (Decrease) in Cash

	2019	2018
RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH FROM OPERATING ACTIVITIES		
Changes in net assets from operations	$ (2,195,649)	$ 1,772,922
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Net realized and unrealized (gains) losses on investments	(192,384)	95,634
LLC activity	137,002	136,982
Depreciation and amortization	211,774	111,522
Loss on disposal of assets	-	1,339
Amortization of note payable closing fee	1,223	909
Loan loss provision	3,763,240	2,523,222
Present value discount and amortization on contributions receivable	321	(1,673)
Uncollectible contribution expense	(20,593)	16,117
Donated stock	(10,117)	(10,096)
Change in fair value of derivative instrument	12,938	23,220
(Increases) decreases in operating assets:		
Accounts receivable	37,632	(97,883)
Contributions receivable	292,824	(259,471)
Grants receivable	323,363	129,569
Prepaid expenses	24,782	(84,869)
Increases (decreases) in operating liabilities:		
Accounts payable	(72,385)	25,819
Accrued payroll	(132,088)	133,484
Other accrued liabilities and third party participation on small business loans	20,597	(126,944)
	$ 2,202,480	$ 4,389,803

SUPPLEMENTAL DATA

	2019	2018
Refinance of small business loans	$ 1,385,246	$ 2,154,795
In-kind revenues and expenses	$ 339,564	$ 248,508
Equipment financed through capital lease obligation	$ 88,086	$ -

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

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows:

1. Organization

DreamSpring, formerly Accion, was organized in March 1994 as an independent, private, New Mexico nonprofit corporation. Its sole program provides microenterprises and small businesses primarily in New Mexico, Arizona, Colorado, Nevada, and Texas with credit and business support not otherwise available from the commercial lending sector. DreamSpring's operations are subsidized by contributions from foundations and other grantors, individuals, banks, and other corporate contributors. DreamSpring formerly licensed its Accion name from a supporting organization, Accion, U.S. Network. During 2019, DreamSpring rebranded and exited its membership with the Accion U.S. Network.

During 2015, DreamSpring was approved to be a Community Advantage (CA) Pilot Loan Program Lender with the U.S. Small Business Administration. As an approved lender, DreamSpring is required to maintain a loan loss reserve bank account of a minimum of 5% of the unguaranteed portion of the CA loan portfolio. The deposits in the loan loss reserve account are required to be maintained in a separate bank account. At December 31, 2019 and 2018, the unguaranteed CA loan portfolio was $778,754 and $855,966, respectively, and the required loan loss reserve account was $51,000 and $46,000, respectively. DreamSpring was in compliance with the loan loss reserve requirement.

DreamSpring is managing member of several New Mexico limited liability companies (LLC). The purpose of each LLC is to further the mission of DreamSpring by the formation of capital to be deployed by DreamSpring. DreamSpring holds a fifty-one percent (51%) voting interest in each LLC. The other members are nonmanaging members who have a voting interest of forty-nine percent (49%). Members share net income, gains, net losses, and distributions in accordance with their percentage interests of the aggregate capital accounts. Each LLC has a dissolution date unless the operating agreements are amended to extend the term.

DreamSpring is also managing member of a Colorado limited liability company (DreamSpring 2014E LLC). The purpose of the LLC is to further the mission of DreamSpring by the formation of capital to be deployed by DreamSpring. Nonmanaging members' units do not have voting rights, except as otherwise agreed. Members share net income, gain, net loss, and distributions of the LLC in accordance with their percentage of units. The LLC has a dissolution date unless the operating agreement is amended to extend the term.

The noncontrolling activities of the LLCs are as follows:

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

1. Organization – Continued

	DreamSpring 2007A, LLC	DreamSpring 2011B, LLC	DreamSpring 2011C, LLC	DreamSpring 2013D, LLC	DreamSpring 2014E, LLC	DreamSpring 2017G, LLC	Total
Formation date	August 2007	December 2011	December 2011	August 2013	February 2014	August 2017	
Dissolution date	December 2022	December 2021	December 2021	December 2026	December 2023	December 2027	
Balance at December 31, 2017	$ 1,200,195	$ 250,023	$ 255,001	$ 3,059,993	$ 2,397,000	$ 1,008,493	$ 8,170,705
Distributions	-	-	(5,000)	(60,000)	(47,000)	(8,493)	(120,493)
Net income	1	1	5,000	59,992	47,000	24,988	136,982
Balance at December 31, 2018	1,200,196	250,024	255,001	3,059,985	2,397,000	1,024,988	8,187,194
Distributions	-	-	(5,000)	(60,000)	(47,000)	(24,988)	(136,988)
Net income	1	1	5,000	60,000	47,000	25,000	137,002
Balance at December 31, 2019	$ 1,200,197	$ 250,025	$ 255,001	$ 3,059,985	$ 2,397,000	$ 1,025,000	$ 8,187,208

The accompanying consolidated financial statements include the accounts of DreamSpring and its Subsidiaries listed in the above table (collectively the Company or Organization). All material intercompany accounts and transactions have been eliminated.

2. Federal Income Taxes

DreamSpring is exempt from federal income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), except to the extent it has unrelated business income. DreamSpring had no material unrelated business taxable income for the years ended December 31, 2019 and 2018. The 2007A LLC, 2011B LLC, 2011C LLC, 2013D LLC, 2014E LLC and 2017G LLC, all pass-through taxable entities, had no material taxable income in 2019 or 2018.

