

Consolidated Financial Statements
and Supplementary Information

2023

The Dream Factory, Inc. and Its Chapters

August 31, 2023



Consolidated Financial Statements
and Supplementary Information

The Dream Factory, Inc. and Its Chapters

August 31, 2023

Independent Auditors' Report	1
Consolidated Financial Statements	
Consolidated Statements of Financial Position	4
Consolidated Statement of Activities Year Ended August 31, 2023	5
Consolidated Statement of Activities Year Ended August 31, 2022	6
Consolidated Statement of Functional Expenses Year Ended August 31, 2023	7
Consolidated Statement of Functional Expenses Year Ended August 31, 2022	8
Consolidated Statements of Cash Flows	9
Notes to Consolidated Financial Statements	10
Supplementary Information	
Consolidating Statement of Financial Position August 31, 2023	23
Consolidating Statement of Activities and Changes in Net Assets Without Donor Restrictions Year Ended August 31, 2023	24
Consolidating Statement of Activities and Changes in Net Assets With Donor Restrictions Year Ended August 31, 2023	25



Independent Auditors' Report

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

Opinion

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, 2023 and 2022, 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.

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, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Basis for Opinion

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

Change in Accounting Principles

As discussed in Note B, the Organization adopted the requirements of Financial Accounting Standards Board, Accounting Standards Update No. 2016-02, *Leases* (Topic 842). Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with GAAP, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

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

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 23 through 25 is presented for purposes of additional analysis and is not a required 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 financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS.

In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Stoetman and Company
Louisville, Kentucky
December 19, 2023

Consolidated Statements of Financial Position

The Dream Factory, Inc. and Its Chapters

	August 31	
	2023	2022
Assets		
Cash and cash equivalents	\$ 2,832,756	\$ 2,939,178
Investments	2,385,417	1,945,495
Investment - endowment	75,538	74,868
Inventory	20,146	22,689
Prepaid expenses and other current assets	4,810	21,379
Property and equipment, net	2,423	1,999
Right-of-use leased assets - operating, net	18,552	
Total Assets	\$ 5,339,642	\$ 5,005,608
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 16,279	\$ 7,453
Payroll taxes withheld and accrued	3,654	3,496
Deferred revenue	26,860	19,581
Lease liabilities - operating	18,552	
Total Liabilities	65,345	30,530
Net Assets		
Without donor restrictions	5,197,416	4,861,852
With donor restrictions	76,881	113,226
Total Net Assets	5,274,297	4,975,078
Total Liabilities and Net Assets	\$ 5,339,642	\$ 5,005,608

See Notes to Consolidated Financial Statements

Consolidated Statement of Activities

The Dream Factory, Inc. and Its Chapters

Year Ended August 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains, and Other Support			
Donations and fund raising revenue	\$ 850,660		\$ 850,660
Net assets released from restriction	37,051	\$ (37,051)	
Donations in-kind	1,130,262		1,130,262
Special events revenue (including in-kind of \$305,503)	1,877,280		1,877,280
Total Support	3,895,253	(37,051)	3,858,202
Other revenue			
Investment income, net	58,228	706	58,934
Unrealized gain on investments	12,643		12,643
Realized loss on investments	(16,251)		(16,251)
Miscellaneous income	21,874		21,874
Total Other Revenue	76,494	706	77,200
Total Revenues, Gains, and Other Support	3,971,747	(36,345)	3,935,402
Expenses			
Program expenses (including in-kind of \$1,112,888)	2,581,544		2,581,544
Fundraising expenses	94,612		94,612
General and administrative expenses (including in-kind of \$17,374)	156,508		156,508
Cost of direct benefit to donors	803,519		803,519
Total Expenses	3,636,183		3,636,183
Change in Net Assets	335,564	(36,345)	299,219
Net Assets at Beginning of Year	4,861,852	113,226	4,975,078
Net Assets at End of Year	<u>\$ 5,197,416</u>	<u>\$ 76,881</u>	<u>\$ 5,274,297</u>

