

2017

FINANCIAL STATEMENTS

Variety the Children's Charity of St. Louis

WITH INDEPENDENT AUDITOR'S REPORT
SEPTEMBER 30, 2017

Variety is St. Louis' best resource for kids with disabilities and their families. Variety provides medical equipment, the therapy to use it, and programs to explore and learn.



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Independent Auditor's Report

Board of Directors
Variety the Children's Charity of St. Louis
St. Louis, Missouri

Report on the Financial Statements

We have audited the accompanying financial statements of Variety the Children's Charity of St. Louis (the "Organization"), which comprise the statements of financial position as of September 30, 2017 and 2016, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Variety the Children's Charity of St. Louis as of September 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Brown Smith Wallace, LLP

St. Louis, Missouri
December 11, 2017

VARIETY THE CHILDREN'S CHARITY OF ST. LOUIS

Statements of Financial Position

September 30, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	\$ 1,731,491	\$ 1,386,921
Promises to give (Note C)	587,047	716,836
Prepaid expenses	190,867	161,350
Investments (Note D)	3,983,745	3,403,878
Property and equipment (net of accumulated depreciation of \$44,685 in 2017 and \$39,271 in 2016)	83,402	84,985
Assets restricted for permanent investment (Notes D and E)	1,402,928	1,402,928
Total Assets	\$ 7,979,480	\$ 7,156,898
Liabilities And Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 630,536	\$ 469,315
Deferred revenue	35,548	45,295
Total Liabilities	666,084	514,610
Net Assets (Note E)		
Unrestricted:		
Board-designated for endowment (Note G)	3,407,166	2,979,332
Board-designated for reserve fund	100,000	100,000
Undesignated	1,039,228	888,112
Total Unrestricted	4,546,394	3,967,444
Temporarily restricted	1,364,074	1,271,916
Permanently restricted (Note G)	1,402,928	1,402,928
Total Net Assets	7,313,396	6,642,288
Total Liabilities And Net Assets	\$ 7,979,480	\$ 7,156,898

The accompanying notes are an integral part of these financial statements.

VARIETY THE CHILDREN'S CHARITY OF ST. LOUIS

Statement of Activities

Year ended September 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue				
Contributions (Note K)	\$ 1,994,896	\$ 561,684	\$ -	\$ 2,556,580
Grants	163,383	42,617	-	206,000
Special events (Notes I & K)	1,160,261	-	-	1,160,261
In-kind revenue (Notes J & K)	528,956	-	-	528,956
Program revenue - Variety Children's Theatre	151,019	-	-	151,019
Net assets released from restrictions (Note E)	726,754	(726,754)	-	-
Total Revenue	4,725,269	(122,453)	-	4,602,816
Expenses				
Program	3,380,117	-	-	3,380,117
Management and general	385,478	-	-	385,478
Fundraising	765,587	-	-	765,587
Total Expenses	4,531,182	-	-	4,531,182
Change in Net Assets from Operations	194,087	(122,453)	-	71,634
Investment Income (Note D)	384,863	214,611	-	599,474
Change in Net Assets	578,950	92,158	-	671,108
Net Assets, Beginning Of Year	3,967,444	1,271,916	1,402,928	6,642,288
Net Assets, End Of Year	\$ 4,546,394	\$ 1,364,074	\$ 1,402,928	\$ 7,313,396

The accompanying notes are an integral part of these financial statements.

VARIETY THE CHILDREN'S CHARITY OF ST. LOUIS

Statement of Activities

Year ended September 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue				
Contributions (Note K)	\$ 1,888,057	\$ 446,667	\$ -	\$ 2,334,724
Grants	90,237	84,263	-	174,500
Special events (Notes I & K)	1,141,414	-	-	1,141,414
In-kind revenue (Notes J & K)	453,189	-	-	453,189
Program revenue - Variety Children's Theatre	133,299	-	-	133,299
Net assets released from restrictions (Note E)	644,861	(644,861)	-	-
Total Revenue	4,351,057	(113,931)	-	4,237,126
Expenses				
Program	3,147,396	-	-	3,147,396
Management and general	297,764	-	-	297,764
Fundraising	583,746	-	-	583,746
Total Expenses	4,028,906	-	-	4,028,906
Change in Net Assets from Operations	322,151	(113,931)	-	208,220
Investment Income (Note D)	295,241	157,852	-	453,093
Change in Net Assets	617,392	43,921	-	661,313
Net Assets, Beginning Of Year	3,350,052	1,227,995	1,402,928	5,980,975
Net Assets, End Of Year	\$ 3,967,444	\$ 1,271,916	\$ 1,402,928	\$ 6,642,288

The accompanying notes are an integral part of these financial statements.

