

Dreams of Wilmington, Inc.

Wilmington, North Carolina

FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANT

For the Year Ended June 30, 2020

Dreams of Wilmington, Inc.
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Dreams of Wilmington, Inc.
STATEMENT OF FINANCIAL POSITION
June 30, 2020 (with comparative totals for 2019)

	2020	2019 (for comparative purposes only)
ASSETS:		
CURRENT ASSETS		
Cash and equivalents	\$ 410,671	\$ 232,556
Investments	237,624	238,177
Grants & pledges receivable (current portion)	125,000	1,113
Other receivables	1,884	2,112
Prepaid insurance	1,112	3,254
Total current assets	776,291	477,212
ENDOWMENT ACCOUNT		
Investments	120,941	100,000
LONG-TERM PLEDGES RECEIVABLE (less present value disc.)	115,879	-
FIXED ASSETS		
Leasehold improvements - Building	1,336,161	1,336,161
Furniture and equipment	41,151	34,186
Software & website	8,000	8,000
Accumulated depreciation	(263,425)	(223,350)
	1,121,887	1,154,997
OTHER ASSETS		
Restricted cash for long-term purposes - food preparation area	14,577	27,500
Construction in Progress - food preparation area	8,458	2,500
	23,035	30,000
TOTAL ASSETS	\$ 2,158,033	\$ 1,762,209
LIABILITIES AND NET ASSETS:		
CURRENT LIABILITIES		
Accounts payable & accrued liabilities	\$ 8,437	\$ 2,370
Accrued leave	6,532	5,560
Refundable advance - PPP Loan	67,700	-
Total current liabilities	82,669	7,930
NET ASSETS		
Without donor restrictions		
Undesignated	812,959	414,399
Investment in fixed assets	1,121,887	1,154,997
Total without donor restrictions	1,934,846	1,569,396
With donor restrictions	140,518	184,883
Total net assets	2,075,364	1,754,279
TOTAL LIABILITIES AND NET ASSETS	\$ 2,158,033	\$ 1,762,209

The accompanying notes are an integral part of this statement.

Dreams of Wilmington, Inc.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2020 (with comparative totals for 2019)

	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	Total (for comparative purposes only)
REVENUES AND SUPPORT				
Grants, contributions & fundraising	\$ 732,913	\$ 20,850	\$ 753,763	\$ 460,856
In-kind rental contribution	40,000	-	40,000	40,000
Program revenues	6,564	-	6,564	25,275
Rental income	2,915	-	2,915	1,516
Investment return	321	2,555	2,876	12,023
Miscellaneous income	786	-	786	2,555
Insurance proceeds - Hurricane	12,919	-	12,919	30,000
Loss on disposal of assets	-	-	-	(1,619)
Net assets released from restrictions				
Restriction released by donor	50,145	(50,145)	-	-
Restrictions satisfied by payments	17,625	(17,625)	-	-
Total revenues and support	864,188	(44,365)	819,823	570,606
EXPENSES				
Program services	362,281	-	362,281	396,551
Administration	87,955	-	87,955	102,205
Fundraising	48,794	-	48,794	68,671
	499,030	-	499,030	567,427
Change in net assets	365,158	(44,365)	320,793	3,179
Net assets at beginning of period	1,569,396	184,883	1,754,279	1,747,749
Prior period adjustment	292	-	292	3,351
Net assets at end of period	\$ 1,934,846	\$ 140,518	\$ 2,075,364	\$ 1,754,279

The accompanying notes are an integral part of this statement.

Dreams of Wilmington, Inc.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2020 (with comparative totals for 2019)