See Notes to Consolidated Financial Statements

Consolidated Statement of Activities

The Dream Factory, Inc. and Its Chapters

Year Ended August 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains, and Other Support			
Donations and fund raising revenue	\$ 911,940		\$ 911,940
Net assets released from restriction	10,353	\$ (10,353)	
Donations in-kind	1,117,197		1,117,197
Special events revenue (including in-kind of \$292,342)	1,664,348		1,664,348
Total Support	3,703,838	(10,353)	3,693,485
 Other revenue			
Investment income	21,103	81	21,184
Unrealized loss on investments	(238,749)		(238,749)
Realized gain on investments	42,236		42,236
Miscellaneous income	24,140		24,140
Total Other Revenue	(151,270)	81	(151,189)
 Total Revenues, Gains, and Other Support	3,552,568	(10,272)	3,542,296
 Expenses			
Program expenses (including in-kind of \$1,098,329)	2,425,184		2,425,184
Fundraising expenses	68,274		68,274
General and administrative expenses (including in-kind of \$18,868)	153,555		153,555
Cost of direct benefits to donors	673,977		673,977
Total Expenses	3,320,990		3,320,990
 Change in Net Assets	231,578	(10,272)	221,306
 Net Assets at Beginning of Year	4,630,274	123,498	4,753,772
 Net Assets at End of Year	<u>\$ 4,861,852</u>	<u>\$ 113,226</u>	<u>\$ 4,975,078</u>

See Notes to Consolidated Financial Statements

Consolidated Statement of Functional Expenses

The Dream Factory, Inc. and Its Chapters

Year Ended August 31, 2023

	Program Services	Supporting Services		Costs of Direct Benefits to Donors	Total
		Fund Raising	General and Administrative		
Dream expense	\$ 2,292,276				\$ 2,292,276
Fundraising		\$ 20,933		\$ 803,519	824,452
Salaries	128,933	40,564	\$ 65,544		235,041
Employee benefits	2,205	318	1,909		4,432
Payroll taxes	10,411	3,130	4,556		18,097
Professional fees and contract services	18,363	2,614	19,400		40,377
Advertising	5,292	2,478	633		8,403
Office supplies and expense	300	374	5,443		6,117
Equipment rental and maintenance	3,047		4,852		7,899
Telephone	6,097	2,250	929		9,276
Postage and shipping	2,813	645	3,209		6,667
Rent	16,989	3,549	4,818		25,356
Other building and occupancy	10,877	4,680	8,045		23,602
Insurance	21,222	549	1,120		22,891
Taxes, license and fees	1,926	9,688	18,348		29,962
Printing and publications	636	810	82		1,528
Meetings and travel	41,408	509	8,307		50,224
Dues and subscriptions	1,494	1,325	8,765		11,584
Miscellaneous	16,315		281		16,596
Depreciation	940	196	267		1,403
Total Expenses	\$ 2,581,544	\$ 94,612	\$ 156,508	\$ 803,519	\$ 3,636,183
Function's percentage of total	<u>71.00%</u>	<u>2.60%</u>	<u>4.30%</u>	<u>22.10%</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, 2022

	<u>Program Services</u>	<u>Supporting Services</u>		<u>Costs of Direct Benefits to Donors</u>	<u>Total</u>
		<u>Fund Raising</u>	<u>General and Administrative</u>		
Dream expense	\$ 2,170,546				\$ 2,170,546
Fundraising		\$ 13,722		\$ 673,977	687,699
Salaries	116,680	29,926	\$ 58,376		204,982
Employee benefits	893	123	740		1,756
Payroll taxes	9,821	2,462	4,255		16,538
Professional fees and contract services	16,749	1,802	21,658		40,209
Advertising	7,313	2,878	1,055		11,246
Office supplies and expense	1,932	718	2,894		5,544
Equipment rental and maintenance	2,650		4,129		6,779
Telephone	5,760	2,004	868		8,632
Postage and shipping	2,393	824	2,143		5,360
Rent	16,443	3,435	4,663		24,541
Other building and occupancy	3,380	2,189	4,520		10,089
Insurance	10,171	1,249	8,876		20,296
Taxes, license and fees	575	4,549	21,136		26,260
Printing and publications	434	766			1,200
Meetings and travel	36,367		7,757		44,124
Dues and subscriptions	1,086	1,325	7,803		10,214
Miscellaneous	20,543		2,271		22,814
Depreciation	1,448	302	411		2,161
Total Expenses	<u>\$ 2,425,184</u>	<u>\$ 68,274</u>	<u>\$ 153,555</u>	<u>\$ 673,977</u>	<u>\$ 3,320,990</u>
Function's percentage of total	<u>73.03%</u>	<u>2.06%</u>	<u>4.62%</u>	<u>20.29%</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	
	2023	2022
Cash Flows From Operating Activities		
Change in net assets	\$ 299,219	\$ 221,306
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	1,403	2,161
Amortization of right-to-use asset - operating leases	24,214	
Unrealized and realized loss on investments, net	3,608	196,513
Changes in operating assets and liabilities		
Inventory	2,543	200
Contributions receivable		8,203
Prepaid expenses and other current assets	16,569	(323)
Accounts payable and other liabilities	8,984	(7,118)
Deferred revenue	7,279	(17,549)
Payments on lease liability, operating	(24,214)	
Net Cash Provided By Operating Activities	339,605	403,393
Cash Flows From Investing Activities		
(Purchases) sales of investments	(444,200)	55,381
Purchases of property and equipment	(1,827)	
Net Cash Provided By (Used In) Investing Activities	(446,027)	55,381
Increase (Decrease) in Cash and Cash Equivalents	(106,422)	458,774
Cash and Cash Equivalents Beginning of Year	2,939,178	2,480,404
Cash and Cash Equivalents End of Year	\$ 2,832,756	\$ 2,939,178

