

Consolidated Financial Statements  
and Supplementary Information

2019

**The Dream Factory, Inc. and Its Chapters**

August 31, 2019



Strothman+Co

Consolidated Financial Statements  
and Supplementary Information

**The Dream Factory, Inc. and Its Chapters**

August 31, 2019

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## **Independent Auditors' Report**

Board of Directors  
The Dream Factory, Inc.  
Louisville, Kentucky

We have audited the accompanying consolidated financial statements of The Dream Factory, Inc. and Its Chapters (the "Organization"), which comprise the consolidated statements of financial position as of August 31, 2019 and 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Organization's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Dream Factory, Inc. and Its Chapters as of August 31, 2019 and 2018, and the changes in their net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary schedules of consolidating statements of financial position at August 31, 2019, and the supplementary information on pages 20 – 22 are presented for purposes of additional analysis and are not required as a part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

## **Change in Accounting Principle**

As discussed in Note B, the Organization adopted the requirements of Financial Accounting Standards Board, Accounting Standards Update No. 2016-14 (New Not-for-Profit Reporting Model) retroactive to 2018. Our opinion is not modified with respect to this matter.

*STROTHERS AND COMPANY*

Louisville, Kentucky  
December 12, 2019

Consolidated Statements of Financial Position

**The Dream Factory, Inc. and Its Chapters**

	<b>August 31</b>	
	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 2,334,264	\$ 2,623,998
Investments	1,794,609	1,814,573
Investment - endowment	74,539	73,951
Inventory	26,142	29,017
Contributions receivable	6,667	8,370
Prepaid expenses and other current assets	8,424	7,847
Property and equipment, net	8,844	12,560
	<u>8,844</u>	<u>12,560</u>
<b>Total Assets</b>	<u>\$ 4,253,489</u>	<u>\$ 4,570,316</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 36,079	\$ 69,219
Payroll taxes withheld and accrued	3,037	2,084
Deferred revenue	13,311	
	<u>13,311</u>	
<b>Total Liabilities</b>	52,427	71,303
<b>Net Assets</b>		
Without donor restrictions	4,113,803	4,401,989
With donor restrictions	87,259	97,024
	<u>87,259</u>	<u>97,024</u>
<b>Total Net Assets</b>	<u>4,201,062</u>	<u>4,499,013</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 4,253,489</u>	<u>\$ 4,570,316</u>

See Notes to Consolidated Financial Statements

Consolidated Statement of Activities

**The Dream Factory, Inc. and Its Chapters**

Year Ended August 31, 2019

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Revenues, Gains, and Other Support</b>			
Donations and fund raising revenue	\$ 658,147		\$ 658,147
Net assets released from restriction	10,387	\$ (10,387)	
Special events revenue (including in-kind of \$238,426)	<u>1,621,059</u>		<u>1,621,059</u>
<b>Total Support</b>	2,289,593	(10,387)	2,279,206
<b>Other revenue</b>			
Donations in-kind	1,086,769		1,086,769
Investment income	30,498	622	31,120
Unrealized loss on investments	(55,052)		(55,052)
Realized gain on investments	40,295		40,295
Miscellaneous income	<u>30,867</u>		<u>30,867</u>
<b>Total Other Revenue</b>	<u>1,133,377</u>	<u>622</u>	<u>1,133,999</u>
<b>Total Revenues, Gains, (Losses) and Other Support</b>	3,422,970	(9,765)	3,413,205
<b>Expenses</b>			
Program expenses (including in-kind of \$1,063,135)	2,822,786		2,822,786
Fundraising expenses	90,337		90,337
General and administrative expenses (including in-kind of \$23,634)	148,473		148,473
Cost of direct benefit to donors	<u>649,560</u>		<u>649,560</u>
<b>Total Expenses</b>	<u>3,711,156</u>		<u>3,711,156</u>
<b>Change in Net Assets</b>	(288,186)	(9,765)	(297,951)
<b>Net Assets at Beginning of Year</b>	<u>4,401,989</u>	<u>97,024</u>	<u>4,499,013</u>
<b>Net Assets at End of Year</b>	<u>\$ 4,113,803</u>	<u>\$ 87,259</u>	<u>\$ 4,201,062</u>