	2020				2019
	Program	Administration	Fundraising	Total	(for comparative purposes only)
Wages	\$ 140,318	\$ 48,671	\$ 34,050	\$ 223,039	218,661
Contract labor - teachers	61,085	-	-	61,085	97,472
Payroll taxes	11,128	3,860	2,700	17,688	17,407
Employee benefits	7,304	2,534	1,772	11,610	10,955
In-kind rental expense	34,000	6,000	-	40,000	40,000
Depreciation	34,064	4,007	2,004	40,075	40,011
Program supplies	38,347	-	-	38,347	36,490
Occupancy expenses	11,005	5,474	-	16,479	13,264
Contracted services - other	1,047	10,456	260	11,763	19,428
Office expense	3,656	2,727	2,867	9,250	11,997
Insurance	7,444	1,747	-	9,191	6,272
Fundraising events	-	-	4,868	4,868	24,738
Equipment lease	3,592	422	211	4,225	4,339
Hurricane relief grants	3,282	-	-	3,282	4,641
Miscellaneous	1,482	646	62	2,190	3,975
Repairs and maintenance	2,209	432	-	2,641	6,134
Fellowship & apprenticeship exp	1,397	-	-	1,397	6,330
Travel and training	220	979	-	1,199	1,023
Advertising & promotion	701	-	-	701	4,290
Total Expense	<u>\$ 362,281</u>	<u>\$ 87,955</u>	<u>\$ 48,794</u>	<u>\$ 499,030</u>	<u>\$ 567,427</u>

The accompanying notes are an integral part of this statement.

Dreams of Wilmington, Inc.
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2020 (with comparative totals for 2019)

	2020	2019
		(for comparative purposes only)
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 320,793	\$ 3,179
Adjustments to reconcile the change in net assets to net cash used in operating activities:		
Depreciation	40,075	40,011
Realized and unrealized investment (gains) losses	5,784	(3,309)
Loss on asset disposal	-	1,619
Prior period adjustment	292	(749)
Non-cash donation received	(5,271)	(2,000)
Changes in certain assets and liabilities:		
Receivables	(239,538)	3,212
Prepaid insurance	2,142	(3,254)
Refundable advance - PPP loan	67,700	-
Payables and accrued liabilities	7,039	(2,545)
Net cash provided by operating activities	199,016	36,164
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	56,050	2,500
Purchase of investments	(76,951)	(8,132)
Purchase of fixed assets	(6,965)	-
Increase in construction in progress	(5,958)	(2,500)
Net cash used by investing activities	(33,824)	(8,132)
Net increase (decrease) in cash	165,192	28,032
Cash and cash equivalents, beginning of year	260,056	232,024
Cash and cash equivalents, end of year	\$ 425,248	\$ 260,056

Non-cash transaction:

The Organization has recorded \$40,000 of in-kind revenue as well as \$40,000 in-kind rent expense related to the lease of a facility at below fair rental value.

The accompanying notes are an integral part of this statement.

Dreams of Wilmington, Inc.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

A summary of the nature of activities and significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

Nature of Activities

Dreams of Wilmington, Inc. operates in southeastern North Carolina and provides arts related educational programs for less advantaged children in the Wilmington area. Sources of revenue include a combination of grants, contributions and contracted service agreements.

Accounting Method

The Organization records its transactions using the accrual basis method of accounting, whereby revenue and the related assets are recognized when earned and expenses are recognized when the obligation is incurred.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits and any highly liquid debt instruments.

Contributions

The Organization reports contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets. Contributions that are restricted by the donor are reported as increases in net assets with donor restrictions even if the restrictions expire in the fiscal year in which the contributions are recognized. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Receivables

The Organization considers all receivables to be fully collectible; accordingly, no allowance for doubtful accounts has been recorded.

Income Taxes

The Organization is exempt from income taxes under the Internal Revenue Service Code Section 501 (c)(3). As such, contributions to the Organization are tax deductible. Tax returns remain subject to examination by taxing authorities for a period of 3 years. At June 30, 2020 tax returns for fiscal years ending in 2017, 2018 and 2019 remain “open” to possible examination.

Functional Allocation of Expenses

The Statement of Activities presents expenses by functional classification (program services, administration, and fundraising). The Statement of Functional Expenses presents these same expenses by functional and natural classification (wages, payroll taxes, supplies, etc.). Certain costs have been allocated among functional categories using an objective basis (such as staff members’ time or building square footage).

Management Estimates

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

Dreams of Wilmington, Inc.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Property and equipment are stated at cost if purchased and fair value if donated. The Organization's policy is to capitalize all fixed asset purchases over \$1,000. All property and equipment is depreciated using the straight line and other methods over the estimated useful life of the asset. Depreciation for the year ended June 30, 2020 totaled \$40,075

Net Asset Classes

Generally accepted accounting principles require the reporting of activities by net asset class. Net asset classes include:

Net Assets Without Donor Restrictions – result from contributions or grants to the organization that have no donor/grantor-imposed restrictions, less all expenses incurred in the operation of the organization.