VARIETY THE CHILDREN'S CHARITY OF ST. LOUIS

Statement of Functional Expenses

Year ended September 30, 2017

	Program											Total
	Education						Sunshine Coach Vans	Total Program Expenses*	Management & General	Fundraising		
	Therapy	Recreation	Equipment	Performing Arts	Resource Center	Awareness					Total Education	
Medical equipment and therapy (Note J)	\$ 102,898	\$ -	\$ 1,165,758	\$ -	\$ -	\$ -	\$ -	\$ 56,771	\$ 1,325,427	\$ -	\$ -	\$ 1,325,427
Salaries and related expenses	117,917	231,258	263,384	182,009	13,756	125,998	321,763	6,316	940,638	261,997	385,648	1,588,283
Advertising (Note J)	50	250	-	17,685	-	466,385	484,070	-	484,370	-	35,694	520,064
Computer and equipment (Note J)	5,060	6,230	8,968	4,822	438	10,809	16,069	161	36,488	10,376	19,279	66,143
Depreciation	-	-	-	-	-	1,004	1,004	-	1,004	4,410	-	5,414
Food	-	9,969	-	7,760	-	2,438	10,198	-	20,167	3,273	12,057	35,497
Insurance	-	-	-	5,000	-	86	5,086	-	5,086	13,500	474	19,060
Office expense	589	460	853	6,776	-	856	7,632	-	9,534	40,371	4,493	54,398
Outside services and professional fees	20,227	32,241	13,164	23,005	1,503	6,353	30,861	-	96,493	26,488	190,384	313,365
Postage and printing	132	424	395	10,241	-	13,802	24,043	-	24,994	2,837	58,010	85,841
Production costs	-	19,586	-	249,498	-	-	249,498	-	269,084	-	-	269,084
Rent	11,379	22,123	21,791	58,906	1,372	9,909	70,187	504	125,984	17,009	32,591	175,584
Supplies (Note J)	-	8,336	7,952	1,823	-	363	2,186	70	18,544	-	1,724	20,268
Travel	218	6,393	1,006	9,478	55	2,471	12,004	14	19,635	2,415	6,888	28,938
Other (Note J)	-	286	681	1,214	-	488	1,702	-	2,669	2,802	18,345	23,816
Total Expenses	\$258,470	\$337,556	\$ 1,483,952	\$ 578,217	\$ 17,124	\$ 640,962	\$1,236,303	\$ 63,836	\$3,380,117	\$ 385,478	\$ 765,587	\$4,531,182

* Variety no longer provided grants to partner agencies or outings in fiscal year 2017. See Note A for further detail.

The accompanying notes are an integral part of these financial statements.

VARIETY THE CHILDREN'S CHARITY OF ST. LOUIS

Statement of Functional Expenses

Year ended September 30, 2016

	Program													Total
	Therapy	Recreation	Equipment	Education					Sunshine Coach Vans	Total Program Expenses	Management & General	Fundraising		
				Performing Arts	Resource Center	Outings	Education Programs	Awareness						
Medical equipment and therapy	\$ 84,319	\$ -	\$ 722,967	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 68,005	\$ 875,291	\$ -	\$ -	\$ 875,291
Grants to partner agencies	76,211	93,047	37,409	-	-	-	119,333	-	119,333	32,479	358,479	-	-	358,479
Salaries and related expenses	72,735	238,580	194,157	167,773	54,719	21,197	3,108	201,793	448,590	3,700	957,762	162,016	337,504	1,457,282
Advertising (Note J)	650	725	725	14,990	-	-	-	335,223	350,213	-	352,313	-	32,258	384,571
Computer and equipment (Note J)	3,768	3,828	9,810	5,102	1,865	511	143	13,469	21,090	73	38,569	5,594	19,387	63,550
Depreciation	-	-	-	-	-	-	-	1,004	1,004	-	1,004	50	-	1,054
Food	261	6,009	647	7,402	16,757	2,835	261	2,313	29,568	-	36,485	2,005	13,427	51,917
Insurance	-	-	-	3,847	-	-	-	88	3,935	-	3,935	16,170	372	20,477
Office expense (Note J)	346	778	837	5,921	134	-	-	1,367	7,422	-	9,383	38,874	3,623	51,880
Outside services and professional fees	-	7,069	3,645	8,577	3,444	-	-	2,775	14,796	-	25,510	53,280	41,694	120,484
Postage and printing	162	242	386	6,657	227	1	33	19,315	26,233	3,400	30,423	5,910	78,753	115,086
Production costs	80	600	200	261,836	10,439	-	-	139	272,414	-	273,294	-	2,392	275,686
Rent (Note J)	11,930	22,651	22,066	54,537	6,497	7,781	497	18,938	88,250	254	145,151	9,798	34,984	189,933
Supplies	-	4,141	9,896	2,155	2,142	48	-	757	5,102	-	19,139	104	1,446	20,689
Travel	192	5,493	707	8,684	873	136	13	1,542	11,248	4	17,644	818	6,568	25,030
Other (Note J)	186	502	631	888	181	-	120	506	1,695	-	3,014	3,145	11,338	17,497
Total Expenses	\$250,840	\$383,665	\$1,004,083	\$548,369	\$97,278	\$32,509	\$123,508	\$599,229	\$1,400,893	\$107,915	\$3,147,396	\$297,764	\$583,746	\$4,028,906

