

Consolidated Financial Statements
and Supplementary Information

2021

The Dream Factory, Inc. and Its Chapters

August 31, 2021



Consolidated Financial Statements
and Supplementary Information

The Dream Factory, Inc. and Its Chapters

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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, 2021 and 2020, 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 financial position of the Organization as of August 31, 2021 and 2020, 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.

Change in Accounting Principle

As discussed in Note B, the Organization adopted the requirements of Financial Accounting Standards Board, *Accounting Standards Update* No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). Our opinion is not modified with respect to this matter.

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, 2021, 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.

STROTHMAN AND COMPANY

Louisville, Kentucky
December 14, 2021

Consolidated Statements of Financial Position

The Dream Factory, Inc. and Its Chapters

	August 31	
	2021	2020
Assets		
Cash and cash equivalents	\$ 2,480,404	\$ 2,177,649
Investments	2,197,463	2,139,297
Investment - endowment	74,794	74,772
Inventory	22,889	24,777
Contributions receivable	8,203	8,203
Prepaid expenses and other current assets	21,056	8,548
Property and equipment, net	4,160	7,741
Total Assets	<u>\$ 4,808,969</u>	<u>\$ 4,440,987</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 13,920	\$ 3,347
Payroll taxes withheld and accrued	4,147	3,150
Deferred revenue	37,130	1,562
Total Liabilities	55,197	8,059
Net Assets		
Without donor restrictions	4,630,274	4,313,206
With donor restrictions	123,498	119,722
Total Net Assets	<u>4,753,772</u>	<u>4,432,928</u>
Total Liabilities and Net Assets	<u>\$ 4,808,969</u>	<u>\$ 4,440,987</u>

See Notes to Consolidated Financial Statements

Consolidated Statement of Activities

The Dream Factory, Inc. and Its Chapters

Year Ended August 31, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues, Gains, and Other Support			
Donations and fund raising revenue	\$ 732,824	\$ 20,000	\$ 752,824
Net assets released from restriction	57,310	(57,310)	
Special events revenue (including in-kind of \$65,578)	665,612		665,612
Total Support	1,455,746	(37,310)	1,418,436
Other revenue			
Donations in-kind	556,331		556,331
Investment income	23,582	26	23,608
Unrealized loss on investments	67,403		67,403
Realized gain on investments	87,606		87,606
Paycheck Protection Program Loan		41,060	41,060
Miscellaneous income	6,790		6,790
Total Other Revenue	741,712	41,086	782,798
Total Revenues, Gains, and Other Support	2,197,458	3,776	2,201,234
Expenses			
Program expenses (including in-kind of \$537,975)	1,449,921		1,449,921
Fundraising expenses	59,992		59,992
General and administrative expenses (including in-kind of \$18,357)	151,993		151,993
Cost of direct benefit to donors	218,484		218,484
Total Expenses	1,880,390		1,880,390
Change in Net Assets	317,068	3,776	320,844
Net Assets at Beginning of Year	4,313,206	119,722	4,432,928
Net Assets at End of Year	<u>\$ 4,630,274</u>	<u>\$ 123,498</u>	<u>\$ 4,753,772</u>

See Notes to Consolidated Financial Statements

Consolidated Statement of Activities

The Dream Factory, Inc. and Its Chapters

Year Ended August 31, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues, Gains, and Other Support			
Donations and fund raising revenue	\$ 694,525	\$ 30,225	\$ 724,750
Net assets released from restriction	47,100	(47,100)	
Special events revenue (including in-kind of \$238,426)	755,771		755,771
Total Support	1,497,396	(16,875)	1,480,521
Other revenue			
Donations in-kind	654,299		654,299
Investment income	36,065	238	36,303
Unrealized gain on investments	118,001		118,001
Realized gain on investments	14,527		14,527
Paycheck Protection Program loan		45,100	45,100
Miscellaneous income	12,856	4,000	16,856
Total Other Revenue	835,748	49,338	885,086
Total Revenues, Gains, and Other Support	2,333,144	32,463	2,365,607
Expenses			
Program expenses (including in-kind of \$631,776)	1,667,921		1,667,921
Fundraising expenses	81,017		81,017
General and administrative expenses (including in-kind of \$22,523)	142,592		142,592
Cost of direct benefits to donors	242,211		242,211
Total Expenses	2,133,741		2,133,741
Change in Net Assets	199,403	32,463	231,866
Net Assets at Beginning of Year	4,113,803	87,259	4,201,062
Net Assets at End of Year	\$ 4,313,206	\$ 119,722	\$ 4,432,928

