

Consolidated Financial Statements  
and Supplementary Information

2015

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

August 31, 2015



Strothman+Co

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, 2015, and the related consolidated statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

## Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Dream Factory, Inc. and Its Chapters as of August 31, 2015, and the changes in its net assets, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Prior Period Financial Statements

The consolidated financial statements of the Organization as of August 31, 2014, were audited by other auditors whose report dated January 6, 2015, expressed an unqualified opinion on those statements.

## Other Matter

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, 2015, and the supplementary information on pages 18 – 21 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 is 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 other 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.

*STROTSMAN AND COMPANY*

Louisville, Kentucky  
January 11, 2016

Consolidated Statements of Financial Position

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

	<b>August 31</b>	
	<b>2015</b>	<b>2014</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 2,048,527	\$ 2,190,713
Certificates of deposit	924,894	967,972
Investments	782,736	776,783
Inventory	37,045	42,552
Contributions receivable	8,370	8,370
Prepaid expenses and other current assets	2,071	169
Property and equipment, net	5,993	2,746
	<u>3,809,636</u>	<u>3,989,305</u>
<b>Total Assets</b>	<b>\$ 3,809,636</b>	<b>\$ 3,989,305</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 71,786	\$ 27,198
Payroll taxes withheld and accrued	3,235	11,870
	<u>75,021</u>	<u>39,068</u>
<b>Total Liabilities</b>	<b>75,021</b>	<b>39,068</b>
<b>Net Assets</b>		
Unrestricted net assets	3,647,068	3,841,693
Temporarily restricted net assets	16,370	39,923
Permanently restricted net assets	71,177	68,621
	<u>3,734,615</u>	<u>3,950,237</u>
<b>Total Net Assets</b>	<b>3,734,615</b>	<b>3,950,237</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 3,809,636</b>	<b>\$ 3,989,305</b>

See Notes to Financial Statements

Consolidated Statement of Activities

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

Year Ended August 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Revenues, Gains, and Other Support</b>				
Donations and fund raising revenue	\$ 827,822	\$ 2,494	\$ 2,500	\$ 832,816
Net assets released from restriction	<u>26,047</u>	<u>(26,047)</u>		
<b>Net Donations and Fund Raising Revenue</b>	853,869	(23,553)	2,500	832,816
Special event revenue (including in-kind of \$117,873)	1,249,307			1,249,307
Less: cost of special events (including in-kind of \$117,873)	<u>(442,973)</u>			<u>(442,973)</u>
<b>Net Special Events Revenue</b>	806,334			806,334
Other revenue				
Investment income	26,304		56	26,360
Donations in-kind	796,601			796,601
Miscellaneous income	29,400			29,400
Unrealized loss on investments	(113,859)			(113,859)
Realized gain on investments	<u>77,321</u>			<u>77,321</u>
<b>Total Other Revenue</b>	<u>815,767</u>		<u>56</u>	<u>815,823</u>
<b>Total Revenues, Gains, and Other Support</b>	2,475,970	(23,553)	2,556	2,454,973
<b>Expenses</b>				
Program expenses (including in-kind of \$774,483)	2,500,137			2,500,137
Fundraising expenses (including in-kind of \$0)	73,400			73,400
General and administrative expenses (including in-kind of \$22,118)	<u>97,058</u>			<u>97,058</u>
<b>Total Expenses</b>	<u>2,670,595</u>			<u>2,670,595</u>
<b>Decrease in Net Assets</b>	(194,625)	(23,553)	2,556	(215,622)
<b>Net Assets at Beginning of Year</b>	<u>3,841,693</u>	<u>39,923</u>	<u>68,621</u>	<u>3,950,237</u>
<b>Net Assets at End of Year</b>	<u>\$ 3,647,068</u>	<u>\$ 16,370</u>	<u>\$ 71,177</u>	<u>\$ 3,734,615</u>