The accompanying notes are an integral part of these financial statements.

VARIETY THE CHILDREN'S CHARITY OF ST. LOUIS

Statements of Cash Flows

Years ended September 30, 2017 and 2016

	2017	2016
Cash Flows From Operating Activities		
Increase in net assets	\$ 671,108	\$ 661,313
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	5,414	1,054
Donated equipment (Note J)	-	(30,872)
Realized gain on investments	(647,032)	(21,388)
Unrealized (gain) loss on investments	134,149	(321,955)
Changes in assets and liabilities:		
(Increase) decrease in promises to give	129,789	(45,224)
Increase in prepaid expenses	(29,517)	(1,029)
Increase in accounts payable and accrued expenses	161,221	65,803
Increase (decrease) in deferred revenue	(9,747)	8,327
Net Cash Provided By Operating Activities	415,385	316,029
Cash Flows from Investing Activities		
Proceeds from sale of investments	4,422,606	58,173
Purchase of investments	(4,489,590)	(102,797)
Purchases of property and equipment	(3,831)	(53,132)
Net Cash Used In Investing Activities	(70,815)	(97,756)
Net Increase In Cash And Cash Equivalents	344,570	218,273
Cash And Cash Equivalents, Beginning Of Year	1,386,921	1,168,648
Cash And Cash Equivalents, End Of Year	\$ 1,731,491	\$ 1,386,921

The accompanying notes are an integral part of these financial statements.

VARIETY THE CHILDREN'S CHARITY OF ST. LOUIS

Notes to Financial Statements

September 30, 2017

Note A - Nature of Activities

For more than 80 years, Variety the Children's Charity of St. Louis (Variety) has helped thousands of children with disabilities say "I can" by providing them with vital medical equipment, as well as educational, therapeutic and recreational programs such as Variety Adventure Camp and Variety Theatre. Variety the Children's Charity also distributed grants in fiscal year 2016 to numerous qualified partner agencies throughout the St. Louis area to fund programs and/or services that directly impact the lives of children with physical and intellectual disabilities.

Significant sources of revenue include contributions from individuals and corporations, grants, special event revenue and investment income.

Description of Program Services and Supporting Activities

Therapy

Professionally prescribed therapy is often critical for children in order to sustain or improve both their physical and mental health. Variety ensures that children who need physical, occupational, speech, aqua or equine therapy receive it, no matter their ability to pay, or what their insurance is willing to cover.

Recreation

Variety Adventure Camp features a four-week day camp program in the summer, and a two-day session in the winter, and is operated exclusively for children ages 4 through 16 with physical and intellectual disabilities. Campers receive one-on-one assistance from specially trained counselors and medical professionals as they enjoy a wide range of things they often cannot experience elsewhere. These activities include rock climbing, basketball, tennis, cooking, music, art, bicycling, ice-skating, karaoke and so much more.

Starting in fiscal year 2017, a one week Teen Camp is also offered to older youth, ages 14 through 19, and includes all of the above activities, with the addition of leadership development.

Equipment

Special equipment encompasses a wide range of medically prescribed equipment with varying benefits, all designed to help each child reach their full potential. These pieces of equipment can improve mobility (wheelchairs, standers, walkers, back braces), develop communication capabilities (hearing aids, augmentative speech devices, talkers, iPad applications) and provide therapy (indoor swings, therapeutic bikes, weighted vests).