DreamSpring has adopted the provision of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, *Income Taxes*. There were no uncertain tax positions taken by DreamSpring or any of the limited liability companies for the years ended December 31, 2019 and 2018. DreamSpring's policy is to classify income tax penalties and interest, when applicable, according to their natural classification. Under the statute of limitations, DreamSpring's tax returns and each respective LLC's tax returns are no longer subject to examination by tax authorities for years prior to 2016.

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. Use of Estimates

The preparation of the accompanying consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results may differ from those estimates. It is reasonably possible that conditions which existed at the date of the consolidated financial statements could change in the near term due to current volatility in market and economic conditions. Such future changes, if significant, could lead to changes in estimates used in calculating the allowance for loan losses and uncollectible contributions receivable. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the consolidated financial statements in future periods.

4. Cash

For purposes of the accompanying consolidated statements of cash flows, DreamSpring considers all highly liquid instruments with original maturities of three months or less to be cash. Cash includes cash on hand, cash in banks, and restricted cash held in money market accounts held with a brokerage firm.

5. Concentrations of Risk

Financial instruments that potentially subject DreamSpring to concentration of credit risk include cash balances and investment accounts. DreamSpring's cash is held with various financial institutions. At times, such amounts may exceed Federal Deposit Insurance Corporation limits (currently $250,000); insurance limits on investment accounts vary by investment brokerage firm and by type of investment. DreamSpring limits the amount of credit exposure with any one financial institution and believes that no significant credit risk exists with respect to its cash balances and investment accounts.

Additionally, financial instruments that potentially subject DreamSpring to credit risk are primarily loans receivable. See Note E for all policies concerning credit risk. DreamSpring provides micro and small business lending to qualifying small business entities in New Mexico, Arizona, Colorado, Nevada and Texas. DreamSpring considers these locations as geographic concentrations potentially subject to risk. Subsequent to December 31, 2019, DreamSpring began lending in additional states.

6. Investments

Investments are carried at fair value. Fair value is 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. Realized gains and losses are recorded using the specific identification method upon the sale of investment assets. The fair value of investments is subject to ongoing fluctuation. The amount ultimately realized upon disposition will differ from the amounts reported in these consolidated financial statements.

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

7. Accounts and Microenterprise and Small Business Loans Receivable

The allowance for loan losses is increased by charges to income and decreased by charge-offs, net of recoveries. Loan losses (charge-offs) are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed or 180 days delinquency, whichever is first. Repossessed collateral is reported at net realizable value on or soon after acquisition based on an evaluation completed on the collateral. Foreclosed real property is reported at market value less sales costs upon official acquisition based on the average value of the market analyses or appraisal value of the property. Management's periodic evaluation of the adequacy of the allowance is based on DreamSpring's past and current loan-loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, and estimated value of any underlying collateral and current economic conditions.

The provision for loan losses in the consolidated statements of activities and changes in net assets results from the combination of an estimate by management of loan losses that occurred during the current period and the ongoing adjustment of estimates of losses occurring in prior periods. Because of these factors, it is reasonably possible that the allowances for losses on loans and the valuation of foreclosed real estate may change materially in the near term. While management uses available information to recognize losses on loans, future additions or reductions to the allowances may be necessary based on changes in local economic conditions.

Accrual of interest on a loan is discontinued when the loan is considered delinquent. A loan is considered delinquent when a payment is not made within 30 days of the scheduled due date. Uncollectible interest previously accrued is charged off by means of a charge to interest income. Income is subsequently recognized only to the extent cash payments are received until, in management's judgment, the borrower's ability to make periodic interest and principal payments is back to normal, in which case the loan is returned to accrual status.

Loans that have been modified and economic concessions that have been granted to borrowers who have experienced financial difficulties are considered troubled debt restructurings (TDR). These concessions typically would result from DreamSpring's loss mitigation activities and may include suspension of interest, payment extensions, forgiveness of principal, forbearance, and other actions. Certain TDRs are classified as nonperforming at the time of restructuring and typically are returned to performing status after considering the borrower's sustained repayment performance for a reasonable period.

When DreamSpring modifies loans in a TDR, it evaluates any possible impairment similar to other impaired loans based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement, or uses the current fair value of collateral, less selling costs for collateral dependent loans. If DreamSpring determines that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance. In periods subsequent to modification, DreamSpring evaluates TDR's, including those that have payment defaults, for possible impairment and recognizes impairment through the allowance.

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

8. Derivative Financial Instrument

DreamSpring has an agreement used to minimize the amount of loss DreamSpring could be exposed to by nonperforming participation loans. See Note F. Under generally accepted accounting principles, the agreement is treated as a derivative financial instrument of which the fair value is reported as an asset in the accompanying consolidated statements of financial position. The change in fair value is recognized as an addition to or deduction from net assets in the accompanying consolidated statements of activities and changes in net assets. The derivative is considered a Level 3 investment within the fair value hierarchy.

9. Property, Equipment and Software

Property, equipment and software are stated at cost. DreamSpring capitalizes all acquisitions greater than $2,500 for the years ended December 31, 2019 and 2018. Donated property is recorded at estimated fair value as of the date of donation. Depreciation is provided for all depreciable assets on a straight-line basis over the estimated useful lives of the assets ranging from 3 to 40 years and is allocated to each functional category based on utilization. Land is not depreciated. Depreciation and amortization expense for the years ended December 31, 2019 and 2018/was $211,774 and $111,522, respectively.