See Notes to Financial Statements

Consolidated Statement of Activities

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

Year Ended August 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Revenues, Gains, and Other Support</b>				
Donations and fund raising revenue	\$ 825,097	\$ 44,700	\$ 2,500	\$ 872,297
Net assets released from restriction	4,777	(4,777)		
<b>Net Donations and Fund Raising Revenue</b>	829,874	39,923	2,500	872,297
Special event revenue (including in-kind of \$162,758)	1,331,693			1,331,693
Less: cost of special events (including in-kind of \$162,758)	(500,618)			(500,618)
<b>Net Special Events Revenue</b>	831,075			831,075
Other revenue				
Investment income	25,496		48	25,544
Donations in-kind	879,550			879,550
Miscellaneous income	26,255			26,255
Unrealized gain on investments	121,538			121,538
Realized gain on investments	32,430			32,430
<b>Total Other Revenue</b>	1,085,269		48	1,085,317
<b>Total Revenues, Gains, and Other Support</b>	2,746,218	39,923	2,548	2,788,689
<b>Expenses</b>				
Program expenses (including in-kind of \$848,666)	2,543,289			2,543,289
Fund raising expenses (including in-kind of \$9,569)	110,488			110,488
General and administrative expenses (including in-kind of \$21,315)	86,219			86,219
<b>Total Expenses</b>	2,739,996			2,739,996
<b>Increase in Net Assets</b>	6,222	39,923	2,548	48,693
<b>Net Assets at Beginning of Year</b>	3,835,471		66,073	3,901,544
<b>Net Assets at End of Year</b>	<u>\$ 3,841,693</u>	<u>\$ 39,923</u>	<u>\$ 68,621</u>	<u>\$ 3,950,237</u>

See Notes to Financial Statements

Consolidated Statement of Functional Expenses

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

Year Ended August 31, 2015

	<b>Program Services</b>	<b>Supporting Services</b>		<b>Total</b>
		<b>Fund Raising</b>	<b>General and Administrative</b>	
Dream expense	\$ 2,160,076			\$ 2,160,076
Fundraising		\$ 458,716		458,716
Salaries	165,272	16,113	\$ 39,518	220,903
Employee benefits	5,448	1,260	507	7,215
Payroll taxes	13,557	1,255	3,422	18,234
Professional fees and contract services	24,856	3,648	31	28,535
Advertising	1,445	10,277	3,053	14,775
Office supplies and expense	1,980	676	8,437	11,093
Equipment rental and maintenance	4,072	1,913	5,933	11,918
Telephone	12,787		1,053	13,840
Postage and shipping	1,359	2,334	3,906	7,599
Rent	17,476		5,519	22,995
Other building and occupancy	8,897	600	4,560	14,057
Insurance	10,816	676	521	12,013
Taxes, license and fees	2,765	5,503	16,083	24,351
Printing and publications	2,989	4,613	1,840	9,442
Meetings and travel	62,627	8,419	653	71,699
Dues and subscriptions			556	556
Miscellaneous	2,605		1,096	3,701
Depreciation	1,110	370	370	1,850
<b>Total Expenses</b>	<b>2,500,137</b>	<b>516,373</b>	<b>97,058</b>	<b>3,113,568</b>
Less direct expense netted with revenue on the statement of activities		(442,973)		(442,973)
<b>Total Expenses By Function</b>	<b>\$ 2,500,137</b>	<b>\$ 73,400</b>	<b>\$ 97,058</b>	<b>\$ 2,670,595</b>
Function's percentage of total	<u>93.62%</u>	<u>2.75%</u>	<u>3.63%</u>	<u>100.00%</u>