VARIETY THE CHILDREN'S CHARITY OF ST. LOUIS

Notes to Financial Statements

September 30, 2017

Note A - Nature of Activities (Continued)

Education

A large part of our programming involves the performing arts, as that is the history of our organization. Variety Theatre is an inclusive theatre program for children of all abilities, age 8 through 21, to learn on-stage and backstage theatre craft from experienced performing arts professionals. This is the only program like this in the United States. Additionally, the inclusive Variety Children's Chorus provides opportunities for children and teens to perform at a wide range of venues throughout the year, including our Dinner with the Stars fundraising event. In fact, the Children's Chorus has accepted two invitations to perform their Holiday Concert at the White House for the First Lady. In fiscal year 2017, Variety also launched a new dance program to allow children with disabilities the chance to learn and practice musical theatre-style choreography and creative movement in an inclusive setting.

Outside of the performing arts, Variety offers a wide range of educational opportunities for Variety families. The Resource Center provides valuable information and community connections to resolve the legal, social, therapeutic, educational, medical and counseling issues often encountered by families of children with disabilities. Starting in fiscal year 2017, Variety began a sibling support program to provide therapy for pre-teen and teen siblings of children with disabilities. In fiscal year 2016, the Center held the Champions for Children Summit, which brought together families, educators and experts in special needs in order to network and address growing trends in the field.

Outings were offered in fiscal year 2016 to Variety children and their families to attend St. Louis attractions for a day of learning, socialization and fun. Education departments from the selected venues partnered with Variety to provide an unforgettable experience for all in attendance, allowing the children to experience events with their siblings and parents. This was a wonderful experience for all involved, and helped our families build networks of support with each other. Past outings have included events at the Gateway Arch & Riverfront, Grant's Farm, Missouri Botanical Garden, St. Louis Art Museum, Purina Farms, St. Louis Zoo, The Magic House and The Muny.

Variety is committed to raising awareness through communication to the general public, constituent base, parents and families, partner agencies and community health care providers regarding our mission, vision, programs and events.

Variety also collaborated with various partner agencies in fiscal year 2016 to develop educational programs tailored to the needs of children with physical and intellectual disabilities, including evaluation and early intervention. Programs are carefully monitored and reviewed for maximum results.

VARIETY THE CHILDREN'S CHARITY OF ST. LOUIS

Notes to Financial Statements

September 30, 2017

Note A - Nature of Activities (Continued)

Sunshine Coach Vans

Accessible vans are also given away to families in need to transport children with power wheelchairs to medical appointments, school and other daily activities. During fiscal year 2016, Sunshine Coach Vans were provided to Variety partner agencies through the grant process and utilized to transport children to physician visits, therapy sessions, and educational and recreational activities.

Note B - Summary of Significant Accounting Policies

Basis of Presentation

Financial statement presentation follows the requirements of Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958-205 (*Presentation of Financial Statements*) which requires Variety to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Estimates

Variety uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Cash and Cash Equivalents

Variety considers all cash investment instruments with original maturities of less than 90 days to be cash equivalents. Variety maintains cash accounts at one national financial institution. At times, bank balances exceed federal depository insurance limits of \$250,000 per financial institution. Cash balances in excess of FDIC limits amounted to \$1,628,241 at September 30, 2017 and \$1,220,136 at September 30, 2016.

Promises to Give

Promises to give consist of unconditional contributions and grants. Conditional promises to give, which depend upon specified future and uncertain events, are recognized as support when the conditions upon which they depend are substantially met.

Based on a review of outstanding balances and past collection history, management does not believe an allowance for uncollectible promises to give is necessary. Management closely monitors outstanding balances and writes off, through a charge to earnings, balances when they are deemed uncollectible.

VARIETY THE CHILDREN'S CHARITY OF ST. LOUIS

Notes to Financial Statements

September 30, 2017

Note B - Summary of Significant Accounting Policies (Continued)

Investments

Variety invests in various investment securities. Marketable investments are carried at market value as quoted on major security exchanges. Investments for which quoted market prices are not available are carried at estimated realizable values as determined by the fund managers and are reviewed by management. Certificates of deposit are carried at cost plus accrued interest, which approximates fair value. Gains or losses on sale of investments are determined on a specific cost identification method. Unrealized gains and losses are determined based on year-end fair value fluctuations.

Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Statement of Financial Position.

Property and Equipment

Property and equipment is carried at cost, less accumulated depreciation. The assets are depreciated over periods ranging from three to seven years using the straight-line method. Property and equipment consists of computer equipment and software, construction in progress, office furniture and equipment, and vehicles.

Deferred Revenue

Program revenue includes ticket sales. Revenue from ticket sales is recognized in the fiscal year of the program or performance. Proceeds from ticket sales received prior to year-end for the next fiscal year are deferred and recognized as revenue in the next fiscal year.

