

Consolidated Financial Statements
and Supplementary Information

2018

The Dream Factory, Inc. and Its Chapters

August 31, 2018



Consolidated Financial Statements
and Supplementary Information

The Dream Factory, Inc. and Its Chapters

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Independent Auditors' Report	1
Consolidated Financial Statements	
Consolidated Statements of Financial Position	3
Consolidated Statement of Activities Year Ended August 31, 2018	4
Consolidated Statement of Activities Year Ended August 31, 2017	5
Consolidated Statement of Functional Expenses Year Ended August 31, 2018	6
Consolidated Statement of Functional Expenses Year Ended August 31, 2017	7
Consolidated Statements of Cash Flows	8
Notes to Consolidated Financial Statements	9
Supplementary Information	
Supplementary Schedule of Consolidating Statement of Financial Position August 31, 2018	18
Supplementary Schedule of Consolidating Statement of Activities and Changes in Unrestricted Net Assets Year Ended August 31, 2018	19
Supplementary Schedule of Consolidating Statement of Activities and Changes in Temporarily Restricted Net Assets Year Ended August 31, 2018	20
Supplementary Schedule of Consolidating Statement of Activities and Changes in Permanently Restricted Net Assets Year Ended August 31, 2018	21



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, 2018 and 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Dream Factory, Inc. and Its Chapters as of August 31, 2018 and 2017, and the changes in their net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary schedules of consolidating statements of financial position at August 31, 2018, 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 was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

STROTHMAN ADD COMPANY

Louisville, Kentucky
December 24, 2018

Consolidated Statements of Financial Position

The Dream Factory, Inc. and Its Chapters

	August 31	
	2018	2017
Assets		
Cash and cash equivalents	\$ 2,623,998	\$ 2,303,280
Investments	1,888,524	1,852,064
Inventory	29,017	28,079
Contributions receivable	8,370	8,370
Prepaid expenses and other current assets	7,847	13,572
Property and equipment, net	<u>12,560</u>	<u>11,945</u>
Total Assets	<u>\$ 4,570,316</u>	<u>\$ 4,217,310</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 69,219	\$ 50,089
Payroll taxes withheld and accrued	<u>2,084</u>	<u>4,990</u>
Total Liabilities	71,303	55,079
Net Assets		
Unrestricted net assets	4,401,989	4,054,410
Temporarily restricted net assets	23,073	34,029
Permanently restricted net assets	<u>73,951</u>	<u>73,792</u>
Total Net Assets	<u>4,499,013</u>	<u>4,162,231</u>
Total Liabilities and Net Assets	<u>\$ 4,570,316</u>	<u>\$ 4,217,310</u>

See Notes to Consolidated Financial Statements

Consolidated Statement of Activities

The Dream Factory, Inc. and Its Chapters

Year Ended August 31, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, Gains, and Other Support				
Donations and fund raising revenue	\$ 827,678			\$ 827,678
Net assets released from restriction	10,992	\$ (10,992)		
Net Donations and Fund Raising Revenue	838,670	(10,992)		827,678
Special events revenue (including in-kind of \$324,426)	1,805,346			1,805,346
Less: cost of direct benefits to donors (including in-kind of \$324,426)	(800,503)			(800,503)
Net Special Events Revenue	1,004,843			1,004,843
Other revenue				
Investment income	29,790	36	\$ 159	29,985
Donations in-kind	798,507			798,507
Miscellaneous income	32,969			32,969
Unrealized gain on investments	55,459			55,459
Realized gain on investments	20,013			20,013
Total Other Revenue	936,738	36	159	936,933
Total Revenues, Gains, and Other Support	2,780,251	(10,956)	159	2,769,454
Expenses				
Program expenses (including in-kind of \$776,358)	2,228,307			2,228,307
Fundraising expenses	79,354			79,354
General and administrative expenses (including in-kind of \$22,149)	125,011			125,011
Total Expenses	2,432,672			2,432,672
Increase (Decrease) in Net Assets	347,579	(10,956)	159	336,782
Net Assets at Beginning of Year	4,054,410	34,029	73,792	4,162,231
Net Assets at End of Year	<u>\$ 4,401,989</u>	<u>\$ 23,073</u>	<u>\$ 73,951</u>	<u>\$ 4,499,013</u>