See Notes to Consolidated Financial Statements

Consolidated Statement of Activities

**The Dream Factory, Inc. and Its Chapters**

Year Ended August 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Revenues, Gains, and Other Support</b>			
Donations and fund raising revenue	\$ 827,678		\$ 827,678
Net assets released from restriction	10,992	\$ (10,992)	
Special events revenue (including in-kind of \$324,426)	<u>1,805,346</u>		<u>1,805,346</u>
<b>Total Support</b>	2,644,016	(10,992)	2,633,024
<b>Other revenue</b>			
Donations in-kind	798,507		798,507
Investment income	29,790	195	29,985
Unrealized gain on investments	55,459		55,459
Realized gain on investments	20,013		20,013
Miscellaneous income	<u>32,969</u>		<u>32,969</u>
<b>Total Other Revenue</b>	<u>936,738</u>	<u>195</u>	<u>936,933</u>
<b>Total Revenues, Gains, (Losses) and Other Support</b>	3,580,754	(10,797)	3,569,957
<b>Expenses</b>			
Program expenses (including in-kind of \$776,358)	2,228,307		2,228,307
Fundraising expenses	79,354		79,354
General and administrative expenses (including in-kind of \$22,149)	125,011		125,011
Cost of direct benefits to donors	<u>800,503</u>		<u>800,503</u>
<b>Total Expenses</b>	<u>3,233,175</u>		<u>3,233,175</u>
<b>Change in Net Assets</b>	347,579	(10,797)	336,782
<b>Net Assets at Beginning of Year</b>	<u>4,054,410</u>	<u>107,821</u>	<u>4,162,231</u>
<b>Net Assets at End of Year</b>	<u>\$ 4,401,989</u>	<u>\$ 97,024</u>	<u>\$ 4,499,013</u>

See Notes to Consolidated Financial Statements

Consolidated Statement of Functional Expenses

**The Dream Factory, Inc. and Its Chapters**

Year Ended August 31, 2019

	<u>Supporting Services</u>			<u>Costs of Direct Benefits to Donors</u>	<u>Total</u>
	<u>Program Services</u>	<u>Fund Raising</u>	<u>General and Administrative</u>		
Dream expense	\$ 2,548,806				\$ 2,548,806
Fundraising		\$ 11,669		\$ 649,560	661,229
Salaries	115,151	34,746	\$ 58,858		208,755
Payroll taxes	9,687	2,842	4,302		16,831
Professional fees and contract services	14,350	3,426	18,847		36,623
Advertising	10,069	6,156	843		17,068
Office supplies and expense	704	643	3,902		5,249
Equipment rental and maintenance	3,745		9,877		13,622
Telephone	8,267	3,195	1,118		12,580
Postage and shipping	1,815	919	2,331		5,065
Rent	16,861	3,523	4,782		25,166
Other building and occupancy	15,484	13,318	3,817		32,619
Insurance	10,425	915	7,132		18,472
Taxes, license and fees	572	5,349	15,216		21,137
Printing and publications	1,221	3,116	226		4,563
Meetings and travel	59,678		14,919		74,597
Dues and subscriptions	1,224		1,374		2,598
Miscellaneous	2,236		223		2,459
Depreciation	2,491	520	706		3,717
<b>Total Expenses</b>	<u>\$ 2,822,786</u>	<u>\$ 90,337</u>	<u>\$ 148,473</u>	<u>\$ 649,560</u>	<u>\$ 3,711,156</u>
Function's percentage of total	<u>76.06%</u>	<u>2.43%</u>	<u>4.00%</u>	<u>17.50%</u>	<u>100.00%</u>

