

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

Non-consolidated Financial Statements

For the Year Ended September 30, 2018



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) which comprise the non-consolidated statement of financial position as at September 30, 2018 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 audit opinion.

Opinion

In our opinion, 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, 2018, 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 17, 2018
Toronto, Ontario

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

Variety - The Children's Charity (Ontario)
Non-consolidated Statement of Financial Position
As at September 30, 2018

	2018	2017
Assets		
Current		
Cash	\$ 136,166	\$ 633,630
Accounts receivable (Note 3)	29,493	34,026
Investments (Note 4)	416,718	374,368
Prepaid expenses	20,982	24,308
Due from related parties (Note 7)	36	-
	603,395	1,066,332
Endowment investments (Note 4)	389,006	401,181
Capital assets (Note 5)	5,952,046	5,759,915
Intangible assets (Note 6)	90,757	173,570
	\$ 7,035,204	\$ 7,400,998
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 189,071	\$ 296,439
Due to related parties (Note 7)	-	2,042
Current portion of long-term debt (Note 8)	150,829	144,999
	339,900	443,480
Long-term debt (Note 8)	1,190,248	1,340,680
	1,530,148	1,784,160
Deferred contributions (Note 9)	78,150	7,466
Deferred contributions related to capital assets (Note 10)	2,952,324	2,871,849
	3,030,474	2,879,315
Net assets		
Endowments (Note 11)	389,006	401,181
Invested in capital assets	1,749,402	1,575,957
Operating	336,174	760,385
	2,474,582	2,737,523
	\$ 7,035,204	\$ 7,400,998

Approved by the Board

Chair

Treasurer

Variety - The Children's Charity (Ontario)
Non-consolidated Statement of Changes in Net Assets
Year Ended September 30, 2018

	Endowments	Invested in Capital Assets	Operating	Total 2018	Total 2017
	(Note 11)				
Net assets, beginning of year	\$ 401,181	\$ 1,575,957	\$ 760,385	\$ 2,737,523	\$ 2,866,940
Excess (deficiency) of revenue over expenses	-	(472,318)	221,552	(250,766)	(129,417)
Interfund transfer	(12,175)	(274,980)	274,980	(12,175)	-
Purchase of capital assets	-	903,197	(903,197)	-	-
Purchase of intangible capital assets	-	17,546	(17,546)	-	-
Net assets, end of the year	\$ 389,006	\$ 1,749,402	\$ 336,174	\$ 2,474,582	\$ 2,737,523

Variety - The Children's Charity (Ontario)**Non-consolidated Statement of Operations****Year Ended September 30, 2018**

	2018	2017
Revenue		
Fundraising, net (Schedule 1)	\$ 557,170	\$ 249,112
Gaming operations, net (Schedule 2)	124,349	121,025
Interest income	11,080	11,669
Other revenue	763	5,535
	693,362	387,341
Administrative expenses		
Salaries and benefits	276,101	210,065
Interest on long-term debt (Note 8)	55,583	55,645
Professional fees	48,490	34,573
Office and general	31,671	33,601
Insurance expense	32,564	32,233
Interest and bank charges	9,313	8,600
Reversal of expense over accrual	-	(353,394)
	453,722	21,323
Excess of revenue over administrative expenses	239,640	366,018
Allocation of charitable activities (Note 7)	490,406	495,435
Deficiency of revenue over expenses	\$ (250,766)	\$ (129,417)

Variety - The Children's Charity (Ontario)**Non-consolidated Statement of Cash Flows****Year Ended September 30, 2018**

	2018	2017
Cash provided by (used in)		
Operating activities		
Deficiency of revenue over expenses	\$ (250,766)	\$ (129,417)
Items not affecting cash		
Amortization of capital and intangible assets (Notes 5 and 6)	811,426	776,959
Amortization of deferred contributions related to capital assets (Note 10)	(339,108)	(304,356)
Amortization of deferred contributions (Note 9)	(246)	(11,116)
Change in non-cash operating balances (Note 12)	(101,587)	(676,087)
Deferred contributions received (Note 9)	70,930	483
Deferred contributions related to capital assets received (Note 10)	419,583	778,031
	610,232	434,497
Investing activities		
Purchase of investments	(46,170)	-
Proceeds from sale of investments	3,820	486,291
Purchase of capital assets	(903,197)	(313,929)
Purchase of intangible capital assets	(17,546)	(23,030)
	(963,093)	149,332
Financing activity		
Repayment of long-term debt	(144,603)	(1,157,013)
Net change in cash	(497,464)	(573,184)
Cash, beginning of year	633,630	1,206,814
Cash, end of year	\$ 136,166	\$ 633,630

Variety - The Children's Charity (Ontario)

Notes to Non-consolidated Financial Statements

September 30, 2018

1. NATURE OF THE ORGANIZATION

Variety - The Children's Charity (Ontario) (the "Organization") is incorporated under the laws of Ontario without share capital. The Organization is a registered charity under the Income Tax Act and accordingly is exempt from income taxes, provided certain requirements are met.