See Notes to Consolidated Financial Statements

Consolidated Statement of Activities

The Dream Factory, Inc. and Its Chapters

Year Ended August 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, Gains, and Other Support				
Donations and fund raising revenue	\$ 712,902	\$ 30,000	\$ 2,500	\$ 745,402
Net assets released from restriction	<u>7,257</u>	<u>(7,257)</u>		
Net Donations and Fund Raising Revenue	720,159	22,743	2,500	745,402
Special events revenue (including in-kind of \$243,877)	1,828,653			1,828,653
Less: cost of direct benefits to donors (including in-kind of \$243,877)	<u>(724,399)</u>			<u>(724,399)</u>
Net Special Events Revenue	1,104,254			1,104,254
Other revenue				
Investment income	29,504	36	58	29,598
Donations in-kind	862,612			862,612
Miscellaneous income	35,860			35,860
Unrealized gain on investments	49,742			49,742
Realized gain on investments	<u>10,903</u>			<u>10,903</u>
Total Other Revenue	<u>988,621</u>	<u>36</u>	<u>58</u>	<u>988,715</u>
Total Revenues, Gains, and Other Support	2,813,034	22,779	2,558	2,838,371
Expenses				
Program expenses (including in-kind of \$832,465)	2,241,733			2,241,733
Fund raising expenses	88,005			88,005
General and administrative expenses (including in-kind of \$30,147)	<u>126,232</u>			<u>126,232</u>
Total Expenses	<u>2,455,970</u>			<u>2,455,970</u>
Increase in Net Assets	357,064	22,779	2,558	382,401
Net Assets at Beginning of Year	<u>3,697,346</u>	<u>11,250</u>	<u>71,234</u>	<u>3,779,830</u>
Net Assets at End of Year	<u>\$ 4,054,410</u>	<u>\$ 34,029</u>	<u>\$ 73,792</u>	<u>\$ 4,162,231</u>

See Notes to Consolidated Financial Statements

Consolidated Statement of Functional Expenses

The Dream Factory, Inc. and Its Chapters

Year Ended August 31, 2018

	Program Services	Supporting Services		Total
		Fund Raising	General and Administrative	
Dream expense	\$ 1,998,576			\$ 1,998,576
Fundraising		\$ 805,889		805,889
Salaries	91,212	32,489	\$ 38,724	162,425
Payroll taxes	7,807	2,643	2,772	13,222
Professional fees and contract services	13,497	2,987	27,502	43,986
Advertising	724	4,304	1,574	6,602
Office supplies and expense	1,780	344	2,838	4,962
Equipment rental and maintenance	2,622		12,695	15,317
Telephone	8,223	3,097	1,093	12,413
Postage and shipping	1,561	1,026	2,501	5,088
Rent	16,092	3,363	4,563	24,018
Other building and occupancy	5,107	1,175	2,206	8,488
Insurance	9,745	1,136	458	11,339
Taxes, license and fees	771	7,507	10,829	19,107
Printing and publications	1,835	4,556	277	6,668
Meetings and travel	46,920		11,730	58,650
Dues and subscriptions	1,174	1,107	1,791	4,072
Miscellaneous	18,644	7,813	2,886	29,343
Depreciation	2,017	421	572	3,010
Total Expenses	2,228,307	879,857	125,011	3,233,175
Less direct expense netted with revenue on the statement of activities		(800,503)		(800,503)
Total Expenses By Function	\$ 2,228,307	\$ 79,354	\$ 125,011	\$ 2,432,672
Function's percentage of total	91.60%	3.26%	5.14%	100.00%

See Notes to Consolidated Financial Statements

Consolidated Statement of Functional Expenses

The Dream Factory, Inc. and Its Chapters

Year Ended August 31, 2017

	Program Services	Supporting Services		Total
		Fund Raising	General and Administrative	
Dream expense	\$ 1,969,236			\$ 1,969,236
Fundraising		\$ 734,822		734,822
Salaries	124,507	50,593	\$ 44,497	219,597
Payroll taxes	11,157	4,523	4,383	20,063
Professional fees and contract services	27,302	881	21,940	50,123
Advertising	1,020	4,200	732	5,952
Office supplies and expense	649	1,348	5,004	7,001
Equipment rental and maintenance	1,593		8,011	9,604
Telephone	8,195		3,512	11,707
Postage and shipping	1,249	908	3,702	5,859
Rent	15,885	3,319	4,505	23,709
Other building and occupancy	4,769	795	2,384	7,948
Insurance	5,879	980	2,940	9,799
Taxes, license and fees	685	4,139	8,260	13,084
Printing and publications	1,343	2,238	895	4,476
Meetings and travel	38,934		9,733	48,667
Dues and subscriptions	685	3,280	485	4,450
Miscellaneous	26,837		4,737	31,574
Depreciation	1,808	378	512	2,698
Total Expenses	2,241,733	812,404	126,232	3,180,369
Less direct expense netted with revenue on the statement of activities		(724,399)		(724,399)
Total Expenses By Function	\$ 2,241,733	\$ 88,005	\$ 126,232	\$ 2,455,970
Function's percentage of total	91.28%	3.58%	5.14%	100.00%