See Notes to Financial Statements



Consolidated Statement of Functional Expenses

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

Year Ended August 31, 2014

	<b>Program Services</b>	<b>Supporting Services</b>		<b>Total</b>
		<b>Fund Raising</b>	<b>General and Administrative</b>	
Dream expense	\$ 2,202,273			\$ 2,202,273
Fundraising		\$ 542,763		542,763
Salaries	140,013	16,624	\$ 28,482	185,119
Employee benefits	32,817	2,976	4,453	40,246
Payroll taxes	12,732	1,319	1,400	15,451
Professional fees and contract services	26,775	4,699	734	32,208
Advertising	5,722	10,284	8,492	24,498
Office supplies and expense	2,067	1,873	7,341	11,281
Equipment rental and maintenance	2,534	3,345	2,938	8,817
Telephone	14,471		1,359	15,830
Postage and shipping	2,853	1,605	4,106	8,564
Rent	17,170		3,270	20,440
Other building and occupancy		3,467	3,104	6,571
Insurance	16,409	2,817	336	19,562
Taxes, license and fees	20	7,630	11,256	18,906
Printing and publications	1,476	3,214	1,341	6,031
Meetings and travel	60,157	25	1,134	61,316
Dues and subscriptions		1,224	618	1,842
Miscellaneous	5,315	7,079	5,693	18,087
Depreciation	485	162	162	809
<b>Total Expenses</b>	<b>2,543,289</b>	<b>611,106</b>	<b>86,219</b>	<b>3,240,614</b>
Less direct expense netted with revenue on the statement of activities		(500,618)		(500,618)
<b>Total Expenses By Function</b>	<b>\$ 2,543,289</b>	<b>\$ 110,488</b>	<b>\$ 86,219</b>	<b>\$ 2,739,996</b>
Function's percentage of total	<u>92.82%</u>	<u>4.03%</u>	<u>3.15%</u>	<u>100.00%</u>

See Notes to Financial Statements

Consolidated Statements of Cash Flows

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

	<b>August 31</b>	
	<b>2015</b>	<b>2014</b>
<b>Cash Flows From Operating Activities</b>		
Increase (decrease) in net assets	\$ (215,622)	\$ 48,693
Adjustments		
Depreciation expense	1,850	809
Realized and unrealized (gains) losses on investments	36,538	(153,968)
Decrease in inventory and other assets	3,605	4,899
Increase in accounts payable and other liabilities	35,953	4,131
<b>Net Cash Used In Operating Activities</b>	<b>(137,676)</b>	<b>(95,436)</b>
<b>Cash Flows From Investing Activities</b>		
Purchases of investments	(433,299)	(381,744)
Sales and maturity of investments	433,886	349,154
Purchases of property and equipment	(5,097)	(2,435)
<b>Net Cash Used In Investing Activities</b>	<b>(4,510)</b>	<b>(35,025)</b>
<b>Decrease in Cash and Cash Equivalents</b>	<b>(142,186)</b>	<b>(130,461)</b>
<b>Cash and Cash Equivalents Beginning of Year</b>	<b>2,190,713</b>	<b>2,321,174</b>
<b>Cash and Cash Equivalents End of Year</b>	<b>\$ 2,048,527</b>	<b>\$ 2,190,713</b>

See Notes to Financial Statements

## Notes to Consolidated Financial Statements

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

August 31, 2015 and 2014

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

Organization--The Dream Factory, Inc., ("the Organization") is a national association headquartered in Louisville, Kentucky, which includes 38 active affiliated chapters located throughout the country. The Dream Factory, Inc. (national office) and the various chapters are each incorporated and each has its own board of directors. The executive committee of the Dream Factory, Inc. governs the national office and chapters and has the ability to determine the direction of management and the Organization's policies. The Organization is dedicated to granting dreams of critically and chronically ill children from the ages of three through eighteen. The Organization fulfills these dreams by funding the cost of dream vacations and other requests by the dream recipients. The Organization primarily operates on a volunteer basis and is funded through donations, fund raising events, and investment income.

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

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

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

Basis of Accounting--The Accounting Standards Codification as produced by the Financial Accounting Standards Board is the sole source of authoritative generally accepted accounting principles for non-profit entities.

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 unrestricted support 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 unrestricted net assets.

Temporarily restricted net assets 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, temporarily restricted net asset are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restriction.

Permanently restricted net assets include those contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization. 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, 2015 and 2014

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

Investments--Investments are stated at fair value. Changes in the fair value of investments, including both realized and unrealized gains and losses, are included in the accompanying statements of activities.

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, 2015 and 2014, there are no allowance for uncollectible contributions.

Inventory--Inventory consists primarily of promotional items and is stated at cost.

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, 2015 and 2014 was \$1,850 and \$809, 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. Interest income is recorded on the accrual basis. Realized and unrealized gains and losses are included in the statements of activities.

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 four paid staff members that the Organization employs on a full time basis 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.

Continued

Notes to Consolidated Financial Statements--Continued

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

August 31, 2015 and 2014

### **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, 2015 and 2014.

Generally accepted accounting principles prescribe a comprehensive model for how an organization should measure, recognize, present and disclose in its consolidated financial statements uncertain tax positions that an organization has taken or expects to take on a tax return. There is no impact on the Organization's financial statements as a result of the implementation of these accounting principles.