See Notes to Consolidated Financial Statements

Consolidated Statement of Functional Expenses

The Dream Factory, Inc. and Its Chapters

Year Ended August 31, 2021

	<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	\$ 1,242,349				\$ 1,242,349
Fundraising		\$ 4,315		\$ 218,484	222,799
Salaries	113,387	24,659	\$ 57,904		195,950
Employee benefits	1,573	492	1,207		3,272
Payroll taxes	9,521	2,046	4,213		15,780
Professional fees and contract services	4,932	2,521	33,116		40,569
Advertising	2,377	6,767	808		9,952
Office supplies and expense	2,412	417	1,834		4,663
Equipment rental and maintenance	1,870		4,771		6,641
Telephone	5,862	2,085	888		8,835
Postage and shipping	2,297	910	1,427		4,634
Rent	16,422	3,431	4,657		24,510
Other building and occupancy	12,811	3,692	9,159		25,662
Insurance	12,346	363	1,183		13,892
Taxes, license and fees	634	5,196	16,903		22,733
Printing and publications	2,186	1,327	24		3,537
Meetings and travel	5,260	132	1,314		6,706
Dues and subscriptions	2,646	1,138	10,485		14,269
Miscellaneous	8,636		1,419		10,055
Depreciation	2,400	501	681		3,582
Total Expenses	\$ 1,449,921	\$ 59,992	\$ 151,993	\$ 218,484	\$ 1,880,390
Function's percentage of total	<u>77.11%</u>	<u>3.19%</u>	<u>8.08%</u>	<u>11.62%</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, 2020

	Program Services	Supporting Services		Costs of Direct Benefits to Donors	Total
		Fund Raising	General and Administrative		
Dream expense	\$ 1,419,139				\$ 1,419,139
Fundraising		\$ 3,901		\$ 242,211	246,112
Salaries	120,764	39,080	\$ 61,890		221,734
Payroll taxes	10,055	3,149	4,450		17,654
Professional fees and contract services	18,366	3,017	21,615		42,998
Advertising	3,030	1,581	28		4,639
Office supplies and expense	218	284	5,940		6,442
Equipment rental and maintenance	2,027		6,280		8,307
Telephone	9,738	3,157	1,128		14,023
Postage and shipping	1,473	1,019	2,340		4,832
Rent	16,422	3,431	4,657		24,510
Other building and occupancy	15,735	13,900	4,113		33,748
Insurance	10,532	337	693		11,562
Taxes, license and fees	200	3,328	13,336		16,864
Printing and publications	417	1,860	18		2,295
Meetings and travel	35,734		8,934		44,668
Dues and subscriptions	1,296	2,395	6,461		10,152
Miscellaneous	275	56			331
Depreciation	2,500	522	709		3,731
Total Expenses	\$ 1,667,921	\$ 81,017	\$ 142,592	\$ 242,211	\$ 2,133,741
Function's percentage of total	78.17%	3.80%	6.68%	11.35%	100.00%

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

The Dream Factory, Inc. and Its Chapters

	Year Ended August 31	
	2021	2020
Cash Flows From Operating Activities		
Change in net assets	\$ 320,844	\$ 231,866
Adjustments		
Depreciation expense	3,581	3,731
Gain on investments	(155,009)	(132,528)
Decrease in inventory and other assets	1,888	1,241
Increase in contributions receivable		(1,536)
Increase (decrease) in accounts payable and other liabilities	11,570	(32,619)
Increase in prepaid assets	(12,508)	
Increase (decrease) in deferred revenue	35,568	(11,749)
Net Cash Provided By Operating Activities	205,934	58,406
Cash Flows From Investing Activities		
Purchases of investments	(153,228)	(1,022,885)
Sales and maturity of investments	250,049	885,031
Purchases of property and equipment		(2,628)
Net Cash Provided By (Used In) Investing Activities	96,821	(140,482)
Increase (Decrease) in Cash and Cash Equivalents	302,755	(82,076)
Cash and Cash Equivalents Beginning of Year	2,177,649	2,259,725
Cash and Cash Equivalents End of Year	\$ 2,480,404	\$ 2,177,649

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

The Dream Factory, Inc. and Its Chapters

August 31, 2021 and 2020

Note A--Nature of Operations

Organization--The Dream Factory, Inc., (the "Organization") is a national association headquartered in Louisville, Kentucky, which includes 36 active affiliated chapters located throughout the country. The Organization (national office) and the various chapters are each incorporated and each has its own board of directors. The executive committee of the Organization 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

Notes to Consolidated Financial Statements--Continued

The Dream Factory, Inc. and Its Chapters

August 31, 2021 and 2020

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, 2021 and 2020, there are no allowance for uncollectible contributions.

