

**Variety - The Children's Charity
(Ontario)**

Non-consolidated Financial Statements

For the Year Ended September 30, 2017



INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Variety - The Children's Charity (Ontario)

We have audited the accompanying non-consolidated financial statements of Variety - The Children's Charity (Ontario) (the "Organization"), which comprise the non-consolidated statement of financial position as at September 30, 2017 and the non-consolidated statements of operations, changes in net assets and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Non-consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these non-consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of non-consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these non-consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the non-consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the non-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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the non-consolidated financial statements.

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

Basis for Qualified Opinion

In common with many charitable organizations, the Organization derives revenues from fundraising, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the Organization. Therefore, we were not able to determine whether any adjustments might be necessary to fundraising and gaming operations revenue, deficiency of revenue over expenses and cash flows from operations for the year ended September 30, 2017, current assets as at September 30, 2017 and net assets as at September 30, 2017 and October 1, 2016.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the non-consolidated financial statements present fairly, in all material respects, the financial position of Variety - The Children's Charity (Ontario) as at September 30, 2017, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.


RSM Canada LLP


Chartered Professional Accountants
Licensed Public Accountants
December 13, 2017
Toronto, Ontario

Variety - The Children's Charity (Ontario)
Non-consolidated Statement of Financial Position
As at September 30, 2017

	2017	2016
Assets		
Current		
Cash	\$ 633,630	\$ 1,206,814
Accounts receivable (Note 3)	34,026	27,530
Investments (Note 4)	374,368	860,659
Prepaid expenses	24,308	19,783
	<u>1,066,332</u>	<u>2,114,786</u>
Endowment investments (Note 4)	401,181	401,181
Capital assets (Note 5)	5,759,915	6,122,585
Intangible assets (Note 6)	173,570	250,900
	<u>\$ 7,400,998</u>	<u>\$ 8,889,452</u>
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 3)	\$ 296,439	\$ 718,985
Due to related parties (Note 7)	2,042	244,562
Current portion of long-term debt (Note 8)	144,999	1,139,714
	<u>443,480</u>	<u>2,103,261</u>
Long-term debt (Note 8)	1,340,680	1,502,978
	<u>1,784,160</u>	<u>3,606,239</u>
Deferred contributions (Note 9)	7,466	18,099
Deferred contributions related to capital assets (Note 10)	2,871,849	2,398,174
	<u>2,879,315</u>	<u>2,416,273</u>
Net assets		
Endowments (Note 11)	401,181	401,181
Invested in capital assets	1,575,957	1,332,619
Operating	760,385	1,133,140
	<u>2,737,523</u>	<u>2,866,940</u>
	<u>\$ 7,400,998</u>	<u>\$ 8,889,452</u>

Approved by the Board


 Chair


 Treasurer

Variety - The Children's Charity (Ontario)
Non-consolidated Statement of Changes in Net Assets
Year Ended September 30, 2017

	Endowments	Invested in Capital Assets	Operating	Total 2017	Total 2016
	(Note 11)				
Net assets, beginning of year	\$ 401,181	\$ 1,332,619	\$ 1,133,140	\$ 2,866,940	\$ 3,880,348
Excess (deficiency) of revenue over expenses	-	(472,603)	343,186	(129,417)	(1,013,408)
Interfund transfer	-	715,941	(715,941)	-	-
Net assets, end of the year	\$ 401,181	\$ 1,575,957	\$ 760,385	\$ 2,737,523	\$ 2,866,940

Variety - The Children's Charity (Ontario)**Non-consolidated Statement of Operations****Year Ended September 30, 2017**

	2017	2016
Revenue		
Fundraising, net (Schedule 1)	\$ 249,112	\$ 550,362
Gaming operations, net (Schedule 2)	121,025	127,929
Interest	11,669	29,433
Other	5,535	6,679
	387,341	714,403
Administrative expenses		
Salaries and benefits	210,065	250,481
Interest on long-term debt (Note 8)	55,645	73,743
Professional fees	34,573	71,833
Office and general	33,601	44,872
Insurance	32,233	30,706
Interest and bank charges	8,600	14,734
Reversal of expense over accrual	(353,394)	-
	21,323	486,369
Excess of revenue over administrative expenses	366,018	228,034
Allocation to charitable activities (Note 7)	495,435	1,241,442
Deficiency of revenue over expenses	\$ (129,417)	\$ (1,013,408)