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

The Dream Factory, Inc. and Its Chapters

	Year Ended August 31	
	2018	2017
Cash Flows From Operating Activities		
Increase in net assets	\$ 336,782	\$ 382,401
Adjustments		
Depreciation expense	3,010	2,698
Realized and unrealized gains on investments	(75,472)	(60,645)
Increase in inventory and other assets	4,787	7,898
Increase in accounts payable and other liabilities	16,224	3,021
	<hr/>	<hr/>
Net Cash Provided By Operating Activities	285,331	335,373
Cash Flows From Investing Activities		
Purchases of investments	(215,790)	(699,266)
Sales and maturity of investments	254,802	633,387
Purchases of property and equipment	(3,625)	(10,890)
	<hr/>	<hr/>
Net Cash Provided By (Used In) Investing Activities	35,387	(76,769)
Increase in Cash and Cash Equivalents	320,718	258,604
Cash and Cash Equivalents Beginning of Year	<hr/> 2,303,280	<hr/> 2,044,676
Cash and Cash Equivalents End of Year	<hr/> <hr/> \$ 2,623,998	<hr/> <hr/> \$ 2,303,280

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

The Dream Factory, Inc. and Its Chapters

August 31, 2018 and 2017

Note A--Nature of Operations

Organization--The Dream Factory, Inc., ("the Organization") is a national association headquartered in Louisville, Kentucky, which includes 31 active affiliated chapters located throughout the country. The Dream Factory, Inc. (national office) and the various chapters are each incorporated and each has its own board of directors. The executive committee of The Dream Factory, Inc. governs the national office and chapters and has the ability to determine the direction of management and the Organization's policies. The Organization is dedicated to granting dreams of critically and chronically ill children from the ages of three through eighteen. The Organization fulfills these dreams by funding the cost of dream vacations and other requests by the dream recipients. The Organization primarily operates on a volunteer basis and is funded through donations, fund raising events, and investment income.

Note B--Significant Accounting Policies

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

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

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

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

The Organization reports gifts as 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, 2018 and 2017

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 consolidated 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, 2018 and 2017, there are no allowance for uncollectible contributions.

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

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

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

The cost of normal repairs and maintenance is charged to operating expense as incurred. Acquisitions of property and equipment in excess of \$250 that meet the capitalization requirements are capitalized. Depreciation expense for the years ended August 31, 2018 and 2017 was \$3,010 and \$2,698, 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 consolidated 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 as the services do not meet the requirements for recognition in accordance with GAAP.

Continued

Notes to Consolidated Financial Statements--Continued

The Dream Factory, Inc. and Its Chapters

August 31, 2018 and 2017

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, 2018 and 2017.

The Organization's tax returns for the years ended August 31, 2015 through 2017 are subject to examination by various taxing authorities.

Advertising Costs--Advertising costs are expensed as incurred. Advertising expense was \$6,602 and \$5,952 for the years ended August 31, 2018 and 2017, 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.

Subsequent Events--Subsequent events for the Organization have been considered through December 24, 2018, the date of the independent auditors' report, which represents the date the consolidated financial statements were available to be issued.

Note C--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. 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.

Continued

Notes to Consolidated Financial Statements--Continued

The Dream Factory, Inc. and Its Chapters

August 31, 2018 and 2017

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

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, 2018 and 2017.

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.

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.

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.

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, 2018</u>		
Common and preferred stock	\$ 276,548	\$ 276,548
Exchange traded and closed end funds	467,232	467,232
Money market funds	186,335	186,335
Mutual funds	26,159	26,159
Certificates of Deposit	932,250	932,250
	<u>\$ 1,888,524</u>	<u>\$ 1,888,524</u>
<u>August 31, 2017</u>		
Common and preferred stock	\$ 372,011	\$ 372,011
Exchange traded and closed end funds	323,641	323,641
Money market funds	134,324	134,324
Mutual funds	51,446	51,446
Certificates of Deposit	970,642	970,642
	<u>\$ 1,852,064</u>	<u>\$ 1,852,064</u>

The unrealized gain on investments for 2018 and 2017 was \$55,459 and \$49,741, net of investment expenses, respectively. Dividend and interest income from these investments are classified as unrestricted in the consolidated statements of activities. Investment expenses for 2018 and 2017 were \$12,967 and \$6,980, respectively.

