DREAMSPRING AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

CPAs | CONSULTANTS | WEALTH ADVISORS

CLAconnect.com

CONTENTS

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
DreamSpring and Subsidiaries
Albuquerque, New Mexico

Report on the Audit of the Consolidated Financial Statements

Opinion

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, 2022 and 2021, 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.

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, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of DreamSpring and Subsidiaries and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management's for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about DreamSpring and Subsidiaries' ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 and Subsidiaries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about DreamSpring and Subsidiaries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Albuquerque, New Mexico
April 27, 2023

DreamSpring and Subsidiaries

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31,

ASSETS

	2022	2021
ASSETS		
Cash	$ 25,729,190	$ 90,201,355
Restricted cash	103,128	113,528
Accrued interest on small business loans and other receivables	647,981	979,707
Contributions receivable, net of discounts and allowance for doubtful accounts of $465,215 in 2022 and $16,278 in 2021	5,279,069	307,628
Grants receivable	-	137,258
Small business loans receivable, net	54,356,959	16,427,665
Small business PPP loans receivable, net	5,503,639	90,477,632
Derivative instrument	51,520	50,288
Prepaid expenses	215,123	166,464
Investment securities	1,261,349	1,488,829
Property, equipment, and software, net	1,637,286	1,809,022
Land	1,003,216	1,003,216
Property held for sale	958	958
Total assets	$ 95,789,418	$ 203,163,550

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION – CONTINUED

December 31,

LIABILITIES AND NET ASSETS

	2022	2021
LIABILITIES		
Accounts payable	$ 226,518	$ 222,231
Accrued payroll and payroll-related liabilities	699,612	699,516
Third-party participation on small business loans	31,658	199,054
Advances and other accrued liabilities	10,467,425	34,346,485
Program advances	500,000	857,753
Capital lease obligation	-	5,598
Unsecured lines-of-credit	6,100,000	199
Notes payable for PPP lending	7,067,742	99,198,257
Notes payable	12,642,967	14,956,635
Equity equivalent investments	8,825,000	8,825,000
Secured debt	3,488,511	3,678,262
Total liabilities	50,049,433	162,988,990
NET ASSETS		
Without donor restrictions		
Undesignated	27,417,867	25,656,685
Noncontrolling interest in LLC companies	8,187,501	8,187,224
With donor restrictions	10,134,617	6,330,651
Total net assets	45,739,985	40,174,560
Total liabilities and net assets	$ 95,789,418	$ 203,163,550

See accompanying Notes to Consolidated Financial Statements.

DreamSpring and Subsidiaries

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended December 31,

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
SBA PPP lending fees, net	$ 11,769,174	$ -	$ 11,769,174
Contributions (net)	2,606,420	5,215,786	7,822,206
Loan interest and fees	5,914,979	80,369	5,995,348
In-kind contributions	849,353	-	849,353
Net realized/unrealized (losses) on investments	-	(258,133)	(258,133)
Investment income, net	9,669	19,930	29,599
Other revenue	107,378	-	107,378
Total revenue and support	21,256,973	5,057,952	26,314,925
Net assets released from restrictions	1,253,986	(1,253,986)	-
EXPENSES			
Program services	18,753,297	-	18,753,297
Fundraising	808,921	-	808,921
Support	1,187,559	-	1,187,559
Total expenses	20,749,777	-	20,749,777
CHANGES IN NET ASSETS FROM OPERATIONS AND NONOPERATING ACTIVITIES BEFORE NONCONTROLLING INTEREST IN LLC COMPANIES	1,761,182	3,803,966	5,565,148
CHANGES IN NET ASSETS FROM NONCONTROLLING INTEREST IN LLC COMPANIES			
Gain on LLC activity	137,277	-	137,277
Distributions	(137,000)	-	(137,000)
Total changes in net assets from noncontrolling interest in LLC companies	277	-	277
CHANGES IN NET ASSETS	1,761,459	3,803,966	5,565,425
Net assets, beginning of year	33,843,909	6,330,651	40,174,560
Net assets, end of year	$ 35,605,368	$ 10,134,617	$ 45,739,985

See accompanying Notes to Consolidated Financial Statements.

DreamSpring and Subsidiaries

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended December 31,

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
SBA PPP lending fees, net	$ 13,291,144	$ -	$ 13,291,144
Contributions	762,110	4,520,266	5,282,376
Loan interest and fees	4,336,226	39,792	4,376,018
Federal awards	2,230,197	-	2,230,197
In-kind contributions	426,756	-	426,756
Net realized/unrealized gains on investments	-	164,057	164,057
Investment income, net	11,276	20,709	31,985
Other revenue	18,381	-	18,381
Loss on sale of loans	(144,682)	-	(144,682)
Total revenue and support	20,931,408	4,744,824	25,676,232
Net assets released from restrictions	1,419,040	(1,419,040)	-
EXPENSES			
Program services	7,863,577	-	7,863,577
Fundraising	660,148	-	660,148
Support	744,628	-	744,628
Total expenses	9,268,353	-	9,268,353
CHANGES IN NET ASSETS FROM OPERATIONS AND NONOPERATING ACTIVITIES BEFORE NONCONTROLLING INTEREST IN LLC COMPANIES	13,082,095	3,325,784	16,407,879
CHANGES IN NET ASSETS FROM NONCONTROLLING INTEREST IN LLC COMPANIES			
Gain on LLC activity	137,002	-	137,002
Distributions	(137,043)	-	(137,043)
Total changes in net assets from noncontrolling interest in LLC companies	(41)	-	(41)
CHANGES IN NET ASSETS	13,082,054	3,325,784	16,407,838
Net assets, beginning of year	20,761,855	3,004,867	23,766,722
Net assets, end of year	$ 33,843,909	$ 6,330,651	$ 40,174,560

See accompanying Notes to Consolidated Financial Statements.