See Notes to Consolidated Financial Statements



Consolidated Statement of Functional Expenses

**The Dream Factory, Inc. and Its Chapters**

Year Ended August 31, 2018

	<u>Supporting Services</u>			<u>Costs of Direct Benefits to Donors</u>	<u>Total</u>
	<u>Program Services</u>	<u>Fund Raising</u>	<u>General and Administrative</u>		
Dream expense	\$ 1,998,576				\$ 1,998,576
Fundraising		\$ 5,386		\$ 800,503	805,889
Salaries	91,212	32,489	\$ 38,724		162,425
Payroll taxes	7,807	2,643	2,772		13,222
Professional fees and contract services	13,497	2,987	27,502		43,986
Advertising	724	4,304	1,574		6,602
Office supplies and expense	1,780	344	2,838		4,962
Equipment rental and maintenance	2,622		12,695		15,317
Telephone	8,223	3,097	1,093		12,413
Postage and shipping	1,561	1,026	2,501		5,088
Rent	16,092	3,363	4,563		24,018
Other building and occupancy	14,874	1,175	2,206		18,255
Insurance	9,745	1,136	458		11,339
Taxes, license and fees	771	7,507	10,829		19,107
Printing and publications	1,835	4,556	277		6,668
Meetings and travel	46,920		11,730		58,650
Dues and subscriptions	1,174	1,107	1,791		4,072
Miscellaneous	8,877	7,813	2,886		19,576
Depreciation	2,017	421	572		3,010
<b>Total Expenses</b>	<b>\$ 2,228,307</b>	<b>\$ 79,354</b>	<b>\$ 125,011</b>	<b>\$ 800,503</b>	<b>\$ 3,233,175</b>
Function's percentage of total	<u>68.92%</u>	<u>2.45%</u>	<u>3.87%</u>	<u>24.76%</u>	<u>100.00%</u>

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

**The Dream Factory, Inc. and Its Chapters**

	<b>Year Ended August 31</b>	
	<b>2019</b>	<b>2018</b>
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ (297,951)	\$ 336,782
Adjustments		
Depreciation expense	3,716	3,010
Loss (gain) on investments	14,757	(75,472)
Decrease in inventory and other assets	2,298	4,787
Decrease in contributions receivable	1,703	
Increase (decrease) in accounts payable and other liabilities	(32,187)	16,224
Increase in deferred revenue	13,311	
<b>Net Cash (Used In) Provided By Operating Activities</b>	<b>(294,353)</b>	<b>285,331</b>
<b>Cash Flows From Investing Activities</b>		
Purchases of investments	(864,470)	(215,790)
Sales and maturity of investments	869,089	254,802
Purchases of property and equipment		(3,625)
<b>Net Cash Provided By Investing Activities</b>	<b>4,619</b>	<b>35,387</b>
<b>(Decrease) Increase in Cash and Cash Equivalents</b>	<b>(289,734)</b>	<b>320,718</b>
<b>Cash and Cash Equivalents Beginning of Year</b>	<b>2,623,998</b>	<b>2,303,280</b>
<b>Cash and Cash Equivalents End of Year</b>	<b>\$ 2,334,264</b>	<b>\$ 2,623,998</b>
Cash and cash equivalents	<u>\$ 2,334,264</u>	<u>\$ 2,623,998</u>

See Notes to Consolidated Financial Statements

## Notes to Consolidated Financial Statements

### **The Dream Factory, Inc. and Its Chapters**

August 31, 2019 and 2018

#### **Note A--Nature of Operations**

Organization--The Dream Factory, Inc., ("the Organization") is a national association headquartered in Louisville, Kentucky, which includes 35 active affiliated chapters located throughout the country. The Dream Factory, Inc. (national office) and the various chapters are each incorporated and each has its own board of directors. The executive committee of The Dream Factory, Inc. governs the national office and chapters and has the ability to determine the direction of management and the Organization's policies. The Organization is dedicated to granting dreams of critically and chronically ill children from the ages of three through eighteen. The Organization fulfills these dreams by funding the cost of dream vacations and other requests by the dream recipients. The Organization primarily operates on a volunteer basis and is funded through donations, fund raising events, and investment income.

#### **Note B--Significant Accounting Policies**

A summary of the Organization's significant accounting policies follows:

Principles of Consolidation--The Organization presents financial statements that consolidate the national office operations and all of the local chapters. All significant accounts and transactions between the national office and the chapters have been eliminated in consolidating these statements.

Basis of Accounting--The financial statements of the Organization have been prepared on the accrual basis of accounting and in accordance with the accounting principles generally accepted in the United States of America.

Donor-Imposed Restrictions--The Organization reports its assets, liabilities, net assets, revenues and expenses based on the existence or absence of donor-imposed restrictions.

The Organization reports gifts as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Net assets that are not subject to donor-imposed restrictions or law are reported as net assets without donor restrictions.