10. Net Assets

The accompanying consolidated financial statements are prepared in accordance with generally accepted accounting principles for nonprofit organizations. Under these provisions, net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of DreamSpring and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors. No designations have been made for specific purposes at December 31, 2019 and 2018.

Net Assets With Donor Restrictions – net assets that are subject to donor-imposed stipulations. Some donor-imposed restrictions are temporary in nature, as such those will be met either by actions of DreamSpring and/or the passage of time. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

11. Donated Services

Contributed services are recognized if the services received create or enhance nonfinancial assets or require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Contributed services are recorded at the fair value of the service received. For the years ended December 31, 2019 and 2018, DreamSpring received and recognized $20,539 and $68,140 of donated services and $319,025 and $180,368 of imputed interest on below market interest bearing notes, respectively. The recognized donated services included legal, marketing, and other professional services related to the programs, management, and general operations of DreamSpring.

12. Functional Allocation of Expenses

The costs of providing the fundraising activities, various programs, and supporting services have been allocated to functions based on payroll hours, square footage utilized, and/or actual expenses incurred in the accompanying consolidated statements of functional expenses. Allocation of joint costs involving fundraising activities was allocated among the functional categories as DreamSpring satisfied the criteria of FASB ASC 958-720-45, *Not-for-Profit Entities*. Activities involving joint costs typically comprise public relations type events that include both a program and fundraising intent. Joint costs were allocated as follows:

	2019	2018
Program services	$ 33,982	$ 7,253
Fundraising	3,776	9,105
Total joint costs	$ 37,758	$ 16,358

13. Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were $148,650 and $93,459 for the years ended December 31, 2019 and 2018, respectively, and are included in marketing and development expenses.

14. Change in Accounting Principles

During 2019, the Organization adopted the following Accounting Standards Updates (ASU):

ASU 2014-09, *Revenue from Contracts with Customer* (ASC Topic 606), along with several additional amendments, which recognizes revenue in an amount that reflects consideration to which the entity is entitled in exchange for goods and services by way of identification of performance obligations, and determination of transaction prices that are allocated to performance obligations. DreamSpring's revenue is primarily comprised of interest income and fees on its loan portfolio. The scope of this standard explicitly excludes net interest income as well as many other revenues for financial assets and liabilities including

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

14. Change in Accounting Principles – Continued

loans, leases, securities and derivatives. Accordingly, the majority of the Company's revenues were not affected.

ASU 2016-18, *Statement of Cash Flows* (Topic 230) – *Restricted Cash* which requires that restricted cash and cash equivalents be included in the beginning and ending cash in the Statements of Cash Flows. The ASU has been applied retrospectively to all periods presented which resulted in reclassification of certain items related to restricted cash in the Statements of Cash Flows.

ASU 2018-08, *Not-for-Profit Entities* (Topic 958) – *Clarifying the Scope of the Accounting Guidance for Contributions Received and Contribution Made* which provides clarity for evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Organization applied the changes retrospectively to all periods presented. There was no effect on net asset amounts or classifications as a result of this change.

15. Reclassified Amounts

Certain 2018 amounts have been reclassified to be consistent with the presentation of 2019 amounts.

16. Subsequent Events

In December 2019, a novel strain of coronavirus was reported in Wuhan, China. The World Health Organization has declared the outbreak to constitute a "Public Health Emergency of International Concern." The COVID-19 outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of COVID-19 on the Company's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on customers, employees and vendors, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the Company's financial condition or results of operations is uncertain.

Subsequent events have been evaluated through April 27, 2020, the date the consolidated financial statements were available to be issued, to determine whether such events should be recorded or disclosed in the consolidated financial statements for the year ended December 31, 2019. Management does not believe any additional subsequent events have occurred that would require accrual or disclosure in these accompanying consolidated financial statements, except as disclosed in Note A5 and H.

NOTE B – LIQUIDITY AND AVAILABILITY

DreamSpring's operations require financial assets available for general expenditures and for lending purposes, not restricted by donors or others. Following is a summary of liquidity sources available at December 31, 2019 and 2018, to meet operating and lending liquidity needs during each respective year:

	2019	2018
Total cash	$ 6,041,597	$ 9,679,802
Less: net assets with donor restrictions	(492,249)	(2,061,780)
Interest and other receivables	255,702	293,334
Contribution receivables expected to be received in subsequent year	275,314	571,601
Federal award receivables expected to be received in subsequent year	628,228	951,591
Small business loans receivable estimated to be collected in one year	18,700,000	17,800,000
Undrawn lines-of-credit and other debt	2,890,000	4,000,000
	$ 28,298,592	$ 31,234,548

In addition, the majority of the net assets with donor restrictions are expected to be released to net assets without donor restrictions available for operations subsequent to each year. Cash is deposited in demand deposit accounts with a number of financial institutions.