DreamSpring and Subsidiaries

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended December 31,

	2022			
	Program Services	Fundraising	Support	Total
Loan loss expense	$ 7,327,151	$ -	$ -	$ 7,327,151
Salaries	3,962,137	476,860	724,213	5,163,210
Loan expense	1,353,599	-	-	1,353,599
Professional fees	984,601	151,148	148,303	1,284,052
Marketing and development	1,182,040	17,419	426	1,199,885
Interest	1,021,683	-	-	1,021,683
Imputed Interest	843,871	-	-	843,871
Software Fees and Licensing	527,986	20,311	64,222	612,519
Employee benefits	284,757	34,272	52,049	371,078
Payroll taxes	278,972	33,575	50,991	363,538
Telephone	164,211	19,764	30,015	213,990
Depreciation	181,192	7,456	11,323	199,971
Supplies	165,326	9,185	9,185	183,696
Conferences and meetings	112,675	17,254	23,919	153,848
Travel	89,995	12,643	16,752	119,390
Temporary services	115,642	-	-	115,642
Occupancy	66,051	6,708	15,444	88,203
Insurance	41,651	-	13,884	55,535
Miscellaneous expense	21,399	1,132	22,733	45,264
Subscriptions and dues	21,362	417	4,100	25,879
Postage	6,996	777	-	7,773
Total	$ 18,753,297	$ 808,921	$ 1,187,559	$ 20,749,777

See accompanying Notes to Consolidated Financial Statements.

DreamSpring and Subsidiaries

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended December 31,

	2021			
	Program Services	Fundraising	Support	Total
Salaries	$ 3,075,049	$ 399,796	$ 378,955	$ 3,853,800
Interest	1,349,513	-	-	1,349,513
Professional fees	837,234	71,544	118,739	1,027,517
Marketing and development	893,535	32,930	770	927,235
Software fees and licensing	447,637	26,990	36,125	510,752
In-kind interest	402,268	-	-	402,268
Loan servicing expense	366,396	-	-	366,396
Temporary services	236,783	7,440	84,006	328,229
Employee benefits	234,487	30,486	28,897	293,870
Payroll taxes	220,342	28,647	27,154	276,143
Telephone	199,754	22,824	21,635	244,213
Depreciation and amortization	216,414	8,429	7,990	232,833
Occupancy	67,838	7,221	9,640	84,699
Conferences and meetings	64,392	6,877	7,784	79,053
Supplies	49,102	2,728	2,728	54,558
Travel	38,450	7,725	4,292	50,467
Insurance	29,678	-	9,892	39,570
Miscellaneous expense	45,256	6,039	4,906	56,201
Subscriptions and dues	13,442	155	1,115	14,712
Postage	2,855	317	-	3,172
Loan loss provision	(926,848)	-	-	(926,848)
Total	$ 7,863,577	$ 660,148	$ 744,628	$ 9,268,353

See accompanying Notes to Consolidated Financial Statements.

DreamSpring and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31,

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Small business loan payments received (deployed)	$ (14,091,241)	$ 32,925,333
Contributions received	2,823,188	4,999,235
Federal awards received less deferred amounts	(220,495)	1,663,339
Other cash receipts	77,869	208,675
Payments for salaries, benefits, and payroll taxes	(5,897,730)	(4,321,123)
Payments to vendors	(7,054,709)	(2,405,463)
Interest paid	(1,170,482)	(1,089,786)
Net cash (used) provided by operating activities	(25,533,600)	31,980,210
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	522,288	492,883
Purchase of investments	(525,363)	(487,213)
Purchase of property, equipment, and software	(28,025)	-
Investment in small business loans	(70,712,109)	(213,729,738)
Repayments and recoveries of small business loans	112,445,903	178,934,111
Proceeds from sale of small business loans	8,025,629	4,398,832
Net cash provided (used) by investing activities	49,728,323	(30,391,125)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from secured debt	2,678,366	88,384
Repayment of secured debt	(2,868,117)	(2,513,204)
Proceeds from unsecured notes payable	-	215,406,025
Repayment of unsecured notes payable	(94,444,740)	(143,818,701)
Draws (repayments) of unsecured lines-of-credit, net	6,099,801	(3,599,800)
Repayments on capital lease obligation	(5,598)	(30,943)
Distributions to noncontrolling interests in consolidated LLC companies	(137,000)	(137,043)
Net cash (used) provided by financing activities	(88,677,288)	65,394,718
NET (DECREASE) INCREASE IN CASH	(64,482,565)	66,983,803
Cash, beginning of year	90,314,883	23,331,080
Cash, end of year	$ 25,832,318	$ 90,314,883