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

The Dream Factory, Inc. and Its Chapters

August 31, 2023 and 2022

Note A--Nature of Operations

The Dream Factory, Inc., (the "Organization") is a national association headquartered in Louisville, Kentucky, which includes 32 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

The Organization follows generally accepted accounting principles ("GAAP") outlined in the Financial Accounting Standards Board's ("FASB") *Accounting Standards Code* ("ASC"). Significant accounting policies are as 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.

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.

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

Continued

The Dream Factory, Inc. and Its Chapters

August 31, 2023 and 2022

Note B--Significant Accounting Policies--Continued

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, 2023 and 2022 was \$1,403 and \$2,161, respectively.

Impairment of Long-Lived Assets--Management of the Organization reviews for the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized when estimated future cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. There were no charges for impairments of long-lived assets during the fiscal years ended August 31, 2023 or 2022.

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.

Continued

Notes to Consolidated Financial Statements--Continued

The Dream Factory, Inc. and Its Chapters

August 31, 2023 and 2022

Note B--Significant Accounting Policies--Continued

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, fundraising, 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.

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, 2023 and 2022.

The Organization's tax returns for the years ended August 31, 2020 through 2022 are subject to examination by various taxing authorities.

Advertising Costs--Advertising costs are expensed as incurred. Advertising expense was \$8,403 and \$11,246 for the years ended August 31, 2023 and 2022, 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 GAAP 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 Account Standards--Effective September 1, 2022, the Organization elected to adopt FASB ASC 842, *Leases*. The new standard establishes a right-of-use ("ROU") model that requires a lessee to record an ROU asset and a lease liability on the statement of financial position for all leases with terms longer than 12 months. Leases are classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. Leases with a term of less than 12 months will not record a ROU asset and lease liability and the payments will be recognized into change in net assets on a straight-line basis over the lease term.

Continued

The Dream Factory, Inc. and Its Chapters

August 31, 2023 and 2022

Note B--Significant Accounting Policies--Continued

The Organization elected to adopt FASB ASC 842, *Leases*, using a transition method under which existing leases were measured and capitalized as of the date of adoption, September 1, 2022, in lieu of applying the standard retrospectively to September 1, 2021.

The Organization elected to adopt the package of practical expedients available under the transition guidance with the new standard. This package includes the following: relief from determination of lease contracts included in existing or expiring leases at the point of adoption, relief from having to reevaluate the classification of leases in effect at the point of adoption, and relief from reevaluation of existing leases that have initial direct costs associated with the execution of the lease contract. The Organization also elected to adopt the practical expedient to use hindsight to determine the lease term and assess the impairment of the ROU assets.

On September 1, 2022, the Organization recorded on its consolidated statement of financial position ROU assets and lease liabilities of \$42,766 for operating leases. The new standard requires that leases with a lease term of more than 12 months be classified as either finance or operating leases. Leases are classified as finance leases when the Organization expects to consume a major part of the economic benefits of the leased assets over the remaining lease term.

Conversely, the Organization is not expected to consume a major part of the economic benefits of assets classified as operating leases. The lease classification affects both the pattern and presentation of expense recognized in the consolidated statements of activities, the categorization of assets and liabilities in the consolidated statements of financial position, and classification of cash flows in the consolidated statement of cash flows. Total lease cost consists of two components; amortization expense related to the write-off of ROU assets, and interest expense from lease liabilities.