NOTE C – INVESTMENTS

Investments, including restricted endowment investment securities, are stated at fair value and consist of the following at December 31:

	2019		
	Cost	Fair Value	Unrealized Gain (Loss)
Equity securities	$ 772,094	$ 928,999	$ 156,905
Mutual funds	147,238	149,033	1,795
Government and agency securities	91,391	95,309	3,918
Corporate bonds	50,838	54,354	3,516
Total	$ 1,061,561	$ 1,227,695	$ 166,134

	2018		
	Cost	Fair Value	Unrealized Gain (Loss)
Equity securities	$ 747,846	$ 719,799	$ (28,047)
Mutual funds	151,349	145,037	(6,312)
Government and agency securities	96,423	94,840	(1,583)
Corporate bonds	55,205	52,209	(2,996)
Total	$ 1,050,823	$ 1,011,885	$ (38,938)

NOTE C – INVESTMENTS – CONTINUED

Investment returns consist of the following at December 31:

	2019	2018
Interest and dividends	$ 44,148	$ 33,977
Investment fees	(10,654)	(10,225)
	$ 33,494	$ 23,752

	2019	2018
Realized (losses) gains	$ (9,724)	$ 117,000
Unrealized gains (losses)	202,108	(212,634)
	$ 192,384	$ (95,634)

NOTE D – CONTRIBUTIONS RECEIVABLE

Contributions received, including unconditional promises to give, are recognized as revenue in the period received and are recorded based on the existence of any donor restrictions.

Contributions receivable that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discount on pledges is computed using the risk-free interest rate applicable to the year in which the promise is received in addition to a credit risk factor determined by management. The effective rate used to discount unconditional promises to give was 8.5% at December 31, 2019 and 2018.

Amortization of the discount is included in contribution revenue. DreamSpring has provided an allowance for doubtful accounts which includes all pledges outstanding greater than 90 days, unless specifically excluded by management, and an additional 2% of the remaining outstanding balances.

Contributions receivable for each of the years succeeding December 31, 2019 and 2018, are expected to occur as follows:

NOTE D – CONTRIBUTIONS RECEIVABLE – CONTINUED

	2019	2018
In less than one year	$ 264,814	$ 565,601
In one to five years	10,500	6,000
	275,314	571,601
Less: Allowance for doubtful accounts	(52,253)	(76,308)
Less: Discount to net present value	(1,212)	(892)
	$ 221,849	$ 494,401

Contributions receivable are primarily from individuals, major charitable foundations, and local businesses. Various contributions are also made by either DreamSpring's Board of Directors or employees.

DreamSpring is the beneficiary of several bequests. No value has been assigned to the conditional promises as no formal documentation has been obtained from the donors.

During 2018, DreamSpring was awarded $4,700,000 of conditional multi-year grants from two foundations. The grants reimburse DreamSpring for certain specified expenses as incurred. Because of these conditions, the full amount of the award was not recorded. Revenues recognized during 2019 and 2018 for these grants totaled $750,000 and $2,050,000, respectively.

During 2015, DreamSpring was awarded a $750,000 conditional multi-year grant from a foundation. The grant reimburses DreamSpring for certain specified expenses as incurred. Because of these conditions, the full amount of the award was not recorded. Expenses reimbursed to date under this grant totaled $137,434 in 2019 and $137,433 in 2018.

NOTE E – SMALL BUSINESS LOANS RECEIVABLE

Loans receivable are recorded at unpaid principal balances, less an allowance for loan losses. Interest on loans is recognized as income based on the daily principal amount outstanding. A loan is considered delinquent when a payment is not made within 30 days of the scheduled due date and is placed on nonaccrual status. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received. An allowance for loan losses is maintained to absorb potential losses inherent in the loan portfolio. When all or a portion of a loan balance reaches 180 days delinquency, it is deemed uncollectible, and the remaining loan balance is charged off to the allowance for loan losses. Recoveries of loans previously charged off are credited to the allowance for loan losses. The provision for loan losses charged to expense is determined monthly based on past delinquency and write-off trends.

NOTE E – SMALL BUSINESS LOANS RECEIVABLE – CONTINUED

Collateral is secured based on the particular loan profile. Generally, collateral on loans will cover only a portion of the loan balance. Impaired loans are recorded at unpaid principal balances, net of an allowance for uncollectible balances, which approximates the present value of expected future cash flows. For loans that are considered impaired, the provision for loan losses charged to expense is determined monthly based on past delinquency and write-off trends. The interest income on impaired loans is recognized in the same manner as noted above.

Activity in the allowance for loan loss follows:

	2019	2018
Balance at beginning of year	$ 4,148,134	$ 3,638,204
Provision charged to expense	3,763,240	2,523,222
Loans charged off	(3,136,005)	(2,109,280)
Recoveries	275,936	95,988
Balance at end of year	$ 5,051,305	$ 4,148,134

DreamSpring has a secured debt agreement that limits its risk of loan loss on certain loans. Of the loans charged off reflected in the table above, approximately $350,700 and $232,900 in 2019 and 2018, respectively, were covered by this agreement resulting in the lender taking losses of approximately $263,400 and $174,600 in 2019 and 2018, respectively. See Note F for further details about this agreement.

Management evaluates loans for credit quality at least quarterly, but more frequently if certain circumstances occur, such as material new information which becomes available and indicates a potential change in credit risk. Credit quality is based on the aging status of the loan and by payment activity.

When loans have been modified and economic concessions are granted to borrowers who have experienced financial difficulties, these loans are considered a troubled debt restructuring (TDR). Specifically, loans are considered TDRs when, in order to stay current on loan payments, a borrower has needed one payment extension of longer than three months duration, or two payment extensions of three months duration in the life of the loan. If these clients perform pursuant to the modified terms, the loans may be placed back on accrual status, but they will still be reported as TDRs. After a loan is restructured once, it may not be modified again. Total TDRs outstanding as of December 31, 2019 and 2018, were $2,380,983 and $1,916,414, respectively. The specific valuation allowance for these TDRs has been calculated based on the reserve factor as calculated by management in the evaluation of the allowance for loan losses. Included within the allowance for TDR loan losses was $292,609 and $727,434 at December 31, 2019 and 2018, respectively.