Restricted and Unrestricted Revenue and Support

Variety reports gifts of cash and other assets received without donor stipulations as unrestricted. Support that is restricted by the donor or which extends beyond the year is reported as temporarily or permanently restricted. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted and reported in the Statement of Activities as net assets released from restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized.

VARIETY THE CHILDREN'S CHARITY OF ST. LOUIS

Notes to Financial Statements

September 30, 2017

Note B - Summary of Significant Accounting Policies (Continued)

Expense Allocation

Expenses are charged to program services and supporting activities on the basis of periodic time and expense studies. Management and general expenses include those expenses that provide for the overall support and direction of Variety. Fundraising expenses support activities related to identifying and accessing the resources necessary to maintain operations and achieve programmatic goals.

Donated Services, Use of Facilities, and Materials

Significant services, use of facilities and materials are donated to Variety by various organizations and individuals. Donated materials and use of facilities are recorded at fair value at the date of donation. Donated services that meet the criteria for recognition under FASB ASC 958-605-25 (*Not-For-Profit Organizations Revenue Recognition*) are recorded. For the year ended September 30, 2017, the value of donated materials, use of facilities and services recorded was \$631,253, with \$528,956 reflected as in-kind revenue and \$102,297 as special event revenue on the Statement of Activities. For the year ended September 30, 2016, the value was \$584,171, with \$453,189 reflected as in-kind revenue and \$130,982 as special event revenue. In addition, a substantial number of volunteers have donated a significant amount of time to Variety's programs. However, such donated services have not been recorded because they do not meet the criteria for recognition under FASB ASC 958-605-25.

Tax Status

Variety constitutes a qualified not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code and is, therefore, exempt from federal income taxes.

Variety has addressed the provisions of FASB ASC 740 (*Accounting for Income Taxes*). In that regard, Variety has evaluated its tax positions, expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings and believes that no provision for income taxes is necessary, at this time, to cover any uncertain tax positions.

Advertising

Advertising costs are expensed as incurred. Advertising costs amounted to \$520,064 and \$384,571 in 2017 and 2016 respectively. Included in advertising expense for the years ended September 30, 2017 and 2016, respectively is \$483,340 and \$346,720 of in-kind advertising that consisted of "turn off your cellphones" awareness policy spots at Marcus Wehrenberg theatres.

VARIETY THE CHILDREN'S CHARITY OF ST. LOUIS

Notes to Financial Statements

September 30, 2017

Note B - Summary of Significant Accounting Policies (Continued)

Joint Costs

Variety achieves some of its programmatic and management and general goals in special events and marketing campaigns that include requests for contributions.

During the years ended September 30, 2017 and 2016, Variety incurred joint costs of \$439,307 and \$448,589, respectively, as a result of various events held during Variety Week that benefited both program and fundraising objectives. Variety allocated \$353,393 to fundraising expenses and \$85,914 to program expenses for the year ended September 30, 2017. For the year ended September 30, 2016, Variety allocated \$366,105 to fundraising expenses and \$82,484 to program expenses.

During the years ended September 30, 2017 and 2016, Variety incurred joint costs of \$489,092 and \$356,497, respectively, as a result of marketing and digital media that benefited program, management and general and fundraising objectives. Variety allocated \$25,009 to fundraising expenses, \$85 to management and general expenses and \$463,998 to program expenses for the year ended September 30, 2017. For the year ended September 30, 2016, Variety allocated \$21,335 to fundraising expenses, \$310 to management and general expenses and \$334,852 to program expenses.

Reclassification

Certain reclassifications have been made to the 2016 financial statement presentation. Net assets and changes in net assets are unchanged due to these reclassifications.

Subsequent Events

Management has evaluated subsequent events through December 11, 2017, the date which the financial statements were available for issue. No events require recognition in the financial statements or disclosures of Variety per the definitions and requirements of FASB ASC 855-10 (*Subsequent Events*).

VARIETY THE CHILDREN'S CHARITY OF ST. LOUIS

Notes to Financial Statements

September 30, 2017

Note C - Promises to Give

Promises to give represent pledges which have been made by donors but not yet received by Variety. Promises to give are collectible as follows:

	<u>2017</u>	<u>2016</u>
Due in less than one year	\$ 492,900	\$ 625,502
Due in one to five years	100,000	100,000
	<u>592,900</u>	<u>725,502</u>
Less: discount on promises to give	(5,853)	(8,666)
	<u>\$ 587,047</u>	<u>\$ 716,836</u>

Promises to give are recorded after discounting to the present value of future cash flows using a discount rate of 3.25%.