Net assets with donor restrictions are reported when the Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net asset with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restriction. The Organization's endowment funds are classified as net assets with donor restrictions. They are to be maintained in perpetuity. Generally, donors of these assets permit the Organization to use all or part of the income earned on related investments for unrestricted purposes.

Cash and Cash Equivalents--The Organization considers all highly-liquid investments with maturities when purchased of three months or less, that are not designed for a specific purpose, to be cash equivalents.

Continued

**The Dream Factory, Inc. and Its Chapters**

August 31, 2019 and 2018

**Note B--Significant Accounting Policies--Continued**

Contributions Receivable--Contributions receivable are stated at the amount management expects to collect from outstanding balances. Management provides for uncollectible amounts through a charge to expense and a credit to an allowance for uncollectible contributions receivable based on its assessment of the current status of individual contributions. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance and a credit to contributions receivable. As of August 31, 2019 and 2018, there are no allowance for uncollectible contributions.

Inventory--Inventory consists primarily of promotional items and is stated at the lower of cost or market value.

Property and Equipment--Property and equipment are recorded at cost, if purchased, or fair market value as of the date of donation if donated. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Estimated useful lives are as follows:

Furniture and fixtures	5 – 7 years
Office equipment	3 – 5 years

The cost of normal repairs and maintenance is charged to operating expense as incurred. Acquisitions of property and equipment in excess of \$250 that meet the capitalization requirements are capitalized. Depreciation expense for the years ended August 31, 2019 and 2018 was \$3,717 and \$3,010, respectively.

Valuation of Investments and Income Recognition--Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values. 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.

Purchases and sales of securities are recorded on a trade-date basis. Investment income includes dividend, interest, and other investment income, realized and unrealized gains and losses on investments. Investment income is reported net of investment expenses.

Donations and Fund Raising Projects--The Organization receives funds from both fund raising projects and donations from various local businesses, corporations, civic organizations, and individuals. Fund raising revenues are recognized as contributions when received. Unconditional promises to give (or pledges) that are measurable are reported as support revenue and receivables.

Donated Services--With the exception of three paid staff members and one part time staff member that the Organization employs at National Headquarters, all dream-granting, fund raising and administrative functions are services donated by volunteers throughout the country. These donated services have no monetary value assigned to them in these consolidated financial statements as the services do not meet the requirements for recognition in accordance with GAAP.

Continued

Notes to Consolidated Financial Statements--Continued

## **The Dream Factory, Inc. and Its Chapters**

August 31, 2019 and 2018

### **Note B--Significant Accounting Policies--Continued**

Income Taxes--The Organization is a tax-exempt organization under Section 501 (c)(3) of the Internal Revenue Code; therefore, no provision for federal or state income taxes has been made. Although the Organization is exempt from income taxes, any income generated from activities unrelated to its exempt purpose is subject to tax. There was no unrelated business income for the years ended August 31, 2019 and 2018.

The Organization's tax returns for the years ended August 31, 2016 through 2018 are subject to examination by various taxing authorities.

Advertising Costs--Advertising costs are expensed as incurred. Advertising expense was \$17,068 and \$6,602 for the years ended August 31, 2019 and 2018, respectively.

Allocation of Functional Expenses--Costs of providing various programs and other activities are summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited, based on the personnel time utilized for the related activities.

Use of Estimates--The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes to consolidated financial statements. Actual results may differ from those estimates.

New Accounting Pronouncement--During the year ended August 31, 2019, the Organization adopted the requirements of the Financial Accounting Standards Board's Accounting Standards Update No. 2016-14-Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities* (ASU No. 2016-14). This Update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. A key change required by ASU No. 2016-14 is the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions, and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions. A required footnote on liquidity has also been added (Note L).

Reclassifications--Certain 2018 financial statement balances have been reclassified to conform to 2019 presentation.

Subsequent Events--Subsequent events for the Organization have been considered through December 12, 2019, the date of the independent auditors' report, which represents the date the consolidated financial statements were available to be issued.