NOTE E – SMALL BUSINESS LOANS RECEIVABLE – CONTINUED

The following table presents informative data for financial receivables regarding their aging at December 31:

	Small business loans receivable	
	2019	2018
Current	$ 40,694,276	$ 39,970,173
1-30 Days	2,058,171	1,875,105
Past due and non accrual:		
31-60 Days	904,666	625,952
61-90 Days	407,262	563,699
91-120 Days	399,297	464,411
120-180 Days	268,284	744,437
>180 Days	232,231	-
Total past due and non accrual	2,211,740	2,398,499
Small business loans receivable	44,964,187	44,243,777
Less: Loan loss reserve allowance	(5,051,305)	(4,148,134)
Total small business loans receivable	$ 39,912,882	$ 40,095,643
Small business loans receivable past due > 90 days and still accruing interest	$ -	$ -

NOTE F – SECURED DEBT AND DERIVATIVE FINANCIAL INSTRUMENT

DreamSpring has an ongoing Memorandum of Agreement (MOA), which was restated and amended in 2013, with a third-party to purchase a portion of loans made in New Mexico by DreamSpring. The third-party will purchase 75% of the principal disbursed for individual loans DreamSpring designates for participation (participation loans). In accordance with generally accepted accounting principles, this agreement does not qualify as a sale and, therefore, is accounted for as secured debt. The agreement was amended in 2016 to increase funding up to $7,750,000. Third party losses on participation loans made prior to November 2013 are shared according to the participation percentage. Losses to the third party on participation loans made subsequent to October 2013 are limited to 1% annually of the average outstanding balance.

DreamSpring must repay the secured debt as DreamSpring collects principal payments on the participation loans. This arrangement is considered an embedded derivative, and its fair value of $152,948 and $165,886 as of December 31, 2019 and 2018, respectively, is recorded as an asset on the accompanying consolidated statements of financial position.

NOTE F – SECURED DEBT AND DERIVATIVE FINANCIAL INSTRUMENT – CONTINUED

The fair value is estimated based on the present value of the estimated allowance for loan loss on 75% of the participation loans.

Additions are included in other revenue on the accompanying consolidated statements of activities and changes in net assets. Reductions are recorded as decreases in the derivative instrument and other revenue.

The secured debt bears interest, payable monthly as collected on the participation loans, at 3% of the outstanding balances of $7,512,790 and $7,330,207 as of December 31, 2019 and 2018, respectively. The remaining interest earned on the participation loans is retained by DreamSpring. Interest expense on the secured debt was $221,761 and $223,205 for the years ended December 31, 2019 and 2018, respectively. The MOA does not have a specified expiration date but has a termination provision requiring reasonable notice from either party. In the event of termination, outstanding loans will be handled in the ordinary course of business under the terms of the MOA until the joint portfolio is collected.

NOTE G – PROPERTY, EQUIPMENT AND SOFTWARE

During 2018, the Organization entered into an asset purchase agreement for the purchase of intellectual property in the form of a software application. The purchase price was $250,000. As part of the purchase agreement, the Organization also agreed to contracts with software developers. The Organization used the purchased software and developed it to the Organization's specifications. The Organization launched the software in three phases. Phase 1 was launched during 2018 and is included in computer equipment and software. Phases 2 and 3 were launched during 2019 and are included in computer equipment and software.

Property, equipment and software consists of the following at December 31:

	2019	2018
Building	$ 2,248,324	$ 2,235,906
Computer equipment and software	734,851	410,859
Furniture and office equipment	275,569	265,306
Software under development	-	159,685
	3,258,744	3,071,756
Less accumulated depreciation	(1,011,504)	(799,729)
Total	$ 2,247,240	$ 2,272,027
Land	$ 1,003,216	$ 1,003,216

NOTE H – UNSECURED LINES-OF-CREDIT OUTSTANDING

DreamSpring has unsecured lines-of-credit with financial institutions as follows:

Financial Institution	Limit	Interest Rate	Maturity Date	Restrictive Covenants	Outstanding Balance 2019	Outstanding Balance 2018
Washington Federal	$ 1,500,000	2.50%	December 2020	Yes	$ 1,500,000	$ 1,500,000
First National, a division of Sunflower Bank N.A.	1,000,000	2.00%	August 2020	Yes	1,000,000	1,000,000
First National, a division of Sunflower Bank N.A.	1,000,000	2.00%	October 2020	Yes	1,000,000	1,000,000
Mutual of Omaha Bank	1,000,000	2.00%	October 2022 subject to an extension to October 2027	Yes	1,000,000	-
United Business Bank	2,000,000	2.00%	January 2020, changed to note payable subsequent to 2019	Yes	1,000,000	-
Charles Schwab Bank	5,000,000	Greater of LIBOR reference rate + 1.75% or 3%	March 2022, terminated subsequent to 2019	Yes	-	4,000,000
Bank of the West	600,000	2.00%	Full payment with written termination	Yes	-	600,000
Pacific Premier	1,000,000	2.00%	January 2021	Yes	-	-
Compass Bank	1,000,000	2.50%	June 2022	Yes	-	-
					$ 5,500,000	$ 8,100,000

DreamSpring was in compliance with all restrictive covenants on the unsecured lines-of-credit or had received waivers where applicable.