Net Assets With Donor Restrictions – result from contributions and grants to the organization whose use is limited by a donor/grantor-imposed restriction or that must be maintained permanently. Restrictions that are temporary are typically satisfied either by the passage of time or by the actions of the organization. Investment returns on permanently restricted assets typically may be used in full or in part for the operations of the organization

NOTE 2: PLEDGES RECEIVABLE

Pledges receivable at June 30, 2020 consist of the following:

Pledges due in less than one year	\$ 125,000
Pledges due within two years	<u>125,000</u>
	250,000
Less allowance for unamortized discount (4% per annum)	<u>(9,121)</u>
Net "Project 20/20" pledge receivable	<u><u>\$ 240,879</u></u>

Management of the Organization considers all pledges to be fully collectible and has not recorded an allowance for uncollectible accounts.

The outstanding pledges are receivable from a single donor. The high value of pledges receivable from a single donor represents a concentration of risk associated with pledges receivable.

NOTE 3: OPERATING LEASE COMMITMENTS

The Organization leases a facility at 901 Fanning St. Wilmington, NC for \$1 annually from the City of Wilmington. See Note 3.

The Organization also leases certain equipment under operating leases with terms of one year or less. Rental expense related to these leases is \$4,225 for the year ended June 30, 2020.

Dreams of Wilmington, Inc.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 4: IN-KIND RENT CONTRIBUTION AND EXPENSE

As referenced in NOTE 2 the Organization leases a facility in Wilmington, NC from the City of Wilmington for \$1 annually. The Organization has recorded in-kind revenue of \$40,000 which is the estimated fair market rent of the facility for the year ended June 30, 2020. The Organization has also recorded in-kind rental expense of \$40,000 related to the facility.

NOTE 5: CASH RISK

The Organization maintains several cash accounts at two financial institutions. The Organization's cash held at the institutions is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Cash at the institution exceeded the FDIC insurance limit by \$51,424 at June 30, 2020.

NOTE 6: INVESTMENTS & FAIR VALUE MEASUREMENTS

Dreams of Wilmington, Inc. applies a framework for measuring fair values under generally accepted accounting principles which applies to all financial instruments that are measured and reported at fair value.

The framework for measuring fair value of financial assets and liabilities includes a hierarchy of three levels for observable independent market inputs and unobservable market assumptions. A description of the inputs used in the valuation of assets and liabilities under this hierarchy is as follows:

- Level 1 - Quoted prices in active markets for identical assets
- Level 2 - Significant other observable inputs.
- Level 3 - Significant unobservable inputs

Assets and liabilities that are measured at fair value on a recurring basis are as follows at June 30, 2020:

	<u>Cost</u>	<u>Fair Value (Level 1)</u>	<u>Unrealized Gain (Loss)</u>
Mutual Funds			
Cash and Money Market Funds	206,828	206,828	-
Bond Funds	110,539	105,591	(4,948)
Equity Funds	27,029	27,633	604
Bond and Fixed Income Exchange Traded Funds (ETFs)	18,282	18,513	231
	\$ <u>362,678</u>	\$ <u>358,565</u>	\$ <u>(4,113)</u>

The Organization's investment return is summarized as follows:

Interest and dividend income	\$ 8,660
Net realized and unrealized gains (losses)	<u>(5,784)</u>
Total investment return (loss)	<u>\$ 2,876</u>

NOTE 7: NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at June 30, 2020:

Subject to expenditure for specified purpose:

Capital Improvements – food preparation area	\$ 14,577
Teen Council Financial Literacy	5,000

Subject to organizational spending policy and appropriation:

Roger Davis Scholarship Endowment – restricted in perpetuity	20,941
Endowment Fund – restricted in perpetuity	<u>100,000</u>
	<u>\$ 140,518</u>

Dreams of Wilmington, Inc.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 7: NET ASSETS WITH DONOR RESTRICTIONS (continued)

By financial statement caption:

Cash and equivalents	\$ 5,000
Restricted cash for long-term purposes	14,577
Investments	120,941
	<u>\$ 140,518</u>

During the year ended June 30, 2020, net assets with donor restrictions of \$67,770 were reclassified to net assets without donor restrictions upon satisfaction or donor release of the restriction.