Inventory--Inventory consists primarily of promotional items and is stated at the lower of cost or net realizable 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, 2021 and 2020 was \$3,582 and \$3,731, 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 Generally Accepted Accounting Principles ("GAAP").

Continued

Notes to Consolidated Financial Statements--Continued

The Dream Factory, Inc. and Its Chapters

August 31, 2021 and 2020

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, 2021 and 2020.

The Organization's tax returns for the years ended August 31, 2018 through 2020 are subject to examination by various taxing authorities.

Advertising Costs--Advertising costs are expensed as incurred. Advertising expense was \$9,952 and \$4,639 for the years ended August 31, 2021 and 2020, 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 Pronouncements--The Organization adopted the requirements of the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*, all subsequent amendments to the ASU (*collectively, Topic 606*), which creates a single framework for recognizing revenues from contracts with customers that fall within its scope and revised when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets. The standard has been applied retrospectively and it had no material effect for the years ended August 31, 2021 or 2020.

Subsequent Events--Subsequent events for the Organization have been considered through December 14, 2021, the date of the independent auditors' report, which represents the date the consolidated financial statements were available to be issued.

Notes to Consolidated Financial Statements—Continued

The Dream Factory, Inc. and Its Chapters

August 31, 2021 and 2020

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>
<u>August 31, 2021</u>		
Common and preferred stock	\$ 636,755	\$ 636,755
Exchange traded and closed end funds	314,115	314,115
Corporate bonds	129,411	129,411
Money market funds	340,129	340,129
Mutual funds	147,250	147,250
Government securities	115,350	115,350
Certificates of Deposit	589,247	589,247
	<u>\$ 2,272,257</u>	<u>\$ 2,272,257</u>
<u>August 31, 2020</u>		
Common and preferred stock	\$ 778,695	\$ 778,695
Exchange traded and closed end funds	325,393	325,393
Money market funds	422,824	422,824
Mutual funds	21,220	21,220
Government securities	130,804	130,804
Certificates of Deposit	535,133	535,133
	<u>\$ 2,214,069</u>	<u>\$ 2,214,069</u>

Investment expenses for 2021 and 2020 were \$16,318 and \$9,879, 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

Notes to Consolidated Financial Statements--Continued

The Dream Factory, Inc. and Its Chapters

August 31, 2021 and 2020

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, 2021 and 2020.

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, 2021 and 2020

Note D—Property and Equipment

Property and equipment consist of the following:

	<u>August 31</u>	
	<u>2021</u>	<u>2020</u>
Furniture and fixtures	\$ 6,933	\$ 6,933
Office equipment	50,326	50,326
Less accumulated depreciation	<u>(53,099)</u>	<u>(49,518)</u>
Property and Equipment, Net	<u>\$ 4,160</u>	<u>\$ 7,741</u>

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, 2021 and 2020, the Organization purchased 58 and 76 vacation packages from Give Kids the World each with an approximate in-kind value in excess of the purchase price of \$7,438 and \$8,121, respectively.

Identifiable contributions of other items in functional expenses totaled \$124,914 and \$37,106 for the years ended August 31, 2021 and 2020, respectively.

Special events revenue and expenses in-kind contributions and costs totaled \$64,578 and \$49,238 for the years ended August 31, 2021 and 2020, respectively.

Continued

Notes to Consolidated Financial Statements--Continued

The Dream Factory, Inc. and Its Chapters

August 31, 2021 and 2020

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

A summary of the in-kind contributions is:

	<u>2021</u>	<u>2020</u>
Give Kids the World	\$ 431,417	\$ 617,193
Miscellaneous donations in-kind	<u>124,914</u>	<u>37,106</u>
Total In-Kind Revenue and Functional Expenses	556,331	654,299
Special events in-kind contributions and expenses	<u>64,578</u>	<u>49,289</u>
Total In-Kind	<u>\$ 620,909</u>	<u>\$ 703,588</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>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose:		
Fund dreams for chronically ill children in Southern Indiana	\$ 48,704	\$ 28,034
Payroll and rent expenses		16,916
Endowment assets to be invested in perpetuity	<u>74,794</u>	<u>74,772</u>
Total Net Assets With Donor Restrictions	<u>\$ 123,498</u>	<u>\$ 119,722</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, 2021 and 2020.