See accompanying Notes to Consolidated Financial Statements

DreamSpring and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS – CONTINUED

Years Ended December 31,

		2022		2021
RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH FROM OPERATING ACTIVITIES				
Changes in net assets from operations	$	5,565,148	$	16,407,879
Adjustments to reconcile changes in net assets to net cash provided by operating activities				
Net realized and unrealized (gains) on investments		258,133		(164,057)
LLC activity		137,277		137,002
Depreciation and amortization		199,761		232,833
Amortization of note payable closing fee		557		751
Loan loss provision		7,327,151		(926,848)
Amortization of deferred loan fees, net		(10,025,424)		(12,286,747)
Loss on sale of loans				144,682
Present value discount and amortization on contributions receivable		(330,729)		-
Uncollectible contribution expense		(118,208)		1,141
Donated stock		(27,577)		(17,482)
Change in fair value of derivative instrument		(1,232)		57,497
(Increases) decreases in operating assets:				
Accounts receivable		331,726		(306,834)
Contributions receivable		(4,522,504)		(266,800)
Grants receivable		137,258		(137,258)
Prepaid expenses		(48,659)		(93,724)
Property held for sale		-		-
Increases (decreases) in operating liabilities:				
Accounts payable		4,287		74,935
Accrued payroll		96		102,690
Program advances		(357,753)		(429,600)
Other accrued liabilities and third-party participation on small business loans		(24,062,908)		29,450,150
Net cash (used) provided by operating activities	$	(25,533,600)	$	31,980,210

SUPPLEMENTAL DATA

In-kind revenues and expenses	$	426,756	$	426,756
Refinance of small business loans	$	-	$	34,096

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 across a 27-state region including Alabama, Arizona, California, Colorado, Florida, Georgia, Illinois, Iowa, Kansas, Louisiana, Michigan, Mississippi, Missouri, Nebraska, Nevada, New Mexico, New York, North Carolina, Ohio, Oklahoma, Pennsylvania, South Carolina, Tennessee, Texas, Utah, Washington, and Wyoming 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 (SBA). 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, 2022 and 2021, the unguaranteed CA loan portfolio was $305,470 and $564,556, respectively, and the required loan loss reserve account was 51,000 at both December 31, 2022 and 2021. 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 non-managing 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. Non-managing 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.

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

1. Organization – Continued

The noncontrolling activities of the LLCs are as follows:

	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 2028	December 2031	December 2026	December 2026	December 2023	December 2027	
Balance at December 31, 2020	$ 1,200,198	$ 250,026	$ 255,001	$ 3,059,985	$ 2,397,000	$ 1,025,055	$ 8,187,265
Distributions	-	-	(5,000)	(60,000)	(47,000)	(25,043)	(137,043)
Net income	1	1	5,000	60,000	47,000	25,000	137,002
Balance at December 31, 2021	1,200,199	250,027	255,001	3,059,985	2,397,000	1,025,012	8,187,224
Distributions	-	-	(5,000)	(60,000)	(47,000)	(25,000)	(137,000)
Net income	1	1	5,000	60,000	47,000	25,275	137,277
Balance at December 31, 2022	$ 1,200,200	$ 250,028	$ 255,001	$ 3,059,985	$ 2,397,000	$ 1,025,287	$ 8,187,501

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, 2022 and 2021. 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 2022 or 2021.

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, 2022 and 2021. 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 2019.

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, embedded derivative, uncollectible contributions receivable, imputation of interest, and depreciation on property and equipment. 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. The largest concentrations of dollars lent by DreamSpring were to small business entities in Texas, California, Florida, Georgia, Colorado, Arizona, Illinois, New Mexico and North Carolina. DreamSpring considers these locations as geographic concentrations potentially subject to risk. DreamSpring began lending beyond Arizona, Colorado, Nevada, New Mexico, and Texas in 2020.

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, 2022 and 2021. 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, 2022 and 2021, was $199,971 and $232,833, 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, 2022 and 2021.

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, 2022 and 2021, DreamSpring received and recognized $5,482 and $24,488 of donated services for pro bono legal services. The legal services were utilized in management and general activities and was estimated based on the value as provided by the company providing the legal services. For the years ended December 31, 2022 and 2021, DreamSpring recognized in-kind revenues and expense of $843,871 and $402,268 of imputed interest on below market interest bearing notes, respectively. The fair market value of this benefit is calculated as the difference between the interest rate stated on the below market rate notes from institutions and the prime rate at the time interest is incurred. These costs are fully programmatic.

12. Functional Allocation of Expenses

The costs of providing the fundraising activities, program, 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:

	2022	2021
Program services	$ 113,632	$ 265,420
Fundraising	12,626	29,491
Total joint costs	$ 126,258	$ 294,911

13. Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were $1,189,815 and $922,885 for the years ended December 31, 2022 and 2021, respectively, and are included in marketing and development expenses.