**The Dream Factory, Inc. and Its Chapters**

August 31, 2019 and 2018

**Note C--Investments and Fair Value Measurements**

The following table represents investments that are measured at fair value on a recurring basis at:

	<u>Level 1</u>	<u>Total</u>
<b><u>August 31, 2019</u></b>		
Common and preferred stock	\$ 406,927	\$ 406,927
Exchange traded and closed end funds	303,198	303,198
Money market funds	240,422	240,422
Mutual funds	4,715	4,715
Government securities	65,261	65,261
Certificates of Deposit	848,625	848,625
	<u>\$ 1,869,148</u>	<u>\$ 1,869,148</u>
<b><u>August 31, 2018</u></b>		
Common and preferred stock	\$ 276,548	\$ 276,548
Exchange traded and closed end funds	467,232	467,232
Money market funds	186,335	186,335
Mutual funds	26,159	26,159
Certificates of Deposit	932,250	932,250
	<u>\$ 1,888,524</u>	<u>\$ 1,888,524</u>

Investment expenses for 2019 and 2018 were \$10,438 and \$12,967, respectively and is shown as a component of investment income.

Generally accepted accounting principles provide a framework for measuring fair value. To increase consistency and comparability in fair value measurements, the framework requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the primary or most advantageous market for the asset or liability in an orderly transaction between market participants.

The framework uses a three-level valuation hierarchy based on observable and non-observable inputs. Observable inputs consist of data obtained from independent sources. Non-observable inputs reflect industry assumptions. These two types of inputs are used to create the fair value hierarchy, giving preference to observable inputs.

Continued



**The Dream Factory, Inc. and Its Chapters**

August 31, 2019 and 2018

**Note C--Investments and Fair Value Measurements--Continued**

Assets classified as Level 1 have fair values based on unadjusted quoted market prices for identical instruments in active markets. Assets and liabilities classified as Level 2 have fair values based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in inactive markets, and model-derived valuations whose inputs are observable. Assets and liabilities classified as Level 3 have fair values based on value drivers that are unobservable.

Following is a description of the valuation methodologies used for assets at fair value. There have been no changes in the methodologies used to determine fair value at August 31, 2019 and 2018.

Common Stocks, Preferred Stocks, Government Securities, Exchange Traded Funds, and Closed-End Funds--Valued at the closing price reported at year end on the active market on which the individual securities are traded.

Money Market Funds--Valued at the net asset value of shares held by the Organization at year-end.

Mutual Funds—Based on quoted net asset values of the shares held by the Organization at year-end.

Certificates of Deposit--Certificates of deposit primarily include certificates of deposit with a maturity of over three months to one year from August 31 of each year that were issued directly by banks to chapters. These investments are recorded at fair value. The fair value of the certificates of deposits are estimated at cost plus accrued interest which approximates fair value.

All investments of the Organization are valued using Level 1 inputs. The valuation methodologies used by the Organization may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, the Organization's management 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.

Investment securities are exposed to various risks, such as interest rate risk, market risk and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would result in material changes in the fair value of investments and net assets of the Organization.

Notes to Consolidated Financial Statements--Continued

**The Dream Factory, Inc. and Its Chapters**

August 31, 2019 and 2018

**Note D--Property and Equipment**

Property and equipment consist of the following:

	<b>August 31</b>	
	<b>2019</b>	<b>2018</b>
Furniture and fixtures	\$ 4,303	\$ 4,303
Office equipment	50,326	50,326
Less accumulated depreciation	<u>(45,785)</u>	<u>(42,069)</u>
<b>Property and Equipment, Net</b>	<b><u>\$ 8,844</u></b>	<b><u>\$ 12,560</u></b>

**Note E--Chapter Dues**

All chapters pay dues to the national organization. Dues are paid based on 10% of total support and revenue net of fund raising expenses as set forth by the national organization. Dues income reflected on the national organization's statements of activities and dues expense on the chapter's statements of activities have been eliminated in the consolidation of financial statements and are not reflected in these consolidated financial statements.

**Note F--Donations In-Kind and Related Dream Expenses**

The Organization provides "dreams" to Disney World and other attractions, as well as other dream requests. A "dream" vacation to Give Kids the World in Orlando, Florida, is purchased by special arrangement for \$1,000. The fair market value of the vacation is based upon a family of four members participating. During the years ended August 31, 2019 and 2018, the Organization purchased 131 and 99 vacation packages from Give Kids the World each with an approximate in-kind value in excess of the purchase price of \$7,000 and \$6,700, respectively.

Identifiable contributions of other items in functional expenses totaled \$170,526 and \$131,417 for the years ended August 31, 2019 and 2018, respectively.