For financing leases, total lease cost is recorded on an accelerated basis whereby interest expense is recorded using the effective interest method and ROU assets are amortized on a straight-line basis over the remaining lease term. For operating leases, total lease cost is measured and recorded on a straight-line basis over the lease term. The Organization does not have any leases that qualify as financing leases for the year ended August 31, 2023.

Lease liabilities are measured and recorded at the present value of future lease payments using a discount rate. Because the Organization generally does not have access to the rate implicit in each lease, lease liabilities are measured using the incremental borrowing rate as the discount rate. The incremental borrowing rate is the rate that would be paid to borrow on a collateralized basis over a similar term and amount equal to the lease payments in a similar economic environment. The Organization uses a portfolio approach to apply a single incremental borrowing rate of 5.50% to its operating leases.

ROU assets are generally measured and recorded at the sum of the lease obligation, any initial direct costs to consummate the lease, and any lease payments made on or before the commencement date.

Subsequent Events--Subsequent events for the Organization have been considered through December 19, 2023, 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, 2023 and 2022

Note C--Investments and Fair Value Measurements

Investments measured at fair value on a recurring basis are as follows:

	<u>Level 1</u>	<u>Total</u>
<u>August 31, 2023</u>		
Common and preferred stock	\$ 288,367	\$ 288,367
Exchange traded and closed end funds	81,528	81,528
Corporate bonds	5,105	5,105
Money market funds	852,235	852,235
Mutual funds	241,017	241,017
Government securities	429,276	429,276
Certificates of Deposit	563,427	563,427
	<u>\$ 2,460,955</u>	<u>\$ 2,460,955</u>
<u>August 31, 2022</u>		
Common and preferred stock	\$ 360,718	\$ 360,718
Exchange traded and closed end funds	208,985	208,985
Corporate bonds	86,733	86,733
Money market funds	480,298	480,298
Mutual funds	215,912	215,912
Government securities	145,414	145,414
Certificates of Deposit	522,303	522,303
	<u>\$ 2,020,363</u>	<u>\$ 2,020,363</u>

Investment expenses for 2023 and 2022 were \$21,819 and \$15,503, respectively and is shown as a component of investment income.

GAAP provides the 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, 2023 and 2022

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, 2023 and 2022.

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 deposit 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, 2023 and 2022

Note D--Property and Equipment

Property and equipment consist of the following:

	August 31	
	2023	2022
Furniture and fixtures	\$ 8,760	\$ 6,933
Office equipment	50,326	50,326
Less accumulated depreciation	<u>(56,663)</u>	<u>(55,260)</u>
Property and Equipment, Net	<u>\$ 2,423</u>	<u>\$ 1,999</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, 2023 and 2022, the Organization purchased 131 and 113 vacation packages from Give Kids the World each with an approximate in-kind value in excess of the purchase price of \$7,736 and \$7,923, respectively.

Identifiable contributions of other items in functional expenses totaled \$1,435,765 and \$1,409,539 for the years ended August 31, 2023 and 2022, respectively.

Special events revenue and expenses in-kind contributions and costs totaled \$305,503 and \$292,341 for the years ended August 31, 2023 and 2022, respectively.

Continued

Notes to Consolidated Financial Statements--Continued

The Dream Factory, Inc. and Its Chapters

August 31, 2023 and 2022

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

In-kind contributions during the year ended August 31, 2023 were as follows:

	<u>Program Services</u>	<u>Fund Raising</u>	<u>General and Administrative</u>	<u>Total</u>
Lodging	\$ 231,994			\$ 231,994
Storage space			\$ 2,330	2,330
Meeting space			225	225
Office space			14,419	14,419
Meals	163,255	\$ 34,077		197,332
Gifts	128,886	84,317		213,203
Theme park tickets	584,454			584,454
Advertising		21,678	400	22,078
Special events		94,829		94,829
Hotels and vacation homes		70,602		70,602
Flights	4,299			4,299
	<u>\$ 1,112,888</u>	<u>\$ 305,503</u>	<u>\$ 17,374</u>	<u>\$ 1,435,765</u>

In-kind contributions during the year ended August 31, 2022 were as follows:

	<u>Program Services</u>	<u>Fund Raising</u>	<u>General and Administrative</u>	<u>Total</u>
Lodging	\$ 210,737			\$ 210,737
Storage space			\$ 3,980	3,980
Meeting space			5,100	5,100
Office Space			9,788	9,788
Meals	148,311	\$ 22,352		170,663
Gifts	117,098	72,258		189,356
Theme park tickets	530,717			530,717
Advertising		18,950		18,950
Special events		89,133		89,133
Hotels and vacation homes		89,649		89,649
Flights	91,466			91,466
	<u>\$ 1,098,329</u>	<u>\$ 292,342</u>	<u>\$ 18,868</u>	<u>\$ 1,409,539</u>

In-kind contributions were valued using estimated average U.S. prices of identical or similar products or services using pricing data of similar products or services under a "like-kind" methodology, considering the utility of the services and goods at the time of their contribution. No in-kind contributions were restricted by donors. The Organization does not sell donated in-kind gifts and only uses donated services and goods for its own program or supporting activities.

The Dream Factory, Inc. and Its Chapters

August 31, 2023 and 2022

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>2023</u>	<u>2022</u>
Subject to expenditure for specified purpose:		
Fund dreams for chronically ill children in Southern Indiana	\$ 1,343	\$ 38,358
Endowment assets to be invested in perpetuity	<u>75,538</u>	<u>74,868</u>
Total Net Assets With Donor Restrictions	<u>\$ 76,881</u>	<u>\$ 113,226</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, 2023 and 2022.

Changes in endowment net assets for the years ended August 31, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Endowments net assets, beginning of the year	\$ 74,868	\$ 74,794
Investment return		
Interest and dividends	<u>670</u>	<u>74</u>
Endowment Net Assets, End of Year	<u>\$ 75,538</u>	<u>\$ 74,868</u>

Continued

The Dream Factory, Inc. and Its Chapters

August 31, 2023 and 2022

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

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.

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. 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. The Organization is authorized to expend up to \$3,000 to fund Dreams annually.

The Dream Factory, Inc. and Its Chapters

August 31, 2023 and 2022

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, 2023 and 2022 was \$4,432 and \$1,756, respectively.

Note J--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 \$579,000 and \$447,000 as of August 31, 2023 and 2022, respectively.

The Organization's primary revenues are generated by the active affiliated chapters located throughout the country. Revenues generated by two chapters accounted for 40% and 34% of total chapter revenues for the years ended August 31, 2023 and 2022, respectively.

Note K--Leases

The Organization leases office space under a noncancelable lease expiring in March 2024. The Organization also leases a printer expiring in January 2027. Total lease expense for the year ended August 31, 2023 and 2022 was \$30,729 and \$24,510, respectively.

The following is a schedule by years of future minimum payments required under the operating lease liabilities with its present value as of August 31, 2023:

<u>Year Ending August 31</u>	
2024	\$ 15,749
2025	1,452
2026	1,452
2027	<u>605</u>
Total minimum lease payments	19,258
Less amounts representing interest	<u>706</u>
	<u><u>Present Value of</u></u>
	<u><u>Minimum Lease Payments</u></u>
	<u><u>\$ 18,552</u></u>

Continued

Notes to Consolidated Financial Statements--Continued

The Dream Factory, Inc. and Its Chapters

August 31, 2023 and 2022

Note K--Leases--Continued

Weighted-average remaining lease term:	
Operating leases (in years)	0.83
Weighted-average discount rate:	
Operating leases	5.50%

As of August 31, 2023, the ROU assets relating to operating leases were as follows:

Right-of-Use Assets:	
Cost	\$ 42,766
Less: accumulated amortization	24,214
	<u>18,552</u>
	<u>\$ 18,552</u>

The operating leases liability consists of the following as of August 31, 2023.

Lease Liabilities - Operating	\$ 42,766
Repayments of operating lease liabilities	<u>(24,214)</u>
	<u>\$ 18,552</u>
Operating leases implied interest	<u>\$ 1,748</u>
	<u>\$ 25,962</u>

The lease costs consist of the following for the year ended August 31, 2023.

Operating lease cost	\$ 24,214
Short-term lease expense	<u>6,515</u>
	<u>\$ 30,729</u>

Notes to Consolidated Financial Statements--Continued

The Dream Factory, Inc. and Its Chapters

August 31, 2023 and 2022

Note L--Liquidity and Availability of Funds

The Organization has \$5,216,830 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.