14. Reclassified Amounts

Certain 2021 amounts have been reclassified to be consistent with the presentation of 2022 amounts.

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

15. <u>Change in Accounting Principles</u>

During 2022, DreamSpring adopted Financial Accounting Standards Board Accounting Standards Update (ASU) 2020-07, Not-for-Profit Entities (Topic 958) which increases the transparency of contributed nonfinancial assets. There was no adjustment to opening net assets as a result the adoption of the ASU.

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-02, Leases (ASC 842). The new standard increases transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent of the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The adoption of this new lease standard did not result in any material adjustments to the December 31, 2022 consolidated financial statements.

16. <u>Subsequent Events</u>

Subsequent events have been evaluated through April 27, 2023, 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, 2022. In January 2023, DreamSpring entered into an agreement with a third party to sell approximately $5,000,000 in loans. Management does not believe any additional subsequent events have occurred that would require accrual or disclosure in these accompanying consolidated financial statements.

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, 2022 and 2021, to meet operating and lending liquidity needs during each respective year:

	2022	2021
Total non-restricted cash	$ 25,729,190	$ 90,201,355
Less: net assets with donor restrictions	(7,932,946)	(4,128,980)
Less: non-operating PPP receipts	(8,893,522)	(33,722,486)
Interest and other receivables	647,981	979,707
Contribution receivables expected to be received in subsequent year	5,744,284	323,906
Federal award receivables expected to be received in subsequent year	-	137,258
Small business loans receivable estimated to be collected in one year	10,349,893	14,163,000
Undrawn lines-of-credit and other debt	-	16,099,081
Less: Unfunded committements to customers on lines-of-credit	(3,262,240)	(59,378)
Total	$ 22,382,639	$ 83,993,463

The expected small business loans receivable estimated to be collected in one year does not include an unquantifiable amount in PPP forgiveness. 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:

	2022		
	Cost	Fair Value	Unrealized Gain(Loss)
Equity securities	$ 812,027	$ 946,091	$ 134,064
Mutual funds	210,419	159,822	(50,597)
Government and agency securities	104,001	95,250	(8,751)
Corporate bonds	68,017	60,186	(7,831)
Total	$ 1,194,464	$ 1,261,349	$ 66,885

	2021		
	Cost	Fair Value	Unrealized Gain(Loss)
Equity securities	$ 787,305	$ 1,125,014	$ 337,709
Mutual funds	185,309	182,622	(2,687)
Government and agency securities	120,161	122,618	2,457
Corporate bonds	56,332	58,575	2,243
Total	$ 1,149,107	$ 1,488,829	$ 339,722

Investment returns consist of the following at December 31:

	2022	2021
Interest and dividends	$ 41,890	$ 45,423
Investment fees	(12,291)	(13,438)
Total	$ 29,599	$ 31,985

	2022	2021
Realized gains	$ 18,991	$ 86,801
Unrealized (losses) gains	(277,124)	77,256
Total	$ (258,133)	$ 164,057

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 (when applicable) 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.

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, 2022 and 2021, are expected to occur as follows:

	2022	2021
In less than one year	$ 2,444,284	$ 323,906
In one to five years	3,300,000	-
Total	5,744,284	323,906
Less: Allowance for doubtful accounts	(134,486)	(16,278)
Less: Discount to net present value	(330,729)	-
Total	$ 5,279,069	$ 307,628

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

During 2022, DreamSpring was awarded a $5,300,000 multi-year grant from a foundation. The grant is donor restricted for lending and certain specified expenses as incurred. There were no expenses reimbursed in 2022.

NOTE E – SMALL BUSINESS LOANS RECEIVABLE

The components of small business loans receivable as of December 31 are as follows:

	2022	2021
Small business loans	$ 37,169,384	$ 6,964,099
Microbusiness loans	23,109,941	8,191,764
PPP loans	6,562,057	103,305,224
Commercial real estate	1,435,117	4,045,862
Total	68,276,499	122,506,949
Add: Premiums on loans purchased	1,314,190	-
Less: Loan loss allowance	(6,927,923)	(2,774,060)
Less: Deferred closing fees, net	(1,743,750)	-
Less: PPP deferred fees, net	(1,058,418)	(12,827,592)
Total	$ 59,860,598	$ 106,905,297

The loan categories in the table above include deferred fees and costs for the PPP loans of $1,058,418 as of December 31, 2022 and $12,827,592 as of December 31, 2021. The deferred fees and costs for traditional loans is $1,743,750 as of December 31, 2022 and $0 as of December 31, 2021. DreamSpring returned to traditional lending in fiscal year 2022 and in response to rising demand for capital, DreamSpring scaled lending, reducing friction points for applicants and reducing origination costs which provided for more deferral of fees.

During 2022, DreamSpring purchased $13,164,991 of SBA guaranteed loans from a third party broker. Premiums of $1,503,873 are being amortized as an offset to interest revenue over a 60 month period. There is no allowance for loan loss recorded for these loans as they are 100% guaranteed by the SBA.

During 2022, DreamSpring purchased and originated loans of $14,896,497 with an unrelated entity. An allowance for loan loss for these loans is included in the above disclosed amount.