Note D - Investments and Fair Value Measurements

Variety accounts for certain investments at fair value in accordance with accounting principles generally accepted in the United States of America. Variety has adopted FASB ASC 820-10 (*Fair Value Measurements and Disclosures*). FASB ASC 820-10 establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

FASB ASC 820-10 defines fair value as 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. FASB ASC 820-10 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

VARIETY THE CHILDREN'S CHARITY OF ST. LOUIS

Notes to Financial Statements

September 30, 2017

Note D - Investments and Fair Value Measurements (Continued)

There are three general valuation techniques that may be used to measure fair value:

- **Market Approach** – Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
- **Cost Approach** – Based on the amount that currently would be required to replace the service capacity of an asset.
- **Income Approach** – Uses valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts.

Investments measured and reported at fair value are classified and disclosed in one of the following three levels:

- **Level 1:** Observable inputs that are derived from quoted prices (unadjusted) for identical assets or liabilities in an active market.
- **Level 2:** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in active markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- **Level 3:** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities and reflect substantial management judgement or estimation using available market data.

Management determines the fair value measurement valuation policies and procedures, which are subject to Board of Directors assessment and approval. At least annually, management determines if the current valuation techniques used in fair value measurements are still appropriate. During the years ending September 30, 2017 and 2016, there were no changes in the methods and/or assumptions utilized to derive the fair value of Variety's assets.

VARIETY THE CHILDREN'S CHARITY OF ST. LOUIS

Notes to Financial Statements

September 30, 2017

Note D - Investments and Fair Value Measurements (Continued)

As of September 30, 2017 and 2016, assets utilize the following valuation techniques and inputs:

- **Bonds:** The fair value of investments in governmental obligations is primarily determined using techniques consistent with the income approach. Significant observable inputs to the income approach include data points for benchmark constant maturity curves and spreads.
- **Equities and Securities:** The fair value of investments in equities and securities is determined by the closing price reporting on the active market on which the individual securities are traded.

Variety recognizes transfers, if any, between levels in the fair value hierarchy at the end of the reporting period. There were no transfers during the years ended September 30, 2017 and 2016.

Investments, including those restricted for permanent endowment, consist of the following at September 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Inflation protected bond	\$ -	\$ 202,408	\$ -	\$ 202,408
Equity funds				
Domestic	2,123,482	-	-	2,123,482
Emerging markets	380,119	-	-	380,119
International	1,052,785	-	-	1,052,785
Market neutral	293,210	-	-	293,210
Real estate	156,182	-	-	156,182
Total securities	<u>\$4,005,778</u>	<u>\$ 202,408</u>	<u>\$ -</u>	<u>\$4,208,186</u>

Investments required to be disclosed in the fair value hierarchy	\$4,208,186
Cash and cash equivalents	582,910
Certificates of deposit	595,577
Total investments	<u>\$5,386,673</u>

VARIETY THE CHILDREN'S CHARITY OF ST. LOUIS

Notes to Financial Statements

September 30, 2017

Note D - Investments and Fair Value Measurements (Continued)

Investments, including those restricted for permanent endowment, consist of the following at September 30, 2016:

	Level 1	Level 2	Level 3	Fair Value
Bond funds				
Emerging markets	\$ 61,263	\$ -	\$ -	\$ 61,263
Inflation protected	312,610	-	-	312,610
International	154,236	-	-	154,236
Short term	110,029	-	-	110,029
Mid term	488,639	-	-	488,639
Long term	209,160	-	-	209,160
Equity funds				
Commodities	97,805	-	-	97,805
Domestic	1,995,538	-	-	1,995,538
Emerging markets	265,920	-	-	265,920
International	527,084	-	-	527,084
Real estate	348,486	-	-	348,486
Total securities	<u>\$4,570,770</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$4,570,770</u>
Investments required to be disclosed in the fair value hierarchy				\$4,570,770
Cash and cash equivalents				<u>236,036</u>
Total investments				<u><u>\$4,806,806</u></u>

Investments are included in the Statement of Financial Position as follows:

	<u>2017</u>	<u>2016</u>
Investments	\$3,983,745	\$3,403,878
Assets restricted for permanent investment	1,402,928	1,402,928
	<u>\$5,386,673</u>	<u>\$4,806,806</u>

VARIETY THE CHILDREN'S CHARITY OF ST. LOUIS

Notes to Financial Statements

September 30, 2017

Note D - Investments and Fair Value Measurements (Continued)

Investment income consists of:

	<u>2017</u>	<u>2016</u>
Investment income	\$ 105,626	\$ 110,050
Realized gain on the sale of investments	647,032	21,388
Unrealized gain (loss) on investments	(134,149)	321,955
Investment fees	(19,035)	(300)
	<u>\$ 599,474</u>	<u>\$ 453,093</u>

Note E - Net Assets

Board-Designated Net Assets

In addition to board-designated for endowment net assets as described in Note G, Variety has board-designated net assets for a reserve fund. Board-designated net assets for a reserve fund are comprised of funds held in cash and cash equivalents for Variety programs.

Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for the following:

	<u>2017</u>	<u>2016</u>
Variety Adventure Camp	\$ 15,867	\$ 26,750
Variety Adventure Camp Endowment - unappropriated endowment earnings (Note G)	285,047	133,015
Variety Playground	291,531	291,531
Performing Arts	209,176	135,597
Bikes for Kids	234,547	163,938
Resource Center	84,582	51,875
Awareness Programs	5,567	-
Equipment	45,657	154,285
Therapy	79,394	7,414
Time restrictions	112,706	307,511
	<u>\$ 1,364,074</u>	<u>\$ 1,271,916</u>

VARIETY THE CHILDREN'S CHARITY OF ST. LOUIS

Notes to Financial Statements

September 30, 2017

Note E - Net Assets (Continued)

Net assets released from restrictions consist of the following:

	<u>2017</u>	<u>2016</u>
Program restrictions	\$ 419,244	\$ 411,061
Time restrictions	<u>307,510</u>	<u>233,800</u>
	<u>\$ 726,754</u>	<u>\$ 644,861</u>

Releases for program restrictions include \$62,579 and \$72,882 of appropriation of endowment earnings for Variety Adventure Camp in 2017 and 2016, respectively (Note G).

Permanently Restricted Net Assets

Permanently restricted net assets are restricted for the following:

	<u>2017</u>	<u>2016</u>
Variety Adventure Camp	<u>\$1,402,928</u>	<u>\$ 1,402,928</u>

Note F - Benefit Plan

Variety has a Simple IRA plan which allows eligible employees to make tax-deferred contributions. In addition, Variety makes 100% matching contributions up to 3% of participating employees' wages on behalf of eligible employees. Variety's contributions to the Plan were \$33,208 and \$28,838 for the years ended September 30, 2017 and 2016, respectively.

Note G - Endowment Funds – Board-Designated and Donor-Restricted

Variety's endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

VARIETY THE CHILDREN'S CHARITY OF ST. LOUIS

Notes to Financial Statements

September 30, 2017

Note G - Endowment Funds – Board-Designated and Donor-Restricted (Continued)

The Board of Directors of Variety has interpreted the 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 explicit donor stipulations to the contrary. As a result of this interpretation, Variety 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 for expenditure by Variety in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Variety 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 Variety, and (7) Variety's investment policies.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires Variety to retain as a fund of perpetual duration. No endowments were underwater at September 30, 2017 and 2016, respectively.

Variety has adopted investment and spending policies for endowment assets to achieve the following objectives: a) preservation of capital, b) generation of income to help fulfill the operating needs of Variety, and c) growth of the principal asset value at a rate greater than inflation as measured by the Consumer Price Index. Achieving these objectives requires assuming a moderate level of risk, a long-term investment horizon and diversification among assets. Assets shall be diversified among the following asset classes: a) cash and equivalents consisting of obligations of the U.S. government, U.S. agencies, and corporate issues rated "A" or better and the two highest grades of commercial paper, b) fixed income securities rated not less than "A" by Moody's or Standard and Poor's with staggered maturity dates, and c) equities publicly traded on U.S. Exchanges, NASDAQ listed stocks and securities convertible into stocks plus a limited amount in foreign stocks. The portfolio is invested in passive, low-cost mutual or exchange-traded funds which should be expected to produce rates of return in line with their respective asset classes.

VARIETY THE CHILDREN'S CHARITY OF ST. LOUIS

Notes to Financial Statements

September 30, 2017

Note G - Endowment Funds – Board-Designated and Donor-Restricted (Continued)

Income earned by the board-designated endowment assets, as well as net appreciation (both realized and unrealized) in the fair market value of the principal assets over the historic dollar value of such principal, may be initially expended, at the discretion of the Endowment Committee, to ensure that vitally essential medical equipment is provided, based on need, to children with disabilities. Once the funds needed to perpetuate this goal have been obtained, the income and net appreciation may be expended for any purpose the Endowment Committee deems to be in the best interest of Variety, including but not limited to: providing supplemental support of annual general operating revenues; providing financial assistance to ongoing and new programs; and compensating and training appropriate staff to support the Board in carrying out Variety's mission.

For the donor-restricted endowment, Variety may use a maximum of four percent of the total amount of the fund, based on the value of the fund as determined at December 31 of the preceding year, to support Variety Adventure Camp.