NOTE I – UNSECURED NOTES PAYABLE

Unsecured notes payable consist of the following at December 31:

	2019	2018
Note payable with Bank of America, due as follows: $1,000,000 due September 2020 and September 2021, $2,000,000 due September 2022, $1,000,000 due September 2023 and $1,500,000 due September 2024: 3% interest per annum	$ 6,497,335	$ 7,496,112
Subordinated note payable with Wells Fargo, full payment due June 2028, 2% interest per annum.	2,425,000	2,425,000
Subordinated note payable with Compass Bank, due 2025, 2.5% interest per annum.	2,000,000	1,000,000
Note payable with The Colorado Health Foundation, due 2023, 1% interest per annum.	1,750,000	1,750,000
Note payable with Kellogg Foundation, $200,000 due 2021 - 2025, 1% interest per annum.	1,000,000	1,000,000
Subordinated note payable with First Bank, due September 2029, 2% interest per annum.	1,000,000	1,000,000
Note payable with Piton Foundation, full payment due December 2029, 2% interest per annum.	500,000	1,000,000
Note payable with Gates Family Foundation, full payment due December 2029, 2% interest per annum.	500,000	-
Subordinated note payable with Wells Fargo, due December 2025, 2% interest per annum.	400,000	400,000
Subordinated note payable with Wells Fargo, due September 2026, 2% interest per annum.	250,000	250,000
Note payable with Colorado Department of Local Affairs, due upon mutual agreed terms, 0% interest per annum.	250,000	215,000

NOTE I – UNSECURED NOTES PAYABLE – CONTINUED

	2019	2018
Subordinated note payable with Dallas Development Fund, full payment due August 2029, 1% interest per annum.	250,000	-
Note payable with Kenneth King Foundation, full payment due December 2029, 2% interest per annum.	50,000	-
Note payable with Chinook Fund, full payment due December 2029, 2% interest per annum.	50,000	-
Note payable with Liman Family Fund, full payment due December 2024, 2% interest per annum.	50,000	-
Note payable with Valero Payment Services Company, an affiliate of DSRM National Bank, full payment due April 2021, 2% interest per annum.	20,000	20,000
	$ 16,992,335	$ 16,556,112

At December 31, 2019, future principal repayments are as follows:

2020	$ 1,250,000
2021	1,220,000
2022	2,200,000
2023	3,350,000
2024	2,000,000
Thereafter	6,972,335
	$ 16,992,335

DreamSpring incurred $721,036 and $732,854 in interest expense for these unsecured notes payable and lines-of-credit for the years ended December 31, 2019 and 2018, respectively. Additionally, DreamSpring also recorded in-kind contributions and in-kind expense totaling $319,025 and $180,368 in imputed interest, using rates between 3.25% - 5.25% during the years ended December 31, 2019 and 2018, respectively, to recognize the interest savings benefit realized on zero-percent and below market rate notes.

The terms of the notes payable to the banks and foundations place certain restrictions on DreamSpring, principally to meet certain financial position and performance tests. The primary requirements include minimum capital requirements, minimum loan loss allowance requirements, and maximum bank concentration requirements. At December 31, 2019, DreamSpring was in compliance with all such requirements or had received an approved waiver where applicable.

NOTE J – FAIR VALUE MEASUREMENTS

Generally accepted accounting principles (GAAP) establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that DreamSpring has the ability to access.

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability'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. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used from December 31, 2018 through 2019.

Mutual funds: Valued at the net asset value (NAV) of shares held by the respective mutual fund. Net asset value is based on aggregate fair values of all individual shares traded on active markets.

Equity securities: Valued at publicly traded market value.

Embedded derivative instrument: Estimated based on the present value of the estimated allowance for loan loss on 75% of participation loans.

NOTE J – FAIR VALUE MEASUREMENTS – CONTINUED

Government and agency securities and corporate and other bonds: Valued at an evaluated price which is based on a compilation of primarily observable market information or a broker quote in a nonactive market.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although DreamSpring believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Fair values of assets measured are as follows:

Assets at Fair Value as of December 31, 2019

	Level 1	Level 2	Level 3	Total
Government and agency securities:				
Long-term bond	$ 32,295	$ 56,085	$ -	$ 88,380
Short-term bond	4,061	-	-	4,061
Intermediate-term bond	-	2,868	-	2,868
Corporate and other bonds:				
Intermediate-term bond	-	27,032	-	27,032
Long-term bond	-	14,303	-	14,303
Short-term bond	-	13,019	-	13,019
Equity securities:				
Information technology	146,655	-	-	146,655
Financials	143,224	-	-	143,224
Health care	125,645	-	-	125,645
Industrials	112,264	-	-	112,264
Real estate	109,206	-	-	109,206
Consumer discretionary	83,533	-	-	83,533
Consumer staples	65,035	-	-	65,035
Materials	41,822	-	-	41,822
Telecommunication services	39,995	-	-	39,995
Energy	31,923	-	-	31,923
Utilities	29,697	-	-	29,697
Mutual funds:				
Fixed income	149,033	-	-	149,033
Embedded derivative instrument	-	-	152,948	152,948
Total assets at fair value	$ 1,114,388	$ 113,307	$ 152,948	$ 1,380,643