Continued

Notes to Consolidated Financial Statements—Continued

The Dream Factory, Inc. and Its Chapters

August 31, 2021 and 2020

Note H--Net Assets With Donor Restrictions—Continued

Changes in endowment net assets for the years ended August 31, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Endowments net assets, beginning of the year	\$ 74,772	\$ 74,539
Investment return		
Interest and dividends	<u>22</u>	<u>233</u>
Endowment Net Assets, End of Year	<u><u>\$ 74,794</u></u>	<u><u>\$ 74,772</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

Notes to Consolidated Financial Statements—Continued

The Dream Factory, Inc. and Its Chapters

August 31, 2021 and 2020

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

The Organization maintains 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 1% of employee contributions. The Organization's contributions to the plan for the year ended August 31, 2021 and 2020 was \$3,273 and \$6,145, respectively.

Note J--Commitments and Contingencies

Rental of office space under an operating lease agreement amounted to \$24,510 for the years ended August 31, 2021 and 2020, respectively. The future minimum payments under the lease agreement for the years ending August 31 are as follows:

2022	\$	24,510
2023		24,510
2024		16,340
		<hr/>
	\$	65,360
		<hr/> <hr/>

In March 2020, the World Health Organization declared the spread of Coronavirus Disease ("COVID-19") a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to the Organization, COVID-19 has impacted various parts of its 2021 and 2020 operations and financial results and will continue to impact the Organization for the foreseeable future. Management believes the Organization is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing.

Notes to Consolidated Financial Statements—Continued

The Dream Factory, Inc. and Its Chapters

August 31, 2021 and 2020

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 \$80,500 and \$108,000 as of August 31, 2021 and 2020, respectively.

The Organization's primary revenues are generated by the active affiliated chapters located throughout the country. Revenues generated by two chapters accounted for 39% and 36% of total chapter revenues for the years ended August 31, 2021 and 2020, respectively.

Note L--Liquidity and Availability of Funds

The Organization has \$4,686,070 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.

	<u>August 31</u>	
	<u>2021</u>	<u>2020</u>
Financial Assets	\$ 4,760,864	\$ 4,399,921
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions	<u>(123,498)</u>	<u>(119,722)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u>\$ 4,637,366</u>	<u>\$ 4,280,199</u>
Cash and cash equivalents	\$ 2,480,404	\$ 2,177,649
Contributions receivable	8,203	8,203
Investments	2,197,463	2,139,297
Investment - endowment	<u>74,794</u>	<u>74,772</u>
	<u>\$ 4,760,864</u>	<u>\$ 4,399,921</u>

Notes to Consolidated Financial Statements—Continued

The Dream Factory, Inc. and Its Chapters

August 31, 2021 and 2020

Note M—Paycheck Protection Program Loan

In May 2020, the Organization obtained a U.S. Small Business Administration (“SBA”) Paycheck Protection Program (“PPP”) loan of \$45,100, which had an interest rate of 1% and is due in May 2022. The PPP loan, when used for certain expenses (payroll, retirement contributions, health insurance costs, rent and utilities), can be forgiven. The loan is accounted for in the consolidated statement of activities as support with donor restrictions. In March 2021, the Organization was notified that the PPP loan was forgiven.

In January 2021, the Organization obtained a second SBA PPP loan of \$41,060, which had an interest rate of 1% and is due in January 2026. The PPP loan, when used for certain expenses (payroll, retirement contributions, health insurance costs, rent and utilities), can be forgiven. The loan is accounted for in the consolidated statement of activities as support with donor restrictions. In July 2021, the Organization was notified that the PPP loan was forgiven.

In June 2020, the American Institute of Certified Public Accountants and the Financial Accounting Standards Board provided technical guidance which stated that the proceeds from SBA PPP loans could be accounted for as either debt or a government grant. Management elected to account for these unique lending vehicle as a grant since management assumes the Organization will be in compliance with all of the terms and requirements of the loan, and will be legally forgiven.

Note N—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, 2021, management has not determined the effects of adopting these standards.

FASB issued ASU No. 2020-07 *Not-for-Profit Entities* (Topic 958)

This new standard, which the Organization is not required to adopt until its year ending August 31, 2022, is intended to increase transparency of financial reporting of contributed nonfinancial assets by requiring disaggregate presentation and additional disclosure requirements, including additional disclosure requirements for recognized contributed services. The Center is presently evaluating the effects that this ASU will have on its future financial statements, including related disclosures.