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

Loan receivable includes both unsecured and secured loans. Collateral is secured based on the particular loan profile including commercial real estate, business assets, vehicle titles, and personal residences. 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.

The Organization sells participating interest in loans to an unrelated entity. Participation loan interests serviced are not included in the accompanying consolidated statements of financial position. The unpaid principal balances of loans serviced not included were $13,958,639 and $3,338,130 at December 31, 2022 and 2021, respectively. The Organization receives a servicing fee for servicing the participating interest in the loans.

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:

	2022	2021
Balance at beginning of year	$ 2,774,060	$ 4,808,506
Provision charged to expense	7,327,151	(926,848)
Loans charged off	(3,580,273)	(1,529,420)
Recoveries	406,985	421,822
Balance at end of year	$ 6,927,923	$ 2,774,060

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 $225,179 and $238,624 in 2022 and 2021, respectively, were covered by this agreement resulting in the lender taking losses of approximately $48,992 and $36,191 in 2022 and 2021, 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. As a result of the change in lending strategy and based on forecasted direction of the economic and business environment, DreamSpring determined that an additional provision for potential loan losses was needed in 2022.

NOTE E – SMALL BUSINESS LOANS RECEIVABLE – CONTINUED

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 number of TDRs of 97 and 133 have outstanding balances as of December 31, 2022 and 2021, of $1,108,316 and $1,371,544, 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 $306,304 and $514,233 at December 31, 2022 and 2021, respectively.

The following tables present informative data for financial receivables regarding their aging at December 31:

	Small business loans receivable	
	2022	2021
Current	$ 54,343,917	$ 17,133,162
1-30 Days	2,363,017	990,495
Past due and non accrual:		
31-60 Days	1,299,146	219,140
61-90 Days	1,522,493	215,233
91-120 Days	1,076,036	89,457
120-180 Days	1,033,789	406,717
>180 Days	76,044	147,521
Total past due and non accrual	5,007,508	1,078,068
Small business loans receivable	61,714,442	19,201,725
Add: Loan Premiums	1,314,190	
Less: Loan loss reserve allowance	(6,927,923)	(2,774,060)
Less: Unamortized loan fees	(1,743,750)	-
Total small business loans receivable	$ 54,356,959	$ 16,427,665
Small business loans receivable past due >30 days and still accruing interest	$ -	$ -

During 2021 and 2020, DreamSpring made loans under the Paycheck Protection Program (PPP) to qualifying small businesses. The terms of the loans made under PPP were 24-60 months, 1% interest rates, deferred interest payments and are subject to be forgiven by the SBA. Since the PPP loans receivable are fully guaranteed by the SBA, no loan loss reserve allowance has been provided.

NOTE E – SMALL BUSINESS LOANS RECEIVABLE – CONTINUED

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

	Small business PPP loans receivable 2022	Small business PPP loans receivable 2021
Current	$ 1,466,380	$ 102,937,055
1-30 Days	311,277	63,354
Past due and non accrual:		
31-60 Days	222,150	45,100
61-90 Days	1,577,302	235,016
91-120 Days	1,535,775	24,699
120-180 Days	1,449,173	-
>180 Days	-	-
Total past due and non accrual	4,784,400	304,815
Small business PPP loans receivable	6,562,057	103,305,224
Less: Unamortized loan fees	(1,058,418)	(12,827,592)
Total small business PPP loans receivable	$ 5,503,639	$ 90,477,632
Small business PPP loans receivable past due >30 days and still accruing interest	$ -	$ -

DreamSpring also entered into a Memorandum of Agreement (MOA) with a third party to fund PPP loans and service the loans. DreamSpring does not have participation or ownership interest in such loans. DreamSpring is required to pay the third party any amounts received as payment of principal but is not obligated to pay any interest that may have been received on the loans. The program funding will terminate upon the termination of the Paycheck Protection Program or modification of the Paycheck Protection Program that reduces or eliminates the SBA guaranty of loans. The loans will continue to be serviced through either forgiveness granted or payments made by the borrower. The total PPP loans outstanding as of December 31, 2022 and 2021, under this MOA was $241,876 and $4,235,845, respectively. Because DreamSpring does not have participation or ownership interest, these loans are not included as part of the outstanding small business loans receivable on the consolidated statements of financial position.

During 2021, DreamSpring entered into an agreement with a third party to process PPP loan applications and originate PPP loans. Total fees (net of expenses) recognized as revenue for the year ended December 31, 2022 and 2021 were $11,769,174 and $13,291,144 respectively, and unamortized loan fees of $1,058,418 will be recognized in future periods.

NOTE F – SECURED DEBT AND DERIVATIVE FINANCIAL INSTRUMENT

DreamSpring has an ongoing 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. The agreement was modified in 2021 to add $5,000,000 to funds available and create a 2021 lending program that includes a subset COVID-19 lending program. 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, including those issued under the 2021 lending program, 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 $51,035 and 50,288 as of December 31, 2022 and 2021, respectively, is recorded as an asset on the accompanying consolidated statements of financial position.