The Organization's tax returns for the years ended August 31, 2012 through 2014 are subject to examination by various taxing authorities.

Advertising Costs--Advertising costs are expensed as incurred. Advertising expense was \$14,775 and \$24,498 for the years ended August 31, 2015 and 2014, respectively, and is included on the statements of functional expenses.

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.

Subsequent Events--Subsequent events for the Organization have been considered through January 11, 2016, the date of the independent auditors' report which represents the date the consolidated financial statements were available to be issued.

Reclassifications--Certain reclassifications have been made to the 2014 consolidated financial statements to conform to the 2015 consolidated financial statement presentation.

### **Note C--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 cost which approximates market value because of their short maturity.

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

August 31, 2015 and 2014

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

Generally accepted accounting principles provide a framework for measuring fair value, and expand disclosures required for fair value measurements. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs are unobservable and have the lowest priority. These levels, in order of highest to lowest priority are described below:

Level 1 – Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Inputs to the valuation methodology are unobservable and sufficient to the fair value measurement.

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, 2015 and 2014.

Certificates of Deposit--Issued directly by banks and brokers and are valued based on yields currently available on active markets.

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

Mutual Funds--Valued at the net asset value of shares held by the Organization.

Common Stocks, Preferred Stocks, 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.

Continued

Notes to Consolidated Financial Statements--Continued

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

August 31, 2015 and 2014

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

Investments include common and preferred stock, exchange traded and closed funds, and mutual funds. These investments and certificate of deposits are stated at fair value and are comprised of the following:

	<b>August 31</b>	
	<b>2015</b>	<b>2014</b>
Certificates of deposit	\$ 924,894	\$ 967,972
Common and preferred stock	256,030	379,701
Exchange traded and closed end funds	159,789	128,675
Money market funds	92,910	
Mutual funds	274,007	268,407
	<u>\$ 1,707,630</u>	<u>\$ 1,744,755</u>

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

	<b>Level 1</b>	<b>Total</b>
<u>August 31, 2015</u>		
Certificates of deposit	\$ 924,894	\$ 924,894
Common and preferred stock	256,030	256,030
Exchange traded and closed end funds	159,789	159,789
Money market funds	92,910	92,910
Mutual funds	274,007	274,007
	<u>\$ 1,707,630</u>	<u>\$ 1,707,630</u>
<u>August 31, 2014</u>		
Certificates of deposit	\$ 967,972	\$ 967,972
Common and preferred stock	379,701	379,701
Exchange traded and closed end funds	128,675	128,675
Mutual funds	268,407	268,407
	<u>\$ 1,744,755</u>	<u>\$ 1,744,755</u>

Continued

Notes to Consolidated Financial Statements--Continued

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

August 31, 2015 and 2014

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

The unrealized (loss) gain on investments for 2015 and 2014 was (\$113,859) and \$121,538 net of investment expenses, respectively. Dividend and interest income from these investments are classified as unrestricted in the statements of activities. Investment expenses for 2015 and 2014 were \$12,338 and \$12,835, respectively.

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.

**Note E--Property and Equipment**

Property and equipment consist of the following:

	<b>August 31</b>	
	<b>2015</b>	<b>2014</b>
Furniture and fixtures	\$ 4,302	\$ 4,302
Office equipment	35,813	30,716
Less accumulated depreciation	<u>(34,122)</u>	<u>(32,272)</u>
<b>Property and Equipment, Net</b>	<b><u>\$ 5,993</u></b>	<b><u>\$ 2,746</u></b>

**Note F--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 books and dues expense on the chapter books have been eliminated in the consolidation of financial statements and are not reflected in these consolidated financial statements.

**Note G--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, 2015 and 2014, the Organization purchased 114 and 124 vacation packages from Give Kids the World each with an approximate in-kind value in excess of the purchase price of \$5,100, respectively.

Continued



Notes to Consolidated Financial Statements--Continued

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

August 31, 2015 and 2014

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

Identifiable contributions of other items in functional expenses totaled \$211,373 and \$247,174 for the years ended August 31, 2015 and 2014 respectively.

