

Consolidated Financial Statements
and Supplementary Information

2020

The Dream Factory, Inc. and Its Chapters

August 31, 2020



Consolidated Financial Statements
and Supplementary Information

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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, 2020 and 2019, 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, 2020 and 2019, 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 to the financial statements, the Organization adopted the requirements of the Financial Accounting Standards Board, Accounting Standards Update No. 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*.

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, 2020, 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.

STROTHERS AND COMPANY

Louisville, Kentucky
December 28, 2020

Consolidated Statements of Financial Position

The Dream Factory, Inc. and Its Chapters

	August 31	
	2020	2019
Assets		
Cash and cash equivalents	\$ 2,177,649	\$ 2,259,725
Investments	2,139,297	1,869,148
Investment - endowment	74,772	74,539
Inventory	24,777	26,142
Contributions receivable	8,203	6,667
Prepaid expenses and other current assets	8,548	8,424
Property and equipment, net	7,741	8,844
	<u>4,440,987</u>	<u>4,253,489</u>
Total Assets	\$ 4,440,987	\$ 4,253,489
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 3,347	\$ 36,079
Payroll taxes withheld and accrued	3,150	3,037
Deferred revenue	1,562	13,311
	<u>8,059</u>	<u>52,427</u>
Total Liabilities	8,059	52,427
Net Assets		
Without donor restrictions	4,313,206	4,113,803
With donor restrictions	119,722	87,259
	<u>4,432,928</u>	<u>4,201,062</u>
Total Net Assets	4,432,928	4,201,062
Total Liabilities and Net Assets	\$ 4,440,987	\$ 4,253,489

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 \$49,289)	<u>755,771</u>		<u>755,771</u>
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 loss on investments	118,001		118,001
Realized gain on investments	14,527		14,527
Miscellaneous income	<u>12,856</u>	<u>49,100</u>	<u>61,956</u>
Total Other Revenue	<u>835,748</u>	<u>49,338</u>	<u>885,086</u>
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 benefit to donors	<u>242,211</u>		<u>242,211</u>
Total Expenses	<u>2,133,741</u>		<u>2,133,741</u>
Change in Net Assets	199,403	32,463	231,866
Net Assets at Beginning of Year	<u>4,113,803</u>	<u>87,259</u>	<u>4,201,062</u>
Net Assets at End of Year	<u>\$ 4,313,206</u>	<u>\$ 119,722</u>	<u>\$ 4,432,928</u>

See Notes to Consolidated Financial Statements

Consolidated Statement of Activities

The Dream Factory, Inc. and Its Chapters

Year Ended August 31, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues, Gains, (Losses) and Other Support			
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>
Total Support	2,289,593	(10,387)	2,279,206
Other revenue			
Donations in-kind	1,086,769		1,086,769
Investment income	30,498	622	31,120
Unrealized gain on investments	(55,052)		(55,052)
Realized gain on investments	40,295		40,295
Miscellaneous income	<u>30,867</u>		<u>30,867</u>
Total Other Revenue	<u>1,133,377</u>	<u>622</u>	<u>1,133,999</u>
Total Revenues, Gains, (Losses) and Other Support	3,422,970	(9,765)	3,413,205
Expenses			
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 benefits to donors	<u>649,560</u>		<u>649,560</u>
Total Expenses	<u>3,711,156</u>		<u>3,711,156</u>
Change in Net Assets	(288,186)	(9,765)	(297,951)
Net Assets at Beginning of Year	<u>4,401,989</u>	<u>97,024</u>	<u>4,499,013</u>
Net Assets at End of Year	<u>\$ 4,113,803</u>	<u>\$ 87,259</u>	<u>\$ 4,201,062</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	<u>78.17%</u>	<u>3.80%</u>	<u>6.68%</u>	<u>11.35%</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, 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
Total Expenses	<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 Statements of Cash Flows

The Dream Factory, Inc. and Its Chapters

	Year Ended August 31	
	2020	2019
Cash Flows From Operating Activities		
Change in net assets	\$ 231,866	\$ (297,951)
Adjustments		
Depreciation expense	3,731	3,716
(Gain) loss on investments	(132,527)	14,757
Decrease in inventory and other assets	1,241	2,298
(Increase) decrease in contributions receivable	(1,536)	1,703
Decrease in accounts payable and other liabilities	(32,619)	(32,187)
Increase (decrease) in deferred revenue	(11,749)	13,311
Net Cash Provided By (Used In) Operating Activities	58,407	(294,353)
Cash Flows From Investing Activities		
Purchases of investments	(1,022,886)	(865,058)
Sales and maturity of investments	885,031	869,089
Purchases of property and equipment	(2,628)	
Net Cash (Used In) Provided By Investing Activities	(140,483)	4,031
Decrease in Cash and Cash Equivalents	(82,076)	(290,322)
Cash and Cash Equivalents Beginning of Year	2,259,725	2,550,047
Cash and Cash Equivalents End of Year	\$ 2,177,649	\$ 2,259,725

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

The Dream Factory, Inc. and Its Chapters

August 31, 2020 and 2019

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

The Dream Factory, Inc. and Its Chapters

August 31, 2020 and 2019

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, 2020 and 2019, 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, 2020 and 2019 was \$3,731 and \$3,716, 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, 2020 and 2019

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, 2020 and 2019.