Variety - The Children's Charity (Ontario)**Non-consolidated Statement of Cash Flows****Year Ended September 30, 2017**

	2017	2016
Cash provided by (used in)		
Operating activities		
Deficiency of revenue over expenses	\$ (129,417)	\$ (1,013,408)
Items not involving cash		
Amortization of capital and intangible assets (Notes 5 and 6)	776,959	779,828
Amortization of deferred contributions related to capital assets (Note 10)	(304,356)	(264,243)
Amortization of deferred contributions (Note 9)	(11,116)	(111,167)
Change in non-cash operating balances (Note 12)	(676,087)	730,624
	(344,017)	121,634
Investing activities		
Proceeds from sale of investments	486,291	1,358,300
Proceeds from sale of endowment investments	-	892
Purchase of capital assets	(313,929)	(554,528)
Purchase of intangible assets	(23,030)	(82,395)
	149,332	722,269
Financing activities		
Deferred contributions received (Note 9)	483	-
Deferred contributions related to capital assets received (Note 10)	778,031	147,500
Repayment of long-term debt	(1,157,013)	(141,265)
	(378,499)	6,235
Net change in cash	(573,184)	850,138
Cash, beginning of year	1,206,814	356,676
Cash, end of year	\$ 633,630	\$ 1,206,814

1. NATURE OF THE ORGANIZATION

Variety - The Children's Charity (Ontario) (the "Organization") is incorporated under the laws of Ontario without share capital. It is a not-for-profit organization, which aims to improve the quality of life for children with disabilities in Ontario by funding special programs and facilities.

The Organization is a registered charity under the Income Tax Act and accordingly is exempt from income taxes, provided certain requirements are met.

The Organization exercises control over Variety Village and Variety Club of Ontario - Tent 28 ("Tent 28") by virtue of a common Board of Directors and through the Organization's control and direction of resources. These non-consolidated financial statements do not include the financial results of these two entities. The total assets, liabilities, revenue and expenses and cash flows from operating, financing and investing activities of the non-consolidated controlled entities as well as the entities' intended purpose is disclosed in Note 13.

2. SIGNIFICANT ACCOUNTING POLICIES

Management Estimates

The preparation of these non-consolidated financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as at the reporting date and the revenue and expenses reported for the year then ended. Significant estimates include useful lives of capital assets and the allocation of shared expenses with Variety Village. Actual results could differ from those estimates.

Financial Instruments

The Organization initially measures its financial assets and liabilities at fair value. The Organization subsequently measures its financial assets and financial liabilities at amortized cost, except for equity investments that are quoted in an active market, which are measured at fair value. Changes in fair value are recognized in the excess (deficiency) of revenue over expenses.

Financial assets measured at amortized cost include cash, accounts receivable, endowment investments and investments. Financial liabilities measured at amortized cost include accounts payable and accrued liabilities, due to related parties and long-term debt.

Transaction costs and financing fees are expensed as incurred for financial instruments measured at fair value and capitalized for financial instruments that are subsequently measured at cost or amortized cost.

Financial assets measured at cost or amortized costs are tested for impairment when there are indicators of impairment. The amount of the write-down, if any, is recognized in the excess (deficiency) of revenue over expenses. Reversals of impairment are recorded to the extent that the value has increased, up to the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in the excess (deficiency) of revenue over expenses.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Volunteer Services

The efforts of volunteer workers are not reflected in the accompanying financial statements as no objective basis is available to measure the value of such services; however, a substantial number of volunteers have donated significant amounts of their time to the Organization.

Revenue Recognition

The Organization follows the deferral method of accounting for contributions, which include donations, bequests and other revenue from special events and fundraising activities. Unrestricted contributions are recognized as revenue when received or receivable, if the amount to be received can be reasonably estimated and collection is reasonably assured. Externally restricted contributions are recognized as revenue in the year in which the related expenses are recognized. Contributions restricted for the purchase of capital assets are deferred and amortized into revenue on a straight-line basis, at a rate corresponding to the amortization rate of the related capital assets.

Endowments are recognized as direct increases in net assets, and are required to be maintained on a permanent basis. Income derived therefrom is available to support the Organization's activities.