NOTE J – FAIR VALUE MEASUREMENTS – CONTINUED

Assets at Fair Value as of December 31, 2018

	Level 1	Level 2	Level 3	Total
Government and agency securities:				
Long-term bond	$ 15,402	$ 55,597	$ -	$ 70,999
Short-term bond	18,097	-	-	18,097
Intermediate-term bond	3,046	2,698	-	5,744
Corporate bonds:				
Intermediate-term bond	-	26,483	-	26,483
Long-term bond	-	13,024	-	13,024
Short-term bond	-	12,702	-	12,702
Equity securities:				
Information technology	105,333	-	-	105,333
Financials	110,641	-	-	110,641
Health care	91,364	-	-	91,364
Industrials	81,840	-	-	81,840
Real estate	96,387	-	-	96,387
Consumer discretionary	61,529	-	-	61,529
Consumer staples	55,913	-	-	55,913
Materials	32,829	-	-	32,829
Telecommunication services	32,447	-	-	32,447
Energy	31,445	-	-	31,445
Utilities	20,071	-	-	20,071
Mutual funds:				
Fixed income	145,037	-	-	145,037
Embedded derivative instrument	-	-	165,886	165,886
Total assets at fair value	$ 901,381	$ 110,504	$ 165,886	$ 1,177,771

The following table sets forth a summary of changes in the fair value of DreamSpring's level 3 assets for the year ended December 31, 2019:

	Embedded Derivative Instrument
Balance, beginning of year	$ 165,886
Change in fair value	(12,938)
Balance, end of year	$ 152,948

NOTE K – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following at December 31:

	2019	2018
Restricted for purpose:		
Specified grant expenses	$ 270,400	$ 1,665,879
Restricted for time:		
Pledges receivable	275,314	473,101
Less: Allowance for uncollectible unconditional promises to give	(52,253)	(76,308)
Less: Discount on unconditional promises to give	(1,212)	(892)
	492,249	2,061,780
Endowments:		
Subject to DreamSpring's endowment spending policy and appropriation:		
Loan portfolio	1,495,493	1,495,493
General operations	706,178	706,178
Total endowments	2,201,671	2,201,671
	$ 2,693,920	$ 4,263,451

Endowment restricted net assets may be invested in DreamSpring's loan portfolio, cash, or investments, as designated by the donor.

The 2018 pledge receivable amount above does not include $98,500 of pledges that were intended for use in 2018 (and received immediately after the 2018 year end) and therefore are not restricted for time.

NOTE K – NET ASSETS WITH DONOR RESTRICTIONS – CONTINUED

Net assets released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors are as follows for the years ended December 31:

	2019	2018
Restricted for time and/or purpose:		
Specified grant expenses	$ 2,282,910	$ 708,213
Various grants and donations	688,016	694,447
Restricted for time:		
Pledges receivable	486,642	1,105,102
	3,457,568	2,507,762
Restricted-purpose spending-rate distributions and appropriations:		
General operations	402,071	108,772
	402,071	108,772
	$ 3,859,639	$ 2,616,534

NOTE L – ENDOWMENT FUNDS

1. Interpretation of Relevant Law

DreamSpring's Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) adopted by the State of New Mexico during 2009 as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, DreamSpring classifies as endowment restricted net assets (1) the original value of gifts donated to the endowment, (2) the original value of subsequent gifts to endowments, and (3) accumulations to the endowment funds made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Absent any donor restrictions, investment income will be classified as unrestricted. DreamSpring's endowments include only donor-restricted endowment funds.

NOTE L – ENDOWMENT FUNDS – CONTINUED

1. Interpretation of Relevant Law – Continued

The following table reflects endowment restricted net assets subject to UPMIFA:

Endowment Net Asset Composition by Type of Fund as of December 31, 2019

	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	$ -	$ 2,201,671	$ 2,201,671
Total funds	$ -	$ 2,201,671	$ 2,201,671

Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2019

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	$ -	$ 2,201,671	$ 2,201,671
Investment return:			
Investment income	-	220,521	220,521
Net appreciation (realized and unrealized)	-	191,911	191,911
	-	2,614,103	2,614,103
Contributions	-	-	-
Appropriation of endowment assets for expenditure	-	(402,071)	(402,071)
Other changes:			
Administration fees	-	(10,361)	(10,361)
Endowment net assets, end of year	$ -	$ 2,201,671	$ 2,201,671

NOTE L – ENDOWMENT FUNDS – CONTINUED

1. Interpretation of Relevant Law – Continued

Endowment Net Asset Composition by Type of Fund as of December 31, 2018

	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	$ -	$ 2,201,671	$ 2,201,671
Total funds	$ -	$ 2,201,671	$ 2,201,671

Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2018

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	$ -	$ 2,201,671	$ 2,201,671
Investment return:			
Investment income	-	214,425	214,425
Net depreciation (realized and unrealized)	-	(95,701)	(95,701)
	-	2,320,395	2,320,395
Contributions	-	-	-
Appropriation of endowment assets for expenditure	-	(108,772)	(108,772)
Other changes:			
Administration fees	-	(9,952)	(9,952)
Endowment net assets, end of year	$ -	$ 2,201,671	$ 2,201,671

	2019	2018
Endowment restricted net assets		
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA	$ 2,201,671	$ 2,201,671
Total endowment restricted net assets	$ 2,201,671	$ 2,201,671

NOTE L – ENDOWMENT FUNDS – CONTINUED

2. Investment and Spending Objectives

Endowment funds may be invested in DreamSpring's loan portfolio, cash, or investments, as designated by the donor. Portions of DreamSpring's investment balances meet liquidity needs and preserve capital. Investment and interest income earned on endowment restricted assets are considered unrestricted and are available for spending. The overall return goal targets an excess of the current bond yield while protecting principal. The primary risk control mechanism for endowment funds is asset allocation, and within the asset allocation, diversification between asset classes. Currently, the target asset allocation model for endowment funds is 60% equities, 25% fixed income, and 15% alternative investments (such as gold and real estate). These targets were met during the current year. Investment advisors have been retained for investment purposes and the investment committee periodically monitors performance.