Special events revenue and expenses in-kind contributions and costs totaled \$117,873 and \$162,758 for the years ended August 31, 2015 and 2014 respectively.

A summary of the in-kind contributions is:

	<u>2015</u>	<u>2014</u>
Give Kids the World	\$ 585,228	\$ 632,376
Miscellaneous donations in-kind	<u>211,373</u>	<u>247,174</u>
<b>Total In-Kind Revenue and Functional Expenses</b>	796,601	879,550
Special events in-kind contributions and expenses	<u>117,873</u>	<u>162,758</u>
<b>Total In-Kind</b>	<u><u>\$ 914,474</u></u>	<u><u>\$ 1,042,308</u></u>

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

The Consolidated Statement of Activities reflects 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 I--Permanently Restricted Net Assets**

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 permanently restricted net assets on the consolidated statements of financial position as of August 31, 2015 and 2014.

Continued

Notes to Consolidated Financial Statements--Continued

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

August 31, 2015 and 2014

**Note I--Permanently Restricted Net Assets--Continued**

Changes in endowment net assets for the years ended August 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Endowments net assets, beginning of the year	\$ 68,621	\$ 66,073
Contributions	2,500	2,500
Investment return		
Interest and dividends	<u>56</u>	<u>48</u>
<b>Endowment Net Assets, End of Year</b>	<u><u>\$ 71,177</u></u>	<u><u>\$ 68,621</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 permanently restricted net assets (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 in permanently restricted net assets is classified as temporarily restricted net assets 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, 2015 and 2014

**Note I--Permanently Restricted Net Assets--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 J--Commitments and Contingencies**

Rental of office space under an operating lease agreement amounted to \$22,995 and \$20,440 for the years ended August 31, 2015 and 2014, respectively. The future minimum payments under the lease agreement for the years ending August 31 are as follows:

2016	\$	22,800
2017		22,800
2018		<u>13,300</u>
	\$	<u><u>58,900</u></u>

## Supplementary Information

Supplementary Schedule of Consolidating Statement of Financial Position

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

Year Ended August 31, 2015

	<u>National Office</u>	<u>Chapters</u>	<u>Eliminations</u>	<u>Total</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 71,276	\$ 1,977,251		\$ 2,048,527
Certificates of deposit	159,819	765,075		924,894
Investments		782,736		782,736
Inventory	31,920	5,125		37,045
Contributions receivable		8,370		8,370
Accounts receivable - Chapters	35,160		\$ (35,160)	
Prepaid expenses and other current assets	2,071			2,071
Property and equipment, net	5,993			5,993
<b>Total Assets</b>	<u>\$ 306,239</u>	<u>\$ 3,538,557</u>	<u>\$ (35,160)</u>	<u>\$ 3,809,636</u>
<b>Liabilities and Net Assets</b>				
Accounts payable and accrued expenses	\$ 12,984	\$ 61,680	\$ (2,878)	\$ 71,786
Payroll taxes withheld and accrued	3,235			3,235
Deferred revenue	32,282		(32,282)	
<b>Total Liabilities</b>	48,501	61,680	(35,160)	75,021
Unrestricted	257,738	3,389,330		3,647,068
Temporarily restricted		16,370		16,370
Permanently restricted		71,177		71,177
<b>Total Net Assets</b>	<u>257,738</u>	<u>3,476,877</u>		<u>3,734,615</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 306,239</u>	<u>\$ 3,538,557</u>	<u>\$ (35,160)</u>	<u>\$ 3,809,636</u>

See Independent Auditors' Report

Supplementary Schedule of Consolidating Statement of Activities  
and Changes in Unrestricted Net Assets