ASU No. 2016-02 *Leases* (Topic 842)

This new standard, which the Organization is not required to adopt until its year ending August 31, 2022, 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.

Supplementary Information

Supplementary Schedule of Consolidating Statement of Financial Position

The Dream Factory, Inc. and Its Chapters

August 31, 2021

	<u>National Office</u>	<u>Chapters</u>	<u>Eliminations</u>	<u>Total</u>
Assets				
Cash and cash equivalents	\$ 152,488	\$ 2,327,916		\$ 2,480,404
Investments	124,386	2,073,077		2,197,463
Investment - endowment		74,794		74,794
Inventory	22,889			22,889
Contributions receivable		8,203		8,203
Accounts receivable - Chapters	31,994		\$ (31,994)	
Prepaid expenses and other current assets	2,721	18,335		21,056
Property and equipment, net	4,160			4,160
Total Assets	<u>\$ 338,638</u>	<u>\$ 4,502,325</u>	<u>\$ (31,994)</u>	<u>\$ 4,808,969</u>
Liabilities and Net Assets				
Liabilities				
Accounts payable	\$ 11,892	\$ 34,022	\$ (31,994)	\$ 13,920
Payroll taxes withheld and accrued	4,147			4,147
Deferred revenue	37,130			37,130
Total Liabilities	53,169	34,022	(31,994)	55,197
Net Assets				
Without donor restrictions	250,203	4,380,071		4,630,274
With donor restrictions	35,266	88,232		123,498
Total Net Assets	<u>285,469</u>	<u>4,468,303</u>		<u>4,753,772</u>
Total Liabilities and Net Assets	<u>\$ 338,638</u>	<u>\$ 4,502,325</u>	<u>\$ (31,994)</u>	<u>\$ 4,808,969</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, 2021

	National Office	Chapters	Eliminations	Total
Revenues, Gains, and Other Support Without Donor Restrictions				
Donations and fund raising revenue	\$ 113,619	\$ 640,622	\$ (21,417)	\$ 732,824
Net assets released from restriction	45,060	12,250		57,310
Special events revenue	36,895	628,717		665,612
Total Support	195,574	1,281,589	(21,417)	1,455,746
Other revenue				
Donations in-kind		556,331		556,331
Investment income	588	22,994		23,582
Unrealized loss on investments	(1,039)	68,442		67,403
Realized gain on investments		87,606		87,606
Miscellaneous income	21,232		(14,442)	6,790
Dues income	125,947		(125,947)	
Total Other Revenue	146,728	735,373	(140,389)	741,712
Total Revenues, Gains, and Other Support Without Support Without Donor Restrictions	342,302	2,016,962	(161,806)	2,197,458
Expenses Without Donor Restrictions				
Program expenses	165,774	1,438,987	(154,840)	1,449,921
Fundraising expenses	36,254	24,938	(1,200)	59,992
General and administrative expenses	76,212	81,547	(5,766)	151,993
Cost of direct benefits to donors	23,380	195,104		218,484
Total Expenses Without Donor Restrictions	301,620	1,740,576	(161,806)	1,880,390
Change in Net Assets	40,682	276,386		317,068
Net Assets Without Donor Restrictions Beginning of Year	209,521	4,103,685		4,313,206
Net Assets Without Donor Restrictions End of Year	\$ 250,203	\$ 4,380,071	\$	\$ 4,630,274

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, 2021

	<u>National Office</u>	<u>Chapters</u>	<u>Eliminations</u>	<u>Total</u>
Revenues, Gains, and Other Support With Donor Restrictions				
Donations and fund raising revenue	\$ 20,000			\$ 20,000
Net assets released from restriction	(45,060)	\$ (12,250)		(57,310)
Net Donations and Fund Raising Revenue	(25,060)	(12,250)		(37,310)
Other revenue				
Investment income		26		26
Paycheck Protection Program loan	41,060			41,060
Total Other Revenue	41,060	26		41,086
Total Revenues, Gains, and Other Support With Donor Restrictions	16,000	(12,224)		3,776
Net Assets With Donor Restrictions Beginning of Year	19,266	100,456		119,722
Net Assets With Donor Restrictions End of Year	<u>\$ 35,266</u>	<u>\$ 88,232</u>	<u>\$</u>	<u>\$ 123,498</u>

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