Revenue from gaming operations and interest is recognized as earned.

The value of donated materials and services are recorded in the financial statements when a fair value can be reasonably estimated, the materials and services are used in the normal course of operations and would otherwise have been purchased.

All revenues are recognized, only after collectibility is assured and when the amount can be reasonably estimated.

Capital Assets

Capital assets of the Organization are stated at cost less accumulated amortization. Contributed property is recorded at the fair value at the date of the gift. When capital assets no longer contribute to the Organization's ability to provide services, its carrying amount is written down to its residual value.

The Organization amortizes its property over its estimated useful life as follows:

Building	40 years
Building improvements	20 years
Equipment	5 to 25 years

Intangible Assets

Intangible assets of the Organization are stated at cost less accumulated amortization. Contributed property is recorded at the fair value at the date of the gift. When intangible assets no longer contribute to the Organization's ability to provide services, its carrying amount is written down to its residual value.

The Organization amortizes its intangible assets over its estimated useful life of 5 years.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Fund Accounting

The accounts of the Organization are maintained in accordance with the principles of fund accounting in order to observe the limitations and restrictions placed on the use of available resources. Under fund accounting, resources for various purposes are classified for accounting and reporting purposes into separate funds in accordance with specified activities or objectives. The Organization has combined funds with similar characteristics into two major fund groups as follows:

- i) Endowments – consists of donations received that are permanent in nature (Note 11);
- ii) Operating – funds received primarily through the efforts of fundraising and are not restricted for any specific purpose except for restricted contributions accounted for using the deferral method of accounting.

3. GOVERNMENT REMITTANCES AND REBATES

Government rebates of \$24,856 (2016 - \$13,958) are reflected in accounts receivable. Included in accounts payable and accrued liabilities are the amounts payable in respect to government remittances of \$NIL (2016 - \$NIL).

4. ENDOWMENT INVESTMENTS AND INVESTMENTS

Endowment investments and investments are comprised of the following:

	2017	2016
Endowment		
Guaranteed investment certificates	\$ 401,181	\$ 401,181
Investments		
Interest bearing savings account	353,465	843,576
Stocks	3,820	-
Time share	17,083	17,083
	374,368	860,659
	\$ 775,549	\$ 1,261,840

Investments are held in an interest bearing savings account, which bears interest at a variable rate. Endowment investments are held in guaranteed investment certificates bearing interest at 1.65% (2016 - 1.46%) and maturing August 15, 2018. The endowment investments are contributions described in Note 11.

Variety - The Children's Charity (Ontario)
Notes to Non-consolidated Financial Statements
September 30, 2017

5. CAPITAL ASSETS

	Cost	Accumulated Amortization	Net 2017	Net 2016
Land	\$ 2	\$ -	\$ 2	\$ 2
Building	2,852,869	2,836,365	16,504	35,050
Building improvements	14,586,672	9,389,943	5,196,729	5,748,711
Equipment	2,343,796	1,797,116	546,680	338,822
	\$19,783,339	\$14,023,424	\$ 5,759,915	\$ 6,122,585

Specific capital assets including land and building at 3701 Danforth Avenue are nominally owned by Variety Club of Ontario – Tent 28 (“Tent 28”). Tent 28 has no beneficial interest in the properties and is acting only as an agent for the Organization.

Amortization of \$676,600 (2016 - \$729,648) is included in allocation to charitable activities.

6. INTANGIBLE ASSETS

	Cost	Accumulated Amortization	Net 2017	Net 2016
Software	\$ 348,639	\$ 175,069	\$ 173,570	\$ 250,900

Amortization of \$100,360 (2016 - \$50,180) is included in allocation to charitable activities.

7. DUE TO (FROM) RELATED PARTIES AND RELATED PARTY TRANSACTIONS

Due to (from) related parties:

	2017	2016
Variety Village	\$ -	\$ 246,641
Variety Club of Ontario - Tent 28	2,042	(2,079)
	\$ 2,042	\$ 244,562

Amounts due from related parties are due on demand, unsecured and non-interest bearing.

The Organization funds approximately 8% (2106 – 19%) of Variety Village’s revenue. The grant provided by the Organization to Variety Village for the year ended September 30, 2017 totaled \$489,235 (2016 - \$1,239,363).