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 $3,488,511 and $3,678,262 as of December 31, 2022 and 2021, respectively. The remaining interest earned on the participation loans is retained by DreamSpring. Interest expense on the secured debt was $105,196 and $135,827 for the years ended December 31, 2022 and 2021, 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

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

	2022	2021
Building	$ 2,267,172	$ 2,252,551
Computer equipment and software	774,141	774,141
Furniture and office equipment	288,974	275,569
Total	3,330,287	3,302,261
Less: accumulated depreciation	(1,693,001)	(1,493,239)
Total	$ 1,637,286	$ 1,809,022
Land	$ 1,003,216	$ 1,003,216

NOTE H – PROGRAM ADVANCES

During 2022, DreamSpring was awarded and received a $500,000 conditional grant. No revenues or expenses related to this grant were recognized during 2022 and the full amount is recorded as a program advance as of December 31, 2022.

On May 6, 2020, DreamSpring received a low interest loan in the amount of $757,753 under the Paycheck Protection Program (PPP) administered by the SBA as a result of the novel strain of coronavirus (COVID-19) outbreak. The PPP loan is unsecured and bears interest at 1%. Funds advanced under the program are subject to forgiveness to the extent that employers incur and spend the funds on qualified expenditures, which include payroll, employee health insurance, rent, utilities and interest costs during the covered period (the twenty-four week period beginning on the loan origination date). In addition, employers must maintain specified employment and wage levels, and submit adequate documentation of such expenditures to qualify for loan forgiveness. As of December 31, 2021, DreamSpring had applied for forgiveness and had been notified the forgiveness application had been submitted for further review. As of December 31, 2021, no amount of the refundable program advance was recognized as revenue as management was uncertain as to whether they would be granted forgiveness of all or a portion of the loan. However as of December 31, 2022, the full amount of the refundable program advance was recognized as revenue as DreamSpring was granted forgiveness for the full loan amount during 2022.

The SBA may still review funding eligibility and usages of fund for compliance with program requirements based on dollar thresholds and other factors. The amount of liability, if any from potential noncompliance cannot be determined with certainty; however, management is of the opinion that any review will not have a material impact on DreamSpring’s consolidated financial position.

NOTE I – 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 2022	Outstanding Balance 2021
First National, a division of Sunflower Bank N.A.	3,000,000	2.25%	October 2023	Yes	$ 3,000,000	$ -
Bank of the West	600,000	2.00%	Full payment with written termination	Yes	600,000	199
Washington Federal	1,500,000	2.50%	May 2023	Yes	1,500,000	-
First Citizens Bank & Trust Company	1,000,000	2.00%	October 2024	Yes	1,000,000	-
Total					$ 6,100,000	$ 199

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

NOTE J – NOTES PAYABLE

Notes payable consist of the following at December 31:

	2022	2021
Notes payable for PPP lending		
Note payable with federal reserve under the Paycheck Protection Program (PPP), due when underlying PPP loans mature or are forgiven, .35% interest per annum.	$ 5,301,072	$ 84,201,892
Note payable with PNC Bank, due March 2026, 1% interest per annum.	727,060	13,378,950
Note payable with The Colorado Health Foundation, due August 2023, 1% interest per annum.	1,000,000	1,000,000
Note payable with Albuquerque Community Foundation, due July 2025, 2% interest per annum unless fund were used for PPP lending which bears 0% interest.	-	250,000
Note payable with Zoma Foundation, due when underlying PPP loans are forgiven or collected with final balance due May 2023, 0% interest per annum.	39,610	367,415
Total notes payable for PPP lending	7,067,742	99,198,257

NOTE J – NOTES PAYABLE – CONTINUED

	2022	2021
Notes payable		
Note payable with Opportunity Finance Network, $1,666,667 due October 2029 – October 2031, 3% interest per annum.	$ 5,000,000	$ 5,000,000
Note payable with Bank of America, net of issuance costs, due as follows: $1,000,000 due September 2023 and $1,500,000 due September 2024, 3% interest per annum.	2,499,540	4,498,982
Note payable with The Colorado Health Foundation, due August 2023, 1% interest per annum.	1,750,000	1,750,000
Subordinated note payable with First National Bank of Nebraska, due April 2025, 1% interest per annum.	1,000,000	1,000,000
Note payable with Kellogg Foundation, $200,000 due 2021 – 2025, 1% interest per annum.	599,000	800,000
Note payable with Energize Gap Colorado Fund December 2026, 0% interest per annum.	285,000	622,553
Note payable with Piton Foundation, full payment due December 2029, 2% interest per annum.	500,000	500,000
Note payable with Gates Family Foundation, full payment due December 2029, 2% interest per annum.	500,000	500,000
Note payable with Albuquerque Community Foundation, due July 2025, 2% interest per annum	250,000	-
Note payable with Kenneth King Foundation, full payment due December 2029, 2% interest per annum.	50,000	50,000
Note payable with Chinook Fund, full payment due December 2029, 2% interest per annum.	50,000	50,000
Note payable with Liman Family Fund, full payment due December 2024, 2% interest per annum.	50,000	50,000
Note payable with Women's Foundation of Colorado, full payment due December 2029, 2% interest per annum.	50,000	50,000
Note payable with Colorado Department of Local Affairs, due upon mutual agreed terms, 0% interest per annum.	39,427	65,100
Note payable with Valero Payment Services Company, an affiliate of DSRM National Bank, full payment due April 2026 2% interest per annum.	20,000	20,000
Total notes payable	12,642,967	14,956,635
Total	$ 19,710,709	$ 114,154,892

NOTE J – NOTES PAYABLE – CONTINUED

Notes payable are unsecured, except for the note payable with federal reserve, which is secured by the underlying PPP loans receivable.