For over 70 years, the Organization has been breaking down barriers to accessibility for education, sport and fitness and now throughout communities across Ontario. Through participation in sport, fitness and recreation, the Organization helps children with disabilities build their skills and confidence to become active and contributing members of the community, develop and learn physical as well as social skills, and have their emotional and social needs met.

The Organization delivers its programming at the Variety Village facilities and throughout communities across Ontario. In addition to delivering programs for the Organization, Variety Village operates a number of social enterprises to support the charitable mission of the Organization; including, a Fitness Club, the Rehabilitation to Community Program, an Active Aging Club, and an Adult Day Program.

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

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations.

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.

Endowment contributions are recognized as direct increases in endowment 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 (gifts in kind) 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. Donated materials and services in the amount of \$14,930 (2017 - \$1,500) were recorded in the accounts.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue Recognition (Cont'd)

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

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.

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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, due from related parties, 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 amortized cost 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.

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.

3. GOVERNMENT REMITTANCES AND REBATES

Government rebates of \$27,612 (2017 - \$24,856) are included in accounts receivable.

Variety - The Children's Charity (Ontario)
Notes to Non-consolidated Financial Statements
September 30, 2018

4. INVESTMENTS AND ENDOWMENT INVESTMENTS

Investments and endowment investments are comprised of the following:

	2018	2017
Investments		
Interest bearing savings account	\$ 399,635	\$ 353,465
Stocks	-	3,820
Time share	17,083	17,083
	416,718	374,368
Endowment investments		
Guaranteed investment certificates	-	401,181
Interest bearing savings accounts	389,006	-
	389,006	401,181
	\$ 805,724	\$ 775,549

Investments are held in an interest bearing savings account, which bears interest at a variable rate. Endowment investments are held in interest bearing savings accounts, segregated by endowment fund and bear interest at a variable rate. The endowment investments are contributions described in Note 11.

5. CAPITAL ASSETS

	Cost	Accumulated Amortization	Net 2018	Net 2017
Land	\$ 2	\$ -	\$ 2	\$ 2
Building	2,852,869	2,837,007	15,861	16,504
Building improvements	15,487,314	10,023,353	5,463,961	5,196,729
Equipment	2,346,350	1,874,129	472,221	546,680
	\$20,686,535	\$14,734,489	\$ 5,952,046	\$ 5,759,915

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 \$711,066 (2017 - \$676,599) is included in allocation to charitable activities.

Variety - The Children's Charity (Ontario)
Notes to Non-consolidated Financial Statements
September 30, 2018

6. INTANGIBLE ASSETS

	Cost	Accumulated Amortization	Net 2018	Net 2017
Software	\$ 366,185	\$ 275,428	\$ 90,757	\$ 173,570

Amortization of \$100,360 (2017 - \$100,360) is included in allocation to charitable activities.

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

Due (to) from related party:

	2018	2017
Variety Club of Ontario - Tent 28	\$ 36	\$ (2,042)

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

The Organization funds approximately 8% (2017 - 8%) of Variety Village's revenue. The grant provided by the Organization to Variety Village for the year ended September 30, 2018 totalled \$490,406 (2017 - \$489,235).

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 \$811,426 (2017 - \$776,959).
- 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 \$209,492 (2017 - \$751,560) to Variety Village. Variety Village has allocated fundraising salaries and benefits of \$253,787 (2017 - \$62,435) to the Organization.
- During the year, Variety Village advanced \$272,334 (2017 - \$913,687) to the Organization.
- Other miscellaneous transfers of revenues and reimbursements of expenses totalled \$(4,390) (2017 - \$183,478).

During the year the Organization contributed \$Nil (2017 - \$6,200) to Tent 28.

Variety - The Children's Charity (Ontario)
Notes to Non-consolidated Financial Statements
September 30, 2018

8. LONG-TERM DEBT

	2018	2017
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.	\$ 1,247,722	\$ 1,359,995
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.	93,355	125,684
	1,341,077	1,485,679
Less: Current portion	150,829	144,999
	\$ 1,190,248	\$ 1,340,680

Future principal repayments are as follows:

2019	\$ 150,829
2020	156,902
2021	150,782
2022 and thereafter	882,564
	\$ 1,341,077

The Organization has an irrevocable standby letter of credit for \$35,000 (2017 - \$35,000) as a deposit held by Toronto Hydro. As of September 30, 2018 (and September 30, 2017), the letter of credit has not been drawn upon.