The following table reflects the assets held for the endowment funds:

	2019	2018
Restricted endowment investment securities	$ 706,178	$ 706,178
Investments in loan portfolio	1,495,493	1,495,493
	$ 2,201,671	$ 2,201,671

From time to time, the fair value of assets associated with individual donor-restricted funds may fall below the level that the donor requires DreamSpring to retain as a fund of perpetual duration. There was no deficiency in endowment funds at December 31, 2019 and 2018.

NOTE M – EMPLOYEE SAVINGS PLAN

DreamSpring sponsors a SIMPLE IRA tax-deferred saving incentive match plan, which covers full-time employees who earned at least $5,000 with DreamSpring in the previous calendar year. DreamSpring will match up to 3% of an employee's annual compensation, and these contributions are 100% vested. Employee contribution limits for the years ended December 31, 2019 and 2018, as established by the Internal Revenue Service, were $13,000 and $12,500, respectively. For the years ended December 31, 2019 and 2018, DreamSpring's expense for the plan was $43,780 and $46,227, respectively.

NOTE N – CONTINGENCIES

Expenditures under grant programs may be subject to program or compliance audits by the grantor which may result in disallowed program expenditures. There are no such audits in progress at December 31, 2019.

NOTE O – CAPITAL LEASE OBLIGATION

Equipment under a capital lease obligation consists of computers with a capitalized cost of $88,086. The asset and liability are recorded at the lower of the present value of the minimum payment or the fair value of the asset. The asset is amortized over the estimated useful life of the lease. Amortization of the asset under the capital lease is included in depreciation expense for the year ended December 31, 2019. The following is a summary of the property held under the capital lease:

Computer equipment	$	88,086
Accumulated amortization		(23,845)
Net book value at December 31, 2019	$	64,241

Future minimum lease payments under the capital lease as of December 31, 2019, were as follows:

2020	$	32,255
2021		32,255
2022		6,061
Total minimum lease payment		70,571
Amount representing interest		(4,982)
Present value of net minimum lease payments	$	65,589

The interest rate on the capitalized lease is 5.25% and imputed based on the lower of DreamSpring's incremental borrowing rate at the inception of the lease or the lessor's implicit rate of return. The lease is for a three-year period and expires in April 2022.

NOTE P – SERVICES RECEIVED FROM A FORMER AFFILIATE

DreamSpring was a member of the Accion, U.S Network (The Network), a nationwide micro and small-business lending network consisting of four individually governed and managed nonprofit Accion branded member organizations that each serve specified geographies and collectively serve thousands of clients nationwide. During 2019, DreamSpring rebranded and exited its membership with the Accion U.S. Network.

The Network licenses the Accion brand from Accion International and sublicenses the brand to the four Network member organizations for an annual fee. All of the Network member organizations are represented in the governance of The Network. The Network raises funds that enable it to a) provide financial support and services to the member organizations b) fund the out-of-pocket costs of building technology and infrastructure to serve the operating processes of its members, and c) provide information sharing and establish and monitor required minimum member operating standards. During December 2016, DreamSpring also entered into a service and support consulting agreement for the cloud-based loan application and workflow platform developed by The Network and used by DreamSpring. The Network and

NOTE P – SERVICES RECEIVED FROM A FORMER AFFILIATE – CONTINUED

each Network member organization accounts for its own costs related to these collaborative development activities. Although DreamSpring has exited The Network, they continue to use the cloud-based loan application platform. As they fully migrate to the new platform implemented in 2019 discussed in Note G, they will eventually discontinue use of The Network platform. The Network charged DreamSpring license and consulting fees totaling $234,973 and $246,341 in 2019 and 2018, respectively.

NOTE Q – NEW ACCOUNTING STANDARDS

1. In February 2016, the Financial Accounting Standards Board issued ASU 2016-02 *Leases* (FASB Codification Topic 842), along with several amendments, which significantly changes the accounting for leases in the financial statements of lessees and supersedes FASB Codification Topic 840. With this update, GAAP now will require lessees under operating leases to recognize a liability in the statement of financial position (balance sheet) and an asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting election not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. Cash flows related to operating leases will continue to be reported within operating activities on the statements of cash flows. This ASU is effective for fiscal years beginning after December 15, 2020.

2. In June 2016, the FASB issued ASU 2016-13 *Financial Instruments – Credit Losses,* along with several amendments, which requires a financial asset or group of financial assets measured at amortized cost to be presented at the net amount expected to be collected. Using judgement in determining relevant information and estimation methods, the measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability for the reported amount. In November 2018, the FASB issued ASU 2018-19 *Codification Improvements to Topic 326, Financial Instruments – Credit Losses* which provides transition guidance and operating lease guidance. This ASU is effective for fiscal years beginning after December 15, 2021, for not-for-profit entities, but early adoption is permitted.

As of the date of these financial statements, management has evaluated these new ASUs and is working to implement the applicable guidance and requirements in the period the ASUs become effective.

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