Special events revenue and expenses in-kind contributions and costs totaled \$238,426 and \$324,426 for the years ended August 31, 2019 and 2018, respectively.

Continued

Notes to Consolidated Financial Statements--Continued

**The Dream Factory, Inc. and Its Chapters**

August 31, 2019 and 2018

**Note F--Donations In-Kind and Related Dream Expenses--Continued**

A summary of the in-kind contributions is:

	<u>2019</u>	<u>2018</u>
Give Kids the World	\$ 916,242	\$ 667,090
Miscellaneous donations in-kind	<u>170,527</u>	<u>131,417</u>
<b>Total In-Kind Revenue and Functional Expenses</b>	1,086,769	798,507
Special events in-kind contributions and expenses	<u>238,426</u>	<u>324,426</u>
<b>Total In-Kind</b>	<u>\$ 1,325,195</u>	<u>\$ 1,122,933</u>

**Note G--Special Events and Major Fund Raising Activities**

The consolidated statements of activities reflect the revenue and expenses of special events and major fundraising activities under the caption special event revenue and cost of special events. All other fund raising activities are reflected at gross amounts under donations and other fund raising revenues, and fund raising expenses.

**Note H--Net Assets With Donor Restrictions**

Net assets with donor restrictions consist of the following as of August 31:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose:		
Fund dreams for chronically ill children in Southern Indiana	\$ 12,720	\$ 23,073
Endowment assets to be invested in perpetuity	<u>74,539</u>	<u>73,951</u>
<b>Total Net Assets With Donor Restrictions</b>	<u>\$ 87,259</u>	<u>\$ 97,024</u>

The Organization holds an endowment fund which is donor-restricted funds to be invested only in certificates of deposits until the balance reaches \$100,000. At that time, a 5% annual withdrawal rate will be initiated to fund dreams with the earnings, while keeping the \$100,000 balance intact. This endowment is classified as net assets with donor restrictions on the consolidated statements of financial position as of August 31, 2019 and 2018.

Continued

Notes to Consolidated Financial Statements--Continued

**The Dream Factory, Inc. and Its Chapters**

August 31, 2019 and 2018

**Note H--Net Assets With Donor Restrictions--Continued**

Changes in endowment net assets for the years ended August 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Endowments net assets, beginning of the year	\$ 73,951	\$ 73,792
Investment return		
Interest and dividends	<u>588</u>	<u>159</u>
<b>Endowment Net Assets, End of Year</b>	<u><u>\$ 74,539</u></u>	<u><u>\$ 73,951</u></u>

Interpretation of Relevant Law--The Organization has interpreted the Kentucky Uniform Prudent Management of Institutional Funds Act ("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 donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (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. The remaining portion of the donor-restricted endowment fund that is not classified as perpetual is classified as net assets with donor restrictions until those amounts are appropriated to expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization and (7) the Organization's investment policies.

Return Objectives, Risk Parameters and Strategies--The Organization has adopted investment and spending policies for its endowment assets that are intended to provide a predictable stream of funding to provide Dreams by its endowment, while seeking to maintain the purchasing power of the endowment assets. Total endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period in addition to funds for donor-specified purposes and board-designated funds.

Under this policy, as approved by the Board of Directors, the endowment assets are managed by investment managers selected by the Board of Directors and are invested in a manner that is intended to provide returns (interest income) sufficient to meet the Organization's needs. The Organization expects its endowment funds, over time, to provide total return, net of fees, that meets the average return on other certificates of deposits with similar time horizons. To satisfy its long-term rate-of-return objectives, the Organization relies on an income return strategy in which investment returns are achieved through current yield (interest). The Organization has established and monitors an asset allocation, which includes fixed income positions and cash equivalents exposure.

Continued

**The Dream Factory, Inc. and Its Chapters**

August 31, 2019 and 2018

**Note H--Net Assets With Donor Restrictions--Continued**

Spending Policy and How the Investment Objectives Related to the Spending Policy--The Organization has a policy of transferring funds from the endowment once donor-specified period restrictions have been satisfied. The amount of funds which can be transferred to operations, once donor-specified restrictions of attaining a balance of \$100,000 have been satisfied, is five percent of the total endowment assets which can be withdrawn annually. The \$100,000 is to remain intact and only amounts earned in excess of this balance can be expended solely to fund Dreams. In establishing this policy, the Organization considered the long-term expected return on its endowment and the current need for the funds to support Dreams. Accordingly, over the long term, the Organization expects the current spending policy to allow for both growth of income and growth of endowment principal. This is consistent with the Organization's objectives to maintain the purchasing power of the endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and investment return.