Variety - The Children's Charity (Ontario)
Notes to Non-consolidated Financial Statements
September 30, 2017

7. DUE FROM RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Cont'd)

Included in the grant are the following transactions -

- The facilities and other capital assets are held by the Organization for use by Variety Village. Variety Village recognizes the benefit in an amount equal to the amortization expense of the facilities and capital assets in the accounts of the Organization. The benefit allocated to Variety Village during the year was \$776,959 (2016 - \$779,828).
- Shared expenses with the Organization are recognized as related party transactions, including administration, fundraising, salaries and benefits, and office and general expenses. The Organization has allocated administrative and fundraising salaries and benefits of \$751,560 (2016 - \$611,320) to Variety Village. Variety Village has allocated fundraising salaries and benefits of \$62,435 (2016 - \$29,880) to the Organization.
- During the year, Variety Village advanced \$1,005,000 to the Organization.
- Other miscellaneous transfers of revenues and reimbursements of expenses totaled \$274,791.

During the year the Organization contributed \$6,200 (2016 - \$nil) to Tent 28.

8. LONG-TERM DEBT

	2017	2016
Bank credit facility, bearing fixed interest at 3.85% per annum, with no prepayments permitted and due October 1, 2021, with monthly payments, including principal and interest, of \$13,588, based on 132 month amortization period. This debt is secured by the assets held by the Organization and the lender has first ranking over all personal property of the Organization. The debt is guaranteed by Tent 28 and Variety Village.	\$ 1,359,995	\$ 2,487,476
Capital improvement loan, bearing fixed interest at 4.33% per annum, due May 31, 2021 with monthly payments including principal and interest of \$3,094, based on a 60 month term. The debt is secured by the assets.	125,684	155,216
	1,485,679	2,642,692
Less: Current portion	144,999	1,139,714
	\$ 1,340,680	\$ 1,502,978

Variety - The Children's Charity (Ontario)
Notes to Non-consolidated Financial Statements
September 30, 2017

8. LONG-TERM DEBT (Cont'd)

Future principal repayments are as follows:

2018	\$	144,999
2019		150,841
2020		156,919
2021		150,798
2022 and onward		882,122
		<hr/>
		\$ 1,485,679

The Organization has an irrevocable standby letter of credit for \$35,000 (2016 - \$NIL) as a deposit held by Toronto Hydro. As of September 30, 2017, the letter of credit has not been drawn upon.

9. DEFERRED CONTRIBUTIONS

Deferred contributions represent unspent externally restricted donations related to expenses of future periods.

	2017	2016
Balance, beginning of year	\$ 18,099	\$ 129,266
Deferred contributions received	483	-
Contributions taken into income	(11,116)	(111,167)
<hr/>		
Balance, end of year	\$ 7,466	\$ 18,099

10. DEFERRED CONTRIBUTIONS RELATED TO CAPITAL ASSETS

Deferred capital contributions relate to contributions received (including government grants) for renovations to the Facilities and are currently recognized as revenue on a straight-line basis based on the amortization rate of the related assets.

	2017	2016
Balance, beginning of year	\$ 2,398,174	\$ 2,514,917
Transfer	-	117,500
Contributions received	778,031	30,000
Contributions taken into income	(304,356)	(264,243)
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Balance, end of year	\$ 2,871,849	\$ 2,398,174

Variety - The Children's Charity (Ontario)
Notes to Non-consolidated Financial Statements
September 30, 2017

11. ENDOWMENTS

All of the net assets restricted for endowment purposes are subject to externally imposed restrictions stipulating that the principal be maintained intact. Investment income on the assets may be used by the Organization for general purposes.

The balance of the endowment fund is \$401,181 (2016 - \$401,181) (Note 4).