Continued

The Dream Factory, Inc. and Its Chapters

August 31, 2018 and 2017

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

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 D--Property and Equipment

Property and equipment consist of the following:

	August 31	
	2018	2017
Furniture and fixtures	\$ 4,303	\$ 4,303
Office equipment	50,326	46,702
Less accumulated depreciation	<u>(42,069)</u>	<u>(39,060)</u>
Property and Equipment, Net	<u>\$ 12,560</u>	<u>\$ 11,945</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 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 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, 2018 and 2017, the Organization purchased 99 and 108 vacation packages from Give Kids the World each with an approximate in-kind value in excess of the purchase price of \$6,700 and \$6,400, respectively.

Identifiable contributions of other items in functional expenses totaled \$131,417 and \$168,690 for the years ended August 31, 2018 and 2017, respectively.

Special events revenue and expenses in-kind contributions and costs totaled \$324,426 and \$243,877 for the years ended August 31, 2018 and 2017, respectively.

Continued

Notes to Consolidated Financial Statements--Continued

The Dream Factory, Inc. and Its Chapters

August 31, 2018 and 2017

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

A summary of the in-kind contributions is:

	<u>2018</u>	<u>2017</u>
Give Kids the World	\$ 667,090	\$ 693,922
Miscellaneous donations in-kind	<u>131,417</u>	<u>168,690</u>
Total In-Kind Revenue and Functional Expenses	798,507	862,612
Special events in-kind contributions and expenses	<u>324,426</u>	<u>243,877</u>
Total In-Kind	<u>\$ 1,122,933</u>	<u>\$ 1,106,489</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--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, 2018 and 2017.

Changes in endowment net assets for the years ended August 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Endowments net assets, beginning of the year	\$ 73,792	\$ 71,234
Contributions		2,500
Investment return		
Interest and dividends	<u>159</u>	<u>58</u>
Endowment Net Assets, End of Year	<u>\$ 73,951</u>	<u>\$ 73,792</u>

Continued

The Dream Factory, Inc. and Its Chapters

August 31, 2018 and 2017

Note H--Permanently Restricted Net Assets--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 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.

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.

The Dream Factory, Inc. and Its Chapters

August 31, 2018 and 2017

Note I--Employee Benefit Plan

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

Note J--Commitments and Contingencies

Rental of office space under an operating lease agreement amounted to \$24,018 and \$23,709 for the years ended August 31, 2018 and 2017, respectively. The future minimum payments under the lease agreement for the years ending August 31 are as follows:

2019	\$	24,510
2020		24,510
2021		<u>14,298</u>
	\$	<u><u>63,318</u></u>

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 \$217,000 and \$32,000 as of August 31, 2018 and 2017, respectively.

Note L--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, 2018, management has not determined the effects of adopting these standards.

ASU No. 2016-14 *Presentation of Financial Statements of Not-for-Profit Entities*

The purpose of this accounting standard is to improve the current net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows.

Continued

Notes to Consolidated Financial Statements--Continued

The Dream Factory, Inc. and Its Chapters

August 31, 2018 and 2017

Note L--Future Accounting Pronouncements--Continued

The main provisions will require non-for-profit entities to present the following:

- Present on the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than the currently required three classes; *net assets with donor restrictions* and *net assets without donor restrictions*.
- Qualitative and quantitative information for how liquid resources are managed to meet the cash needs for general expenditures within one year of the statement of financial position date.
- Investment returns are to be reported net of external and direct internal investment expenses and there is no longer the requirement for disclosure of those netted expenses.

This Standard will be effective for the Company's fiscal year ending August 31, 2019.

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

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

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

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, 2021.

Supplementary Information

Supplementary Schedule of Consolidating Statement of Financial Position

The Dream Factory, Inc. and Its Chapters

August 31, 2018

	National Office	Chapters	Eliminations	Total
Assets				
Cash and cash equivalents	\$ 77,378	\$ 2,546,620		\$ 2,623,998
Investments	165,145	1,723,379		1,888,524
Inventory	27,151	1,866		29,017
Contributions receivable		8,370		8,370
Accounts receivable - Chapters	56,795		\$ (56,795)	
Prepaid expenses and other current assets	2,097	5,750		7,847
Property and equipment, net	12,560			12,560
Total Assets	\$ 341,126	\$ 4,285,985	\$ (56,795)	\$ 4,570,316
Liabilities and Net Assets				
Liabilities				
Accounts payable	\$ 31,964	\$ 84,543	\$ (47,288)	\$ 69,219
Payroll taxes withheld and accrued	2,084			2,084
Deferred revenue	9,507		(9,507)	
Total Liabilities	43,555	84,543	(56,795)	71,303
Net Assets				
Unrestricted net assets	294,530	4,107,459		4,401,989
Temporarily restricted net assets	3,041	20,032		23,073
Permanently restricted net assets		73,951		73,951
Total Net Assets	297,571	4,201,442		4,499,013
Total Liabilities and Net Assets	\$ 341,126	\$ 4,285,985	\$ (56,795)	\$ 4,570,316