	August 31	
	2023	2022
Financial Assets		
Cash and cash equivalents	\$ 2,832,756	\$ 2,939,178
Investments	2,385,417	1,945,495
Investment - endowment	75,538	74,868
	<u>5,293,711</u>	<u>4,959,541</u>
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions	<u>(76,881)</u>	<u>(113,226)</u>
 Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	 <u><u>\$ 5,216,830</u></u>	 <u><u>\$ 4,846,315</u></u>

Supplementary Information

Consolidating Statement of Financial Position

The Dream Factory, Inc. and Its Chapters

August 31, 2023

	National Office	Chapters	Eliminations	Total
Assets				
Cash and cash equivalents	\$ 259,189	\$ 2,573,567		\$ 2,832,756
Investments	94,287	2,291,130		2,385,417
Investment - endowment		75,538		75,538
Inventory	20,146			20,146
Accounts receivable - Chapters	55,603		\$ (55,603)	
Prepaid expenses and other current assets	2,738	2,072		4,810
Property and equipment, net	2,423			2,423
Right-of-use leased assets - operating, net	18,552			18,552
Total Assets	\$ 452,938	\$ 4,942,307	\$ (55,603)	\$ 5,339,642
Liabilities and Net Assets				
Liabilities				
Accounts payable	\$ 9,286	\$ 62,596	\$ (55,603)	\$ 16,279
Payroll taxes withheld and accrued	3,654			3,654
Deferred revenue	26,860			26,860
Lease liabilities - operating	18,552			18,552
Total Liabilities	58,352	62,596	(55,603)	65,345
Net Assets				
Without donor restrictions	359,320	4,838,096		5,197,416
With donor restrictions	35,266	41,615		76,881
Total Net Assets	394,586	4,879,711		5,274,297
Total Liabilities and Net Assets	\$ 452,938	\$ 4,942,307	\$ (55,603)	\$ 5,339,642

See Independent Auditors' Report

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

The Dream Factory, Inc. and Its Chapters

Year Ended August 31, 2023

	<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	\$ 149,250	\$ 718,695	\$ (17,285)	\$ 850,660
Net assets released from restriction		37,051		37,051
Donations in-kind		1,130,262		1,130,262
Special events revenue	62,401	1,814,879		1,877,280
Total Support	211,651	3,700,887	(17,285)	3,895,253
Other revenue				
Investment income, net	3,190	55,038		58,228
Unrealized gain (loss) on investments	(11,099)	23,742		12,643
Realized loss on investments		(16,251)		(16,251)
Miscellaneous income	21,874			21,874
Dues income	184,724		(184,724)	
Total Other Revenue	198,689	62,529	(184,724)	76,494
Total Revenues, Gains, and Other Support Without Support Without Donor Restrictions	410,340	3,763,416	(202,009)	3,971,747
Expenses Without Donor Restrictions				
Program expenses	183,414	2,600,139	(202,009)	2,581,544
Fundraising expenses	52,699	41,913		94,612
General and administrative expenses	85,461	71,047		156,508
Cost of direct benefits to donors	16,805	786,714		803,519
Total Expenses Without Donor Restrictions	338,379	3,499,813	(202,009)	3,636,183
Change in Net Assets	71,961	263,603		335,564
Net Assets Without Donor Restrictions Beginning of Year	287,359	4,574,493		4,861,852
Net Assets Without Donor Restrictions End of Year	<u>\$ 359,320</u>	<u>\$ 4,838,096</u>	<u>\$</u>	<u>\$ 5,197,416</u>

See Independent Auditors' Report

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

The Dream Factory, Inc. and Its Chapters

Year Ended August 31, 2023

	<u>National Office</u>	<u>Chapters</u>	<u>Eliminations</u>	<u>Total</u>
Revenues, Gains, and Other Support With Donor Restrictions				
Net assets released from restriction		\$ (37,051)		\$ (37,051)
Net Donations and Fund Raising Revenue		(37,051)		(37,051)
Other revenue				
Investment income, net		706		706
Total Other Revenue		706		706
Total Revenues, Gains, and Other Support With Donor Restrictions		(36,345)		(36,345)
Net Assets With Donor Restrictions Beginning of Year	\$ 35,266	77,960		113,226
Net Assets With Donor Restrictions End of Year	<u>\$ 35,266</u>	<u>\$ 41,615</u>	<u>\$</u>	<u>\$ 76,881</u>

See Independent Auditors' Report