At December 31, 2022, future principal repayments are as follows:

2023	$	3,989,112
2024		1,739,465
2025		1,747,777
2026		6,034,355
2027		-
Thereafter		6,200,000
Total	$	19,710,709

Due to the timing of forgiveness by the SBA, actual timing of repayments of PPP principal amounts could differ from the above maturity schedule.

DreamSpring incurred $916,487 and $1,213,686 in interest expense for these unsecured notes payable, subordinated EQ2 notes listed in note K, and lines-of-credit listed in note I for the years ended December 31, 2022 and 2021, respectively. Additionally, DreamSpring also recorded in-kind contributions and in-kind expense totaling $843,871 and $402,268 in imputed interest for unsecured notes payable, EQ2 notes, and lines-of-credit, using rates between 2.00% - 7.50% during the years ended December 31, 2022 and 2021, 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, 2022, DreamSpring was in compliance with all such requirements or had received an approved waiver where applicable.

Approximately $8,993,522 in receipts related to PPP loans forgiven by the SBA during 2022 were received as of December 31, 2022 and were pending withdrawal by the fiscal agent. These amounts have been reclassed to advances and other accrued liabilities reported on the consolidated statements of financial position. $1,068,715 currently due on a related PPP PNC Loan is also classified to advances and other accrued liabilities at December 31, 2022.

NOTE K – EQUITY EQUIVALENT INVESTMENTS

DreamSpring shows EQ2 notes under Liabilities on the statements of financial position in order to represent more clearly the nature of the payable and to adhere to industry practices. The EQ2 is defined by having six attributes as follows (1) the EQ2 investment is carried as an investment on the investor's balance sheet in accordance with GAAP; (2) the EQ2 investment is a general obligation of DreamSpring that is not secured by any of DreamSpring's assets; (3) the EQ2 investment is fully subordinated to the right of repayment of all DreamSpring's other creditors; (4) the EQ2 investment does not give the investor the right to accelerate payment unless DreamSpring ceases its normal operations; (5) the EQ2 investment carries an interest rate that is not tied to any income received by DreamSpring; and (6) the EQ2 investment has a rolling term, and therefore, an indeterminate maturity (also known as an evergreen provision).

Equity equivalent investments consist of the following at December 31:

	2022	2021
Equity equivalent investment with Wells Fargo, full payment due June 2028, 2% interest per annum.	$ 2,425,000	$ 2,425,000
Equity equivalent investment with Compass Bank, due November 2025, 2.5% interest per annum.	2,000,000	2,000,000
Equity equivalent investment with Zion's Bank, due May 2030, 2% interest per annum.	1,500,000	1,500,000
Equity equivalent investment with American Express, due October 2026, 2.5% interest per annum.	1,000,000	1,000,000
Equity equivalent investment with First Bank, due September 2029, 2% interest per annum.	1,000,000	1,000,000
Equity equivalent investment with Wells Fargo, due December 2025, 2% interest per annum.	400,000	400,000
Equity equivalent investment with Wells Fargo, due September 2026, 2% interest per annum.	250,000	250,000
Equity equivalent investment with Dallas Development Fund, full payment due August 2029, 1% interest per annum.	250,000	250,000
Total	$ 8,825,000	$ 8,825,000

NOTE L – 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, 2021 through 2022.

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.

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.

NOTE L – FAIR VALUE MEASUREMENTS – CONTINUED

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, 2022

	Level 1	Level 2	Level 3	Total
Government and agency securities:				
Intermediate term	$ 2,709	$ 3,552	$ -	$ 6,261
Long-term	22,058	-	-	22,058
Corporate bonds:				
Intermediate term	-	53,140	-	53,140
Long-term	-	7,627	-	7,627
Equity securities:				
Information technology	160,361	-	-	160,361
Financials	138,446	-	-	138,446
Health care	113,074	-	-	113,074
Real estate	103,897	-	-	103,897
Industrials	124,188	-	-	124,188
Consumer discretionary	85,072	-	-	85,072
Energy	45,805	-	-	45,805
Consumer staples	56,331	-	-	56,331
Materials	44,533	-	-	44,533
Utilities	31,212	-	-	31,212
Communication services	43,171	-	-	43,171
Mutual funds:				
Fixed income	159,823	-	-	159,823
Mortgage/Asset backed	-	66,350	-	66,350
Embedded derivative instrument	-	-	51,520	51,520
Total assets at fair value	$ 1,130,680	$ 130,669	$ 51,520	$ 1,312,869