NOTE 8: ENDOWMENT FUNDS

The Organization's endowment consists of two funds. The first established during the fiscal year ended June 30, 2018 to provide a permanent reservoir of assets that will provide regular income for the needs of Dreams of Wilmington, Inc. The second, established during fiscal year ended June 30, 2020 to be used for the purpose of providing scholarship funds to eligible DREAMS student(s). The endowment funds only includes donor restricted funds. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act of 2007 (UPMIFA) 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, North Carolina Coastal Land Trust classifies 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 applicable donor gift instrument at the time the accumulation is added to the fund.

Endowment Net Assets Composition by Type of Fund

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Funds	\$ <u>-</u>	\$ <u>120,941</u>	\$ <u>120,941</u>

Changes in Endowment Net Assets

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 100,000	\$ 100,000
Contributions	-	20,850	20,850
Interest income	-	2,555	2,555
Amount appropriated for use in operations	<u>-</u>	<u>(2,464)</u>	<u>(2,464)</u>
Endowment net assets, end of year	\$ <u>-</u>	\$ <u>120,941</u>	\$ <u>120,941</u>

Dreams of Wilmington, Inc.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 8: ENDOWMENT FUND (continued)

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles in the United States, deficiencies of this nature are reported in net assets without restrictions. There were no deficiencies as of June 30, 2020.

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to the Organization. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a conservative asset allocation that places a greater emphasis on fixed income and money market investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization's current policy is to appropriate to operations, any realized earnings associated with the Endowment Fund. In establishing this policy, along with a conservative investment approach, the Organization plans to maintain the original value of the gift to the permanent endowment as well as providing income in order to achieve mission objectives.

NOTE 9: LIQUIDITY DISCLOSURE

The Organization has \$770,179 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditure consisting of cash of \$405,671, investments of \$237,624 and short-term receivables of \$126,884. Financial assets of \$140,518 are subject to donor restrictions that make them unavailable for general expenditure within one year of the statement of financial position date and are not included in the above total. The above short-term receivables are subject to implied time restrictions but are expected to be collected within one year. Long term pledges receivable, expected to be collected within a period greater than twelve months, equal \$115,879 and are not included in the above total.

The Organization sets a goal of having financial assets on hand to meet 3 months of operations. As part of its liquidity management, the Organization has a policy to structure its financial assets to be available as general expenditures, liabilities, and other obligations become due. The Organization also invests its cash in excess of its daily needs into high quality investment vehicles.

NOTE 10: PAYCHECK PROTECTION PROGRAM NOTE

On April 23, 2020, the Organization received loan proceeds in the amount of \$67,700 under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for loans to qualifying organizations for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying organization. The loans and accrued interest are forgivable after eight weeks (or optional twenty four weeks) as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the eight-week period (or optional twenty four week period).

Dreams of Wilmington, Inc.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 10: PAYCHECK PROTECTION PROGRAM NOTE (continued)

Any unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. The Organization intends to use the proceeds for purposes consistent with the PPP forgiveness requirements and therefore has recorded the PPP funding as a conditional contribution/grant in accordance with ASC 958-605 *Not-for-Profit Entities: Revenue Recognition*. This standard specifies that the conditions of the contribution/grant should be “substantially met” by the organization before the receipt of the assets is recognized as a contribution/grant. The Organization interprets “substantially met” in this circumstance as receiving notice of forgiveness from the financing source. As of June 30, 2020 the Organization has recorded the proceeds as a liability (refundable advance) in accordance with ASC 958-605 requirements because notice of forgiveness has not been received.

While the Organization currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan, no assurances can be given about the forgiveness in whole or in part.

NOTE 11: PRIOR PERIOD ADJUSTMENTS

Prior period adjustments for the year ended June 30, 2020 consist of the following:

Prepaid insurance and accounts payable adjustment	\$ <u>292</u>
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NOTE 12: COMPARATIVE INFORMATION

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization’s financial statements for the year ended June 30, 2019, from which the summarized information was derived. Certain prior year accounts may have been consolidated or expanded in order to better conform with current year presentation.

NOTE 13: SUBSEQUENT EVENTS

The Organization did not have any subsequent events through September 11, 2020 requiring recording or disclosure in the financial statements for the year ended June 30, 2020. September 11, 2020 is approximately the date the financial statements were available to be issued.