Endowment funds consist of the following at September 30:

	<u>2017</u>			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Board-designated endowment	\$ 3,407,166	\$ -	\$ -	\$ 3,407,166
Donor-restricted endowment	-	285,047	1,402,928	1,687,975
	<u>\$ 3,407,166</u>	<u>\$ 285,047</u>	<u>\$ 1,402,928</u>	<u>\$ 5,095,141</u>

	<u>2016</u>			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Board-designated endowment	\$ 2,979,332	\$ -	\$ -	\$ 2,979,332
Donor-restricted endowment	-	133,015	1,402,928	1,535,943
	<u>\$ 2,979,332</u>	<u>\$ 133,015</u>	<u>\$ 1,402,928</u>	<u>\$ 4,515,275</u>

VARIETY THE CHILDREN'S CHARITY OF ST. LOUIS

Notes to Financial Statements

September 30, 2017

Note G - Endowment Funds – Board-Designated and Donor-Restricted (Continued)

The changes in endowment net assets are as follows for the year ended September 30:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets at October 1, 2015	\$ 2,676,335	\$ 48,045	\$ 1,402,928	\$ 4,127,308
Transfers to Board- Designated Endowment	7,756	-	-	7,756
Interest and dividends	69,941	40,109	-	110,050
Realized gain	-	21,388	-	21,388
Unrealized gain	225,450	96,505	-	321,955
Investment fees	(150)	(150)	-	(300)
Total Investment Income	295,241	157,852	-	453,093
Appropriation of endowment earnings	-	(72,882)	-	(72,882)
Endowment Net Assets at September 30, 2016	<u>\$ 2,979,332</u>	<u>\$ 133,015</u>	<u>\$ 1,402,928</u>	<u>\$ 4,515,275</u>
Endowment Net Assets at October 1, 2016	\$ 2,979,332	\$ 133,015	\$ 1,402,928	\$ 4,515,275
Transfers to Board- Designated Endowment	42,971	-	-	42,971
Interest and dividends	67,975	37,651	-	105,626
Realized gain	406,232	240,800	-	647,032
Unrealized loss	(77,014)	(57,135)	-	(134,149)
Investment fees	(12,330)	(6,705)	-	(19,035)
Total Investment Income	384,863	214,611	-	599,474
Appropriation of endowment earnings	-	(62,579)	-	(62,579)
Endowment Net Assets at September 30, 2017	<u>\$ 3,407,166</u>	<u>\$ 285,047</u>	<u>\$ 1,402,928</u>	<u>\$ 5,095,141</u>

VARIETY THE CHILDREN'S CHARITY OF ST. LOUIS

Notes to Financial Statements

September 30, 2017

Note H - Lease Commitment

Variety has operating leases for office space and equipment. Future minimum lease payments as of September 30, 2017 are as follows:

<u>Years ending September 30th</u>	<u>Amount</u>
2018	\$125,389
2019	132,083
2020	131,647
2021	131,218

Rent expense resulting from lease commitments included in the financial statements totaled \$119,908 and \$85,590 for the years ended September 30, 2017 and 2016, respectively.

Note I - Special Events

Special events consist of:

	<u>2017</u>	<u>2016</u>
Event table and ticket sales	\$ 1,158,173	\$ 1,114,827
Contributions for underwriting support	1,269,981	1,009,660
Auction revenue	38,433	36,460
Program book ad sales	10,500	13,100
In-kind revenue	102,297	130,982
Other revenue	5,570	12,008
Gross special event revenue	<u>2,584,954</u>	<u>2,317,037</u>
Less: direct event expenses	<u>1,424,693</u>	<u>1,175,623</u>
Special event revenue (net)	<u>\$ 1,160,261</u>	<u>\$ 1,141,414</u>

VARIETY THE CHILDREN'S CHARITY OF ST. LOUIS

Notes to Financial Statements

September 30, 2017

Note J - In-Kind Revenue

In-kind revenue consists of:

	<u>2017</u>	<u>2016</u>
Advertising	\$ 483,340	\$ 346,720
Computer and equipment	18,595	18,120
Equipment	-	30,872
Medical equipment	11,288	-
Office expense	-	610
Rent	-	48,667
Supplies	233	-
Other	15,500	8,200
	<u>\$ 528,956</u>	<u>\$ 453,189</u>

Note K - Related Party Transactions

Members of the Board of Directors and their related organizations contributed \$2,858,395 and \$2,305,031 in cash and non-cash contributions and special event support for the years ended September 30, 2017 and 2016, respectively.