**Note I--Employee Benefit Plan**

During June 2018, the Board of Directors approved adopting a Simplified Employee Pension Plan IRA which covers all employees that receive compensation of at least \$5,000 annually. Contributions are discretionary and are subject to the IRS contribution limits. The Organization provides a 100% match up to the first 3% of employee contributions. The Organization's contributions to the plan for the year ended August 31, 2019 and 2018 was \$5,349 and \$377, respectively.

**Note J--Commitments and Contingencies**

Rental of office space under an operating lease agreement amounted to \$25,166 and \$24,018 for the years ended August 31, 2019 and 2018, respectively. The future minimum payments under the lease agreement for the years ending August 31 are as follows:

2020	\$	24,510
2021		14,298
		<hr/>
	\$	38,808
		<hr/> <hr/>

**Note K--Concentrations**

The Organization maintains cash balances with multiple financial institutions. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. The Organization had deposits in excess of the FDIC limits of approximately \$79,000 and \$217,000 as of August 31, 2019 and 2018, respectively.

The Organization's primary revenues are generated by the active affiliated chapters located throughout the country. Revenues generated by two chapters accounted for 36% and 39% of total chapter revenues.

**The Dream Factory, Inc. and Its Chapters**

August 31, 2019 and 2018

**Note L--Liquidity and Availability of Funds**

The Organization has \$4,211,782 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditure. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date.

The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Financial assets, August 31, 2019	\$ 4,135,540
Less those unavailable for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions	<u>(87,259)</u>
<b>Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year</b>	<b><u>\$ 4,048,281</u></b>
Cash and cash equivalents	\$ 2,334,264
Contributions receivable	6,667
Investments	<u>1,794,609</u>
	<b><u>\$ 4,135,540</u></b>

**Note M--Future Accounting Pronouncements**

Management of the Organization is evaluating the possible effects of the future adoption of the following Accounting Standards Updates ("ASU"). As of August 31, 2019, management has not determined the effects of adopting these standards.

ASU No. 2014-09 Revenue from Contracts with Customers (Topic 606)

This Standard is moving from recognizing revenue as earned to recognizing revenue as performance obligations are met. Contributions and investment income are not subject to this standard. However, many other revenues are covered such as chapter dues, subscriptions, fees for services and licensing.

This Standard will be effective for the Organization's fiscal year ending August 31, 2020.

Continued



Notes to Consolidated Financial Statements--Continued

**The Dream Factory, Inc. and Its Chapters**

August 31, 2019 and 2018

**Note M--Future Accounting Pronouncements--Continued**

ASU No. 2016-02 Leases (Topic 842)

This Standard requires that both operating and capital leases be reflected on the statement of financial position so the user is provided a true picture of the assets the entity uses in its operations and the related risks. The new lessee accounting model is that an entity should recognize assets and liabilities arising from leases with a lease term of more than 12 months. They will be reflected as right-of-use assets and lease liabilities.

This Standard will be effective for the Company's fiscal year ending August 31, 2022.

## **Supplementary Information**

Supplementary Schedule of Consolidating Statement of Financial Position

**The Dream Factory, Inc. and Its Chapters**

August 31, 2019

	<u>National Office</u>	<u>Chapters</u>	<u>Eliminations</u>	<u>Total</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 45,001	\$ 2,289,263		\$ 2,334,264
Investments	153,422	1,641,187		1,794,609
Investment - endowment		74,539		74,539
Inventory	26,142			26,142
Contributions receivable		6,667		6,667
Accounts receivable - Chapters	66,202		\$ (66,202)	
Prepaid expenses and other current assets	2,674	5,750		8,424
Property and equipment, net	8,844			8,844
<b>Total Assets</b>	<u>\$ 302,285</u>	<u>\$ 4,017,406</u>	<u>\$ (66,202)</u>	<u>\$ 4,253,489</u>
<b>Liabilities and Net Assets</b>				
<b>Liabilities</b>				
Accounts payable	\$ 22,484	\$ 79,797	\$ (66,202)	\$ 36,079
Payroll taxes withheld and accrued	3,037			3,037
Deferred revenue	13,311			13,311
<b>Total Liabilities</b>	38,832	79,797	(66,202)	52,427
<b>Net Assets</b>				
Without donor restrictions	260,412	3,853,391		4,113,803
With donor restrictions	3,041	84,218		87,259
<b>Total Net Assets</b>	263,453	3,937,609		4,201,062
<b>Total Liabilities and Net Assets</b>	<u>\$ 302,285</u>	<u>\$ 4,017,406</u>	<u>\$ (66,202)</u>	<u>\$ 4,253,489</u>