The Organization's tax returns for the years ended August 31, 2017 through 2019 are subject to examination by various taxing authorities.

Advertising Costs--Advertising costs are expensed as incurred. Advertising expense was \$4,639 and \$17,068 for the years ended August 31, 2020 and 2019, 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.

Change in Accounting Principle--Effective September 1, 2019, the Organization adopted the requirements of the Financial Accounting Standards Board, Accounting Standards Update ("ASU") No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, in the current year applying the changes using a modified prospective approach. This ASU clarifies and improves current guidance about whether a transfer of assets is a contribution or an exchange transaction. The ASU had no significant impact on the financial statements.

Reclassifications—Certain reclassifications have been made to the 2019 consolidated financial statements to conform with the 2020 presentation. These reclassifications had no effect on the change in net assets.

Subsequent Events--Subsequent events for the Organization have been considered through December 28, 2020, 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, 2020 and 2019

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, 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>
<u>August 31, 2019</u>		
Common and preferred stock	\$ 406,927	\$ 406,927
Exchange traded and closed end funds	303,198	303,198
Money market funds	314,961	314,961
Mutual funds	4,715	4,715
Government securities	65,261	65,261
Certificates of Deposit	848,625	848,625
	<u>\$ 1,943,687</u>	<u>\$ 1,943,687</u>

Investment expenses for 2020 and 2019 were \$9,879 and \$10,438, 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, 2020 and 2019

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, 2020 and 2019.

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, 2020 and 2019

Note D--Property and Equipment

Property and equipment consist of the following:

	August 31	
	2020	2019
Furniture and fixtures	\$ 6,933	\$ 4,303
Office equipment	50,326	50,326
Less accumulated depreciation	<u>(49,518)</u>	<u>(45,785)</u>
Property and Equipment, Net	<u>\$ 7,741</u>	<u>\$ 8,844</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, 2020 and 2019, the Organization purchased 76 and 131 vacation packages from Give Kids the World each with an approximate in-kind value in excess of the purchase price of \$8,121 and \$7,000, respectively.

Identifiable contributions of other items in functional expenses totaled \$37,106 and \$170,527 for the years ended August 31, 2020 and 2019, respectively.

Special events revenue and expenses in-kind contributions and costs totaled \$49,289 and \$238,426 for the years ended August 31, 2020 and 2019, respectively.

Continued

Notes to Consolidated Financial Statements--Continued

The Dream Factory, Inc. and Its Chapters

August 31, 2020 and 2019

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

A summary of the in-kind contributions is:

	2020	2019
Give Kids the World	\$ 617,193	\$ 916,242
Miscellaneous donations in-kind	<u>37,106</u>	<u>170,527</u>
Total In-Kind Revenue and Functional Expenses	654,299	1,086,769
Special events in-kind contributions and expenses	<u>49,289</u>	<u>238,426</u>
Total In-Kind	<u><u>\$ 703,588</u></u>	<u><u>\$ 1,325,195</u></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:

	2020	2019
Subject to expenditure for specified purpose:		
Fund dreams for chronically ill children in Southern Indiana	\$ 28,034	\$ 12,720
Payroll and rent expenses	16,916	
Endowment assets to be invested in perpetuity	<u>74,772</u>	<u>74,539</u>
Total Net Assets With Donor Restrictions	<u><u>\$ 119,722</u></u>	<u><u>\$ 87,259</u></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, 2020 and 2019.

Continued

Notes to Consolidated Financial Statements--Continued

The Dream Factory, Inc. and Its Chapters

August 31, 2020 and 2019

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

Changes in endowment net assets for the years ended August 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Endowments net assets, beginning of the year	\$ 74,539	\$ 73,951
Investment return		
Interest and dividends	<u>233</u>	<u>588</u>
Endowment Net Assets, End of Year	<u><u>\$ 74,772</u></u>	<u><u>\$ 74,539</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, 2020 and 2019

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 3% of employee contributions. The Organization's contributions to the plan for the year ended August 31, 2020 and 2019 was \$6,145 and \$5,349, respectively.

Note J--Commitments and Contingencies

Rental of office space under an operating lease agreement amounted to \$24,510 and \$25,166 for the years ended August 31, 2020 and 2019, respectively. The future minimum payments under the lease agreement for the years ending August 31 are as follows:

2021	<u>\$ 14,298</u>
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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 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.

The Dream Factory, Inc. and Its Chapters

August 31, 2020 and 2019

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 \$108,000 and \$79,000 as of August 31, 2020 and 2019, 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% of total chapter revenues for the years then ended.

Note L--Liquidity and Availability of Funds

The Organization has \$4,205,427 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, 2020	\$ 4,325,149
Less those unavailable for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions	<u>(119,722)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u>\$ 4,205,427</u>
Cash and cash equivalents	\$ 2,177,649
Contributions receivable	8,203
Investments	<u>2,139,297</u>
	<u>\$ 4,325,149</u>

Note M--Paycheck Protection Program Loan

In May 2020, the Organization obtained a U.S. Small Business Administration ("SBA") Paycheck Protection Program Loan ("PPP") 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.