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, 2018

	<u>National Office</u>	<u>Chapters</u>	<u>Eliminations</u>	<u>Total</u>
Unrestricted Revenues, Gains, and Other Support				
Donations and fund raising revenue	\$ 33,888	\$ 793,790		\$ 827,678
Net assets released from restriction		10,992		10,992
Net Donations and Fund Raising Revenue	33,888	804,782		838,670
Special events revenue	29,865	1,775,481		1,805,346
Less: cost of direct benefits to donors	(8,437)	(792,066)		(800,503)
Net Special Events Revenue	21,428	983,415		1,004,843
Other revenue				
Investment income	1,839	27,951		29,790
Donations in-kind	87,809	710,698		798,507
Miscellaneous income	32,969			32,969
Dues income	191,670		\$ (191,670)	
Unrealized gain on investments		55,459		55,459
Realized gain on investments		20,013		20,013
Total Other Revenue	314,287	814,121	(191,670)	936,738
Total Unrestricted Revenues, Gains, and Other Support	369,603	2,602,318	(191,670)	2,780,251
Unrestricted Expenses				
Program expenses	222,035	2,197,942	(191,670)	2,228,307
Fundraising expenses	54,959	24,395		79,354
General and administrative expenses	57,163	67,848		125,011
Total Unrestricted Expenses	334,157	2,290,185	(191,670)	2,432,672
Change in Unrestricted Net Assets	35,446	312,133		347,579
Net Unrestricted Assets Beginning of Year	259,084	3,795,326		4,054,410
Net Unrestricted Assets End of Year	\$ 294,530	\$ 4,107,459	\$	\$ 4,401,989

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, 2018

	<u>National Office</u>	<u>Chapters</u>	<u>Eliminations</u>	<u>Total</u>
Temporarily Restricted Revenues, Gains, and Other Support				
Donations and fund raising revenue				
Net assets released from restriction		\$ (10,992)		\$ (10,992)
Net Donations and Fund Raising Revenue		(10,992)		(10,992)
Other revenue				
Investment income		36		36
Donations in-kind				
Miscellaneous income				
Dues income				
Unrealized gain on investments				
Realized gain on investments				
Total Other Revenue		<u>36</u>		<u>36</u>
Total Temporarily Restricted Revenues, Gains, and Other Support		(10,956)		(10,956)
Temporarily Restricted Expenses				
Program expenses				
Fund raising expenses				
General and administrative expenses				
Total Temporarily Restricted Expenses				
Change in Restricted Net Assets		(10,956)		(10,956)
Temporarily Restricted Net Assets Beginning of Year	\$ 3,041	<u>30,988</u>		<u>34,029</u>
Temporarily Restricted Net Assets End of Year	<u>\$ 3,041</u>	<u>\$ 20,032</u>	<u>\$</u>	<u>\$ 23,073</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, 2018

	<u>National Office</u>	<u>Chapters</u>	<u>Eliminations</u>	<u>Total</u>
Permanently Restricted Revenues, Gains, and Other Support				
Donations and fund raising revenue				
Special event revenue				
Less: cost of direct benefits to donors				
Net Special Events Revenue				
Other revenue				
Investment income		\$ 159		\$ 159
Donations in-kind				
Miscellaneous income				
Dues income				
Total Other Revenue		<u>159</u>		<u>159</u>
Total Permanently Restricted Revenues Gains, and Other Support		159		159
Permanently Restricted Expenses				
Program expenses				
Fund raising expenses				
General and administrative expenses				
Total Permanently Restricted Expenses				
Change in Restricted Net Assets		159		159
Permanently Restricted Net Assets Beginning of Year		<u>73,792</u>		<u>73,792</u>
Permanently Restricted Net Assets End of Year	<u>\$</u>	<u>\$ 73,951</u>	<u>\$</u>	<u>\$ 73,951</u>

See Independent Auditors' Report