

VARIETY – THE CHILDREN’S CHARITY OF IOWA

FINANCIAL REPORT

**YEAR ENDED
SEPTEMBER 30, 2018 AND 2017**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Variety – The Children's Charity of Iowa
Des Moines, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of Variety – The Children's Charity of Iowa (a nonprofit organization), which comprise the statements of financial position as of September 30, 2018 and 2017, and the related statements of activities, functional expense, 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 of 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 entity'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 entity'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 Iowa as of September 30, 2018 and 2017, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Desmond CPA, PLLC

West Des Moines, Iowa
February 4, 2019

**VARIETY - THE CHILDREN'S CHARITY
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2018 AND 2017**

ASSETS

| | 2018 | 2017 |
|--|--------------|--------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 1,533,038 | \$ 1,438,305 |
| Contributions receivable, net of allowance for doubtful accounts 2018 \$16,397; 2017 \$33,194 | 705,624 | 316,633 |
| Prepaid expenses | 77,607 | 32,737 |
| Total current assets | \$ 2,316,269 | \$ 1,787,675 |
| Interest in assets held by Community Foundation of Greater Des Moines | \$ 777,868 | \$ 254,954 |
| Office equipment, net of accumulated depreciation 2018 \$100,026; 2017 \$97,166 | 6,687 | 4,446 |
| | \$ 784,555 | \$ 259,400 |
| Total assets | \$ 3,100,824 | \$ 2,047,075 |

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

| | | |
|---------------------------|------------|------------|
| Accounts payable | \$ 32,957 | \$ 37,337 |
| Accrued payroll taxes | 1,739 | 12,599 |
| Deferred revenue | 35,750 | 31,877 |
| Charity grants payable | 766,689 | 864,377 |
| Total current liabilities | \$ 837,135 | \$ 946,190 |

NET ASSETS

| | | |
|----------------------------------|--------------|--------------|
| Unrestricted | \$ 1,226,548 | \$ 454,699 |
| Temporarily restricted | 1,037,141 | 646,186 |
| Total net assets | \$ 2,263,689 | \$ 1,100,885 |
| Total liabilities and net assets | \$ 3,100,824 | \$ 2,047,075 |

See Notes to Financial Statements.

VARIETY - THE CHILDREN'S CHARITY
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2018

| | Unrestricted | Temporarily Restricted | Total |
|---|--------------|---------------------------|--------------|
| REVENUE AND CONTRIBUTIONS | | | |
| SPECIAL EVENTS | | | |
| Star Playground | \$ - | \$ 280,823 | \$ 280,823 |
| Black Tie Dinner | 164,063 | 23,365 | 187,428 |
| Golf Outings | 134,523 | - | 134,523 |
| Polo on the Green | 278,530 | 27,778 | 306,308 |
| Radiothon | 65,480 | 103,321 | 168,801 |
| Sportsman's Stag | 299,937 | 29,300 | 329,237 |
| Telethons | 2,279,710 | 135,820 | 2,415,530 |
| Other Special Events | 178,432 | 24,295 | 202,727 |
| Less costs of direct benefits to donors | (158,256) | - | (158,256) |
| OTHER REVENUES | | | |
| Interest | 5,423 | - | 5,423 |
| Endowment | 250,000 | - | 250,000 |
| Other | 19,273 | 30,047 | 49,320 |
| Change in value of interest of assets held by Community | | | |
| Foundation of Greater Des Moines | 12,167 | - | 12,167 |
| Total amount raised | \$ 3,529,282 | \$ 654,749 | \$ 4,184,031 |
| Less donor designated funds | (137,400) | - | (137,400) |
| | \$ 3,391,882 | \$ 654,749 | \$ 4,046,631 |
| Net assets released from restrictions, satisfaction of donor restrictions | 263,794 | (263,794) | - |
| Net revenue, contributions and assets released from restrictions | \$ 3,655,676 | \$ 390,955 | \$ 4,046,631 |
| CHARITY GRANTS | | | |
| Charity grants | \$ 1,962,260 | \$ - | \$ 1,962,260 |
| Less donor designated funds | (137,400) | - | (137,400) |
| | \$ 1,824,860 | \$ - | \$ 1,824,860 |
| SPECIAL EVENTS - DIRECT EXPENSES | | | |
| Black Tie Dinner | 41,692 | - | 41,692 |
| Golf Outings | 34,232 | - | 34,232 |
| Polo on the Green | 100,042 | - | 100,042 |
| Radiothon | 35,840 | - | 35,840 |
| Sportsman's Stag | 78,746 | - | 78,746 |
| Telethons | 215,020 | - | 215,020 |
| Other Special Events | 29,198 | - | 29,198 |
| Less costs of direct benefits to donors | (158,256) | - | (158,256) |
| OTHER EXPENSES | | | |
| Program Services | 216,187 | - | 216,187 |
| Administrative | 157,679 | - | 157,679 |
| Fundraising | 308,587 | - | 308,587 |
| Total charity grants and expenses | \$ 2,883,827 | \$ - | \$ 2,883,827 |
| CHANGE IN NET ASSETS | \$ 771,849 | \$ 390,955 | \$ 1,162,804 |
| NET ASSETS, beginning | 454,699 | 646,186 | 1,100,885 |
| NET ASSETS, ending | \$ 1,226,548 | \$ 1,037,141 | \$ 2,263,689 |

See Notes to Financial Statements.