12. CHANGES IN NON-CASH OPERATING BALANCES

	2017	2016
(Increase) decrease in accounts receivable	\$ (6,496)	\$ 8,862
(Increase) decrease in contribution receivable	-	500,000
(Increase) decrease in prepaid expenses	(4,525)	13,509
Increase (decrease) in due to related parties (Note 7)	(242,520)	72,230
Increase (decrease) in accounts payable and accrued liabilities	(422,546)	136,023
	\$ (676,087)	\$ 730,624

13. NON-CONSOLIDATED CONTROLLED ENTITIES

The Organization exercises control over Variety Village and Variety Club of Ontario - Tent 28 by virtue of a common Board of Directors and through the Organization's control and direction of resources. Both entities are registered under the Laws of Ontario as corporations without share capital. Variety Village is a not-for-profit organization and is engaged in providing physically integrated activity programs for disabled and able-bodied participants to improve body function, fitness and social well-being. Variety Club of Ontario - Tent 28 is a not-for-profit organization, which coordinated the membership and general activities of the Variety Club. These functions have been transferred to the Organization. Variety Village is a registered charity under the Income Tax Act and, accordingly, is exempt from income taxes. Variety Club of Ontario - Tent 28 as a not-for-profit entity is also exempt from income taxes.

These non-consolidated financial statements do not include the financial results of these two entities.

Variety - The Children's Charity (Ontario)
Notes to Non-consolidated Financial Statements
September 30, 2017

13. NON-CONSOLIDATED CONTROLLED ENTITIES (Cont'd)

Significant financial information is as follows:

	Variety Village	Variety Club of Ontario Tent 28	Total 2017	Total 2016
Financial position				
Assets	\$ 1,463,054	\$ 2,143	\$ 1,465,197	\$ 1,500,382
Liabilities	1,334,447	2,141	1,336,588	1,255,441
Total net assets	\$ 128,607	\$ 2	\$ 128,609	\$ 244,941
			2017	2016
Results of operations				
Total revenue	\$ 5,903,227	\$ 6,200	\$ 5,909,427	\$ 6,467,798
Total expenses	6,023,679	2,080	6,025,759	5,715,208
Excess (deficiency) of revenue over expenses	\$ (120,452)	\$ 4,120	\$ (116,332)	\$ 752,590
Cash flows				
Cash from (used in)				
Operating activities	\$ 171,343	\$ 11	\$ 171,354	\$ (305,929)
Financing activities	502,184	-	502,184	441,920
Investing activities	(221,850)	-	(221,850)	(108,375)
Increase in cash	\$ 451,677	\$ 11	\$ 451,688	\$ 27,616

14. FINANCIAL INSTRUMENTS

Credit Risk

The Organization is exposed to credit risk in the event of non-payment for their accounts receivable. Management has adopted credit policies in an effort to minimize those risks.

Interest Rate Risk and Market Risk

The Organization is subject to interest rate price risk on its fixed rate long term debt with rates of 3.85% and 4.33% (Note 8) and to market risk on its investments (Note 5). Interest rate and market risks result from changes in fair value due to market fluctuations in interest rates.

15. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation. Deficiency of revenue over expenses have not been affected by these reclassifications.

Variety - The Children's Charity (Ontario)
Non-consolidated Schedule of Fundraising - Schedule 1
Year Ended September 30, 2017

	Revenue	Expenses	2017 Net	2016 Net
Events				
World's Greatest Holiday Party	\$ 52,187	\$ 5,084	\$ 47,103	\$ 37,543
Other events	-	51	(51)	138
Allocation of revenue to deferred contributions	-	-	-	(2,082)
	52,187	5,135	47,052	35,599
Annual campaigns				
Gold Hearts	9	-	9	36
Individuals	2,470	-	2,470	3,330
Planned gifts	125,000	-	125,000	371,041
Corporate	6,490	-	6,490	28,846
Grant amortization	304,356	-	304,356	264,243
Allocation of revenue (to) from deferred contributions	8,592	-	8,592	(27,815)
	446,917	-	446,917	639,681
	\$ 499,104	\$ 5,135	\$ 493,969	\$ 675,280
Expenses				
Salaries and benefits			72,726	97,026
Professional fees			168,271	21,180
Office and general			3,860	6,712
			244,857	124,918
Excess of fundraising revenue over expenses			\$ 249,112	\$ 550,362

Variety - The Children's Charity (Ontario)
Non-consolidated Schedule of Gaming Operations - Schedule 2
Year Ended September 30, 2017

	2017	2016
Nevada	\$ 291,081	\$ 293,823
Less: licence and management fees	170,056	165,894
Excess of gaming revenue over expenses	\$ 121,025	\$ 127,929