Continued

Notes to Consolidated Financial Statements--Continued

The Dream Factory, Inc. and Its Chapters

August 31, 2020 and 2019

Note M--Paycheck Protection Program Loan--Continued

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 this 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, 2020, 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, 2021.

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, 2023.

Supplementary Information

Supplementary Schedule of Consolidating Statement of Financial Position

The Dream Factory, Inc. and Its Chapters

August 31, 2020

	National Office	Chapters	Eliminations	Total
Assets				
Cash and cash equivalents	\$ 82,798	\$ 2,094,851		\$ 2,177,649
Investments	125,563	2,013,734		2,139,297
Investment - endowment		74,772		74,772
Inventory	24,777			24,777
Contributions receivable		8,203		8,203
Accounts receivable - Chapters	10,168		\$ (10,168)	
Prepaid expenses and other current assets	2,798	18,000	(12,250)	8,548
Property and equipment, net	7,741			7,741
	<u>253,845</u>	<u>4,209,560</u>	<u>(22,418)</u>	<u>4,440,987</u>
Total Assets	\$ 253,845	\$ 4,209,560	\$ (22,418)	\$ 4,440,987
Liabilities and Net Assets				
Liabilities				
Accounts payable	\$ 8,096	\$ 5,419	\$ (10,168)	\$ 3,347
Payroll taxes withheld and accrued	3,150			3,150
Deferred revenue	13,812		(12,250)	1,562
	<u>25,058</u>	<u>5,419</u>	<u>(22,418)</u>	<u>8,059</u>
Total Liabilities	25,058	5,419	(22,418)	8,059
Net Assets				
Without donor restrictions	209,521	4,103,685		4,313,206
With donor restrictions	19,266	100,456		119,722
	<u>228,787</u>	<u>4,204,141</u>		<u>4,432,928</u>
Total Net Assets	228,787	4,204,141		4,432,928
Total Liabilities and Net Assets	\$ 253,845	\$ 4,209,560	\$ (22,418)	\$ 4,440,987

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, 2020

	<u>National Office</u>	<u>Chapters</u>	<u>Eliminations</u>	<u>Total</u>
Revenues, Gains, and Other Support Without Donor Restrictions				
Donations and fund raising revenue	\$ 53,239	\$ 641,286		\$ 694,525
Net assets released from restriction	45,100	2,000		47,100
Special events revenue	9,307	746,464		755,771
Total Support	107,646	1,389,750		1,497,396
Other revenue				
Donations in-kind	234	654,065		654,299
Investment income	3,508	32,557		36,065
Unrealized loss on investments		118,001		118,001
Realized gain on investments		14,527		14,527
Miscellaneous income	12,856			12,856
Dues income	137,674		\$ (137,674)	
Total Other Revenue	154,272	819,150	(137,674)	835,748
Total Revenues, Gains, and Other Support Without Support Without Donor Restrictions	261,918	2,208,900	(137,674)	2,333,144
Expenses Without Donor Restrictions				
Program expenses	175,927	1,629,668	(137,674)	1,667,921
Fundraising expenses	52,554	28,463		81,017
General and administrative expenses	83,689	58,903		142,592
Cost of direct benefits to donors	639	241,572		242,211
Total Expenses Without Donor Restrictions	312,809	1,958,606	(137,674)	2,133,741
Change in Net Assets	(50,891)	250,294		199,403
Net Assets Without Donor Restrictions Beginning of Year	260,412	3,853,391		4,113,803
Net Assets Without Donor Restrictions End of Year	\$ 209,521	\$ 4,103,685	\$	\$ 4,313,206

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, 2020

	<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	\$ 12,225	\$ 18,000		\$ 30,225
Net assets released from restriction	(45,100)	(2,000)		(47,100)
	<u>(32,875)</u>	<u>16,000</u>		<u>(16,875)</u>
Net Donations and Fund Raising Revenue				
Other revenue				
Donations in-kind				
Investment income		238		238
Unrealized loss on investments				
Realized gain on investments				
Miscellaneous income	49,100			49,100
Dues income				
	<u>49,100</u>	<u>238</u>		<u>49,338</u>
Total Other Revenue				
	<u>49,100</u>	<u>238</u>		<u>49,338</u>
Total Revenues, Gains, and Other Support With Donor Restrictions	16,225	16,238		32,463
Expenses With Donor Restrictions				
Program expenses				
Fund raising expenses				
General and administrative expenses				
Total Expenses With Donor Restrictions				
Change in Net Assets With Donor Restrictions	16,225	16,238		32,463
Net Assets With Donor Restrictions Beginning of Year	<u>3,041</u>	<u>84,218</u>		<u>87,259</u>
Net Assets With Donor Restrictions End of Year	<u>\$ 19,266</u>	<u>\$ 100,456</u>	<u>\$</u>	<u>\$ 119,722</u>

See Independent Auditors' Report