During the year, the Organization obtained a revolving line of credit with a maximum facility of \$350,000, bearing interest at bank prime plus 1.25%. As at September 30, 2018, there is no balance drawn or outstanding.

9. DEFERRED CONTRIBUTIONS

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

	2018	2017
Balance, beginning of year	\$ 7,466	\$ 18,099
Deferred contributions received	70,930	483
Amounts recognized as revenue in the year	(246)	(11,116)
Balance, end of year	\$ 78,150	\$ 7,466

Variety - The Children's Charity (Ontario)
Notes to Non-consolidated Financial Statements
September 30, 2018

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.

	2018	2017
Balance, beginning of year	\$ 2,871,849	\$ 2,398,174
Contributions received	419,583	778,031
Amounts recognized as revenue in the year	(339,108)	(304,356)
Balance, end of year	\$ 2,952,324	\$ 2,871,849

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 \$389,006 (2017 - \$401,181) (Note 4).

12. CHANGES IN NON-CASH OPERATING BALANCES

	2018	2017
(Increase) decrease in accounts receivable	\$ 4,533	\$ (6,496)
(Increase) decrease in prepaid expenses	3,326	(4,525)
Increase (decrease) in due to/from related parties	(2,078)	(242,520)
Increase (decrease) in accounts payable and accrued liabilities	(107,368)	(422,546)
	\$ (101,587)	\$ (676,087)

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.

Variety - The Children's Charity (Ontario)
Notes to Non-consolidated Financial Statements
September 30, 2018

13. NON-CONSOLIDATED CONTROLLED ENTITIES

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

Significant financial information is as follows:

	Variety Village	Variety Club of Ontario - Tent 28	Total 2018	Total 2017
Financial position				
Assets	\$ 1,200,894	\$ 71	\$ 1,200,965	\$ 1,465,197
Liabilities	1,439,235	48	1,439,283	1,336,588
Total net assets (deficiency)	\$ (238,341)	\$ 23	\$ (238,318)	\$ 128,609
			2018	2017
Total revenue	\$ 6,004,192	\$ -	\$ 6,004,192	\$ 6,001,710
Total expenses (recovery)	6,383,848	(21)	6,383,827	6,118,042
Excess (deficiency) of revenue over expenses	\$ (379,656)	\$ 21	\$ (379,635)	\$ (116,332)
Cash from (used in)				
Operating activities	\$ (45,336)	\$ (42)	\$ (45,378)	\$ 673,538
Investing activities	(91,485)	-	(91,485)	(221,850)
Increase in cash	\$ (136,821)	\$ (42)	\$ (136,863)	\$ 451,688

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 4). 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. Excess (deficiency) of revenue over expenses has not been affected by these reclassifications.

Variety - The Children's Charity (Ontario)
Non-consolidated Non-consolidated Schedule of Fundraising - Schedule 1
Year Ended September 30, 2018

	Revenue	Expenses	2018 Net	2017 Net
Events				
Golf tournaments	\$ 120,000	\$ 917	\$ 119,083	\$ -
Gala	101,027	21,639	79,388	-
World's Greatest Holiday Party	64,238	18,930	45,308	47,103
Other events	63,295	31,391	31,904	(51)
	348,560	72,877	275,683	47,052
Annual campaigns				
Gold Hearts	-	-	-	9
Individuals	1,950	-	1,950	2,470
Planned gifts	68,349	-	68,349	125,000
Corporate	24,429	-	24,429	6,490
Grant amortization	339,108	-	339,108	304,356
Allocation of revenue (to) from deferred contributions	-	-	-	8,592
	433,836	-	433,836	446,917
	\$ 782,396	\$ 72,877	709,519	493,969
Expenses				
Salaries and benefits			23,797	72,726
Professional fees			123,201	168,271
Office and general			5,351	3,860
			152,349	244,857
Excess of fundraising revenue over expenses			\$ 557,170	\$ 249,112

Variety - The Children's Charity (Ontario)**Non-consolidated Non-consolidated Schedule of Gaming Operations - Schedule 2****Year Ended September 30, 2018**

	2018	2017
Nevada	\$ 269,298	\$ 291,081
Less: licence and management fees	144,949	170,056
Excess of gaming revenue over expenses	\$ 124,349	\$ 121,025