See Independent Auditors' Report

Supplementary Schedule of Consolidating Statement of Activities  
and Changes in Net Assets Without Donor Restrictions

**The Dream Factory, Inc. and Its Chapters**

Year Ended August 31, 2019

	<u>National Office</u>	<u>Chapters</u>	<u>Eliminations</u>	<u>Total</u>
<b>Revenues, Gains, and Other Support Without Donor Restrictions</b>				
Donations and fund raising revenue	\$ 55,018	\$ 603,129		\$ 658,147
Net assets released from restriction		10,387		10,387
Special events revenue	15,648	1,605,411		1,621,059
<b>Total Support</b>	70,666	2,218,927		2,289,593
Other revenue				
Donations in-kind	16,252	1,070,517		1,086,769
Investment income	3,625	26,873		30,498
Unrealized loss on investments		(55,052)		(55,052)
Realized gain on investments		40,295		40,295
Miscellaneous income	30,867			30,867
Dues income	165,394		\$ (165,394)	
<b>Total Other Revenue</b>	216,138	1,082,633	(165,394)	1,133,377
<b>Total Revenues, Gains, and Other Support Without Support Without Donor Restrictions</b>	286,804	3,301,560	(165,394)	3,422,970
<b>Expenses Without Donor Restrictions</b>				
Program expenses	189,388	2,798,792	(165,394)	2,822,786
Fundraising expenses	47,823	42,514		90,337
General and administrative expenses	80,419	68,054		148,473
Cost of direct benefits to donors	3,292	646,268		649,560
<b>Total Expenses Without Donor Restrictions</b>	320,922	3,555,628	(165,394)	3,711,156
<b>Change in Net Assets</b>	(34,118)	(254,068)		(288,186)
<b>Net Assets Without Donor Restrictions</b>				
<b>Beginning of Year</b>	294,530	4,107,459		4,401,989
<b>Net Assets Without Donor Restrictions End of Year</b>	\$ 260,412	\$ 3,853,391	\$	\$ 4,113,803

See Independent Auditors' Report

Supplementary Schedule of Consolidating Statement of Activities  
and Changes in Net Assets With Donor Restrictions

**The Dream Factory, Inc. and Its Chapters**

Year Ended August 31, 2019

	<u>National Office</u>	<u>Chapters</u>	<u>Eliminations</u>	<u>Total</u>
<b>Revenues, Gains, and Other Support With Donor Restrictions</b>				
Donations and fund raising revenue				
Net assets released from restriction		\$ (10,387)		\$ (10,387)
<b>Net Donations and Fund Raising Revenue</b>		(10,387)		(10,387)
Other revenue				
Donations in-kind				
Investment income		622		622
Unrealized loss on investments				
Realized gain on investments				
Miscellaneous income				
Dues income				
<b>Total Other Revenue</b>		<u>622</u>		<u>622</u>
<b>Total Revenues, Gains, and Other Support With Donor Restrictions</b>		(9,765)		(9,765)
<b>Expenses With Donor Restrictions</b>				
Program expenses				
Fund raising expenses				
General and administrative expenses				
<b>Total Expenses With Donor Restrictions</b>				
<b>Change in Net Assets With Donor Restrictions</b>		(9,765)		(9,765)
<b>Net Assets With Donor Restrictions Beginning of Year</b>	\$ 3,041	<u>93,983</u>		<u>97,024</u>
<b>Net Assets With Donor Restrictions End of Year</b>	<u>\$ 3,041</u>	<u>\$ 84,218</u>	<u>\$</u>	<u>\$ 87,259</u>

See Independent Auditors' Report