NOTE L – FAIR VALUE MEASUREMENTS – CONTINUED

Assets at Fair Value as of December 31, 2021

	Level 1	Level 2	Level 3	Total
Government and agency securities:				
Long-term bond	$ 11,710	$ 2,836	$ -	$ 14,546
Short-term bond	33,614	20,195	-	53,809
Intermediate-term bond	54,263	-	-	54,263
Corporate and other bonds:				
Intermediate-term bond	-	49,330	-	49,330
Long-term bond	-	3,974	-	3,974
Short-term bond		5,272	-	5,272
Equity securities:				
Information technology	203,948	-	-	203,948
Financials	161,112	-	-	161,112
Health care	145,284	-	-	145,284
Real estate	144,974	-	-	144,974
Industrials	137,305	-	-	137,305
Consumer discretionary	96,863	-	-	96,863
Energy	32,804	-	-	32,804
Consumer staples	70,347	-	-	70,347
Materials	47,158	-	-	47,158
Utilities	36,062	-	-	36,062
Communication Services	49,156	-	-	49,156
Mutual funds:				
Fixed income	182,622	-	-	182,622
Embedded derivative instrument	-	-	50,288	50,288
Total assets at fair value	$ 1,407,222	$ 81,607	$ 50,288	$ 1,539,117

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, 2022:

	Embedded Derivative Instrument
Balance, beginning of year	$ 50,288
Change in fair value	1,232
Balance, end of year	$ 51,520

NOTE M – NET ASSETS WITH DONOR RESTRICTIONS

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

	2022	2021
Restricted for purpose:		
Specified grant expenses	$ 2,653,877	$ 3,821,352
Restricted for time:		
Pledges receivable	5,744,284	323,906
Less: Allowance for uncollectible unconditional promises to give	(134,486)	(16,278)
Less: Discount on unconditional promises to give	(330,729)	-
Total	7,932,946	4,128,980
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
Total net assets with donor restrictions	$ 10,134,617	$ 6,330,651

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

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:

	2022	2021
Restricted for time and/or purpose:		
Specified grant expenses	$ 897,357	$ 1,064,874
Restricted for time:		
Pledges receivable	514,463	129,608
Total	1,411,820	1,194,482
Restricted-purpose spending-rate appropriations and other:		
General operations	(157,834)	224,558
Total	(157,834)	224,558
Total net assets released from donor restrictions	$ 1,253,986	$ 1,419,040

NOTE N – 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.

The following tables reflect endowment restricted net assets subject to UPMIFA:

Endowment Net Asset Composition by Type of Fund as of December 31, 2022

	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, 2022

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	$ -	$ 2,201,671	$ 2,201,671
Investment return:			
Investment income net of fees of $12,291	-	100,299	100,299
Net depreciation (realized and unrealized)	-	(258,133)	(258,133)
Net investment return	-	2,043,837	2,043,837
Other	-	157,834	157,834
Appropriation of endowment assets for expenditure	-	-	-
Endowment net assets, end of year	$ -	$ 2,201,671	$ 2,201,671

NOTE N – ENDOWMENT FUNDS – CONTINUED

1. Interpretation of Relevant Law – Continued

Endowment Net Asset Composition by Type of Fund as of December 31, 2021

	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, 2021

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	$ -	$ 2,201,671	$ 2,201,671
Investment return:			
Investment income net of fees of $13,073	-	60,501	60,501
Net appreciation (realized and unrealized)	-	164,057	164,057
Net investment return	-	2,426,229	2,426,229
Contributions	-	-	-
Appropriation of endowment assets for expenditure	-	(224,558)	(224,558)
Endowment net assets, end of year	$ -	$ 2,201,671	$ 2,201,671

	2022	2021
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

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 65% equities and 35% fixed income. These targets were met during the current year. Investment advisors have been retained for investment purposes and the investment committee periodically monitors performance.

NOTE N – ENDOWMENT FUNDS – CONTINUED

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

	2022	2021
Restricted endowment investment securities	$ 706,178	$ 706,178
Investments in loan portfolio	1,495,493	1,495,493
Total	$ 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, 2022 and 2021.

NOTE O – 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, 2022 and 2021, as established by the Internal Revenue Service, were $14,000 and $13,500, respectively. For the years ended December 31, 2022 and 2021, DreamSpring's expense for the plan was $84,823 and $69,569, respectively.

NOTE P – 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, 2022.

NOTE Q – NEW ACCOUNTING STANDARD

1. In June 2016, the FASB issued Accounting Standards Update (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. In May 2019, the FASB issued ASU 2019-04, *Financial Instruments – Credit Losses*, which provides an option to irrevocably elect the fair value option for eligible instruments. In November 2019, the FASB issued ASU 2019-10, *Financial Instruments – Credit Losses* (Topic 326), *Derivatives and Hedging* (Topic 815), and *Leases* (Topic 842), which updates the adoption effective date, and ASU 2019-11, *Financial Instruments – Credit Losses*, which provides changes to clarify and improve this section. In March 2022, the FASB issued ASU 2022-02, *Financial Instruments – Credit Losses*, which eliminates certain accounting guidance for troubled debt restructurings by creditors and enhancing disclosure requirements for certain loan refinancings and restructurings. This ASU is effective for fiscal years beginning after December 15, 2022, for not-for-profit entities, but early adoption is permitted.

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