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

Year Ended August 31, 2015

	<u>National Office</u>	<u>Chapters</u>	<u>Eliminations</u>	<u>Total</u>
<b>Unrestricted Revenues, Gains, and Other Support</b>				
Donations and fund raising revenue	\$ 74,636	\$ 755,686	\$ (2,500)	\$ 827,822
Net assets released from restriction		26,047		26,047
<b>Net Donations and Fund Raising Revenue</b>	74,636	781,733	(2,500)	853,869
Special event revenue	4,333	1,244,974		1,249,307
Less: cost of special events	(155)	(442,818)		(442,973)
<b>Net Special Events Revenue</b>	4,178	802,156		806,334
Other revenue				
Investment income	1,870	24,434		26,304
Donations in-kind	62,685	733,916		796,601
Miscellaneous income	54,068	641	(25,309)	29,400
Dues income	162,950		(162,950)	
Unrealized loss on investments		(113,859)		(113,859)
Realized gain on investments		77,321		77,321
<b>Total Other Revenue</b>	281,573	722,453	(188,259)	815,767
<b>Total Unrestricted Revenues, Gains, and Other Support</b>	360,387	2,306,342	(190,759)	2,475,970
<b>Unrestricted Expenses</b>				
Program expenses	307,243	2,383,653	(190,759)	2,500,137
Fundraising expenses	30,910	42,490		73,400
General and administrative expenses	67,036	30,022		97,058
<b>Total Unrestricted Expenses</b>	405,189	2,456,165	(190,759)	2,670,595
<b>Change in Unrestricted Net Assets</b>	(44,802)	(149,823)		(194,625)
<b>Net Unrestricted Assets Beginning of Year</b>	302,540	3,539,153		3,841,693
<b>Net Unrestricted Assets End of Year</b>	<u>\$ 257,738</u>	<u>\$ 3,389,330</u>	<u>\$</u>	<u>\$ 3,647,068</u>

See Independent Auditors' Report

Supplementary Schedule of Consolidating Statement of Activities  
and Changes in Temporarily Restricted Net Assets

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

Year Ended August 31, 2015

	<u>National Office</u>	<u>Chapters</u>	<u>Eliminations</u>	<u>Total</u>
<b>Temporarily Restricted Revenues, Gains, and Other Support</b>				
Donations and fund raising revenue		\$ 2,494		\$ 2,494
Net assets released from restriction		<u>(26,047)</u>		<u>(26,047)</u>
<b>Net Donations and Fund Raising Revenue</b>		(23,553)		(23,553)
Special event revenue				
Less: cost of special events				
<b>Net Special Events Revenue</b>				
Other revenue				
Investment income				
Donations in-kind				
Miscellaneous income				
Dues income				
Unrealized gain on investments				
Realized gain on investments				
<b>Total Other Revenue</b>		<u>                    </u>		<u>                    </u>
<b>Total Temporarily Restricted Revenues, Gains, and Other Support</b>		(23,553)		(23,553)
<b>Temporarily Restricted Expenses</b>				
Program expenses				
Fund raising expenses				
General and administrative expenses				
<b>Total Temporarily Restricted Expenses</b>		<u>                    </u>		<u>                    </u>
<b>Change in Restricted Net Assets</b>		(23,553)		(23,553)
<b>Temporarily Restricted Net Assets Beginning of Year</b>		<u>39,923</u>		<u>39,923</u>
<b>Temporarily Restricted Net Assets End of Year</b>	<u>\$</u>	<u>\$ 16,370</u>	<u>\$</u>	<u>\$ 16,370</u>

See Independent Auditors' Report

Supplementary Schedule of Consolidating Statement of Activities  
and Changes in Permanently Restricted Net Assets

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

Year Ended August 31, 2015

	<u>National Office</u>	<u>Chapters</u>	<u>Eliminations</u>	<u>Total</u>
<b>Permanently Restricted Revenues, Gains, and Other Support</b>				
Donations and fund raising revenue		\$ 2,500		\$ 2,500
Special event revenue				
Less: cost of special events				
<b>Net Special Events Revenue</b>				
Other revenue				
Investment income		56		56
Donations in-kind				
Miscellaneous income				
Dues income				
<b>Total Other Revenue</b>		<u>56</u>		<u>56</u>
<b>Total Permanently Restricted Revenues Gains, and Other Support</b>		2,556		2,556
<b>Permanently Restricted Expenses</b>				
Program expenses				
Fund raising expenses				
General and administrative expenses				
<b>Total Permanently Restricted Expenses</b>				
<b>Change in Restricted Net Assets</b>		2,556		2,556
<b>Permanently Restricted Net Assets Beginning of Year</b>		<u>68,621</u>		<u>68,621</u>
<b>Permanently Restricted Net Assets End of Year</b>	<u>\$</u>	<u>\$ 71,177</u>	<u>\$</u>	<u>\$ 71,177</u>

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