VARIETY - THE CHILDREN'S CHARITY
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2017

| | Unrestricted | Temporarily Restricted | Total |
|---|---------------------|-----------------------------------|---------------------|
| REVENUE AND CONTRIBUTIONS | | | |
| SPECIAL EVENTS | | | |
| Star Playground | \$ - | \$ 324,713 | \$ 324,713 |
| Black Tie Dinner | 199,215 | 15,650 | 214,865 |
| Golf Outings | 135,890 | - | 135,890 |
| Polo on the Green | 213,218 | 200 | 213,418 |
| Radiothon | 68,563 | 96,914 | 165,477 |
| Sportsman's Stag | 206,406 | 38,500 | 244,906 |
| Telethons | 2,798,036 | 156,556 | 2,954,592 |
| Other Special Events | 207,321 | 2,215 | 209,536 |
| Less costs of direct benefits to donors | (177,600) | - | (177,600) |
| OTHER REVENUES | | | |
| Dues | 2,210 | - | 2,210 |
| Interest | 2,945 | - | 2,945 |
| Change in value of interest of assets held by Community | | | |
| Foundation of Greater Des Moines | 12,142 | - | 12,142 |
| Other | 19,184 | 32,312 | 51,496 |
| Total amount raised | \$ 3,687,530 | \$ 667,060 | \$ 4,354,590 |
| Less donor designated funds | (521,400) | | (521,400) |
| | \$ 3,166,130 | \$ 667,060 | \$ 3,833,190 |
| Net assets released from restrictions, satisfaction of donor restrictions | 741,401 | (741,401) | - |
| Net revenue, contributions and assets released from restrictions | \$ 3,907,531 | \$ (74,341) | \$ 3,833,190 |
| CHARITY GRANTS | | | |
| Charity grants | \$ 3,155,074 | \$ - | \$ 3,155,074 |
| Less donor designated funds | (521,400) | - | (521,400) |
| | \$ 2,633,674 | \$ - | \$ 2,633,674 |
| SPECIAL EVENTS - DIRECT EXPENSES | | | |
| Black Tie Dinner | 61,073 | - | 61,073 |
| Golf Outings | 34,058 | - | 34,058 |
| Polo on the Green | 99,448 | - | 99,448 |
| Radiothon | 32,840 | - | 32,840 |
| Sportsman's Stag | 57,572 | - | 57,572 |
| Telethons | 230,750 | - | 230,750 |
| Other Special Events | 26,493 | - | 26,493 |
| Less costs of direct benefits to donors | (177,600) | - | (177,600) |
| OTHER EXPENSES | | | |
| Program Services | 219,642 | - | 219,642 |
| Administrative | 146,733 | - | 146,733 |
| Fundraising | 313,719 | - | 313,719 |
| Total charity grants and expenses | \$ 3,678,402 | \$ - | \$ 3,678,402 |
| CHANGE IN NET ASSETS | \$ 229,129 | \$ (74,341) | \$ 154,788 |
| NET ASSETS, beginning | 225,570 | 720,527 | 946,097 |
| NET ASSETS, ending | \$ 454,699 | \$ 646,186 | \$ 1,100,885 |

See Notes to Financial Statements.

VARIETY - THE CHILDREN'S CHARITY
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2018

| | Program Services | Administrative | Fundraising | Total |
|---------------------------------------|-----------------------------|-----------------------|--------------------|---------------------|
| Charity grants, less designated funds | \$ 1,824,860 | \$ - | \$ - | \$ 1,824,860 |
| Special events - direct expenses | \$ - | \$ - | \$ 534,770 | \$ 534,770 |
| Expenses: | | | | |
| Salaries, payroll taxes and benefits | \$ 168,259 | \$ 97,328 | \$ 245,855 | \$ 511,442 |
| International dues | - | 35,516 | - | 35,516 |
| Professional fees | 2,204 | 1,275 | 3,221 | 6,700 |
| Supplies | 440 | 148 | 374 | 962 |
| Telephone and internet | 2,426 | 1,403 | 3,544 | 7,373 |
| Postage and shipping | 1,640 | 689 | 1,741 | 4,070 |
| Office and occupancy | 15,355 | 8,882 | 22,436 | 46,673 |
| Equipment rental and maintenance | 3,541 | 2,049 | 5,175 | 10,765 |
| Printing and publications | 821 | 296 | 747 | 1,864 |
| Travel | 3,145 | 689 | 1,739 | 5,573 |
| Conferences and meetings | 2,520 | 1,202 | 3,037 | 6,759 |
| Depreciation | 941 | 544 | 1,375 | 2,860 |
| Insurance | 3,439 | 1,989 | 5,025 | 10,453 |
| Marketing | 8,301 | 4,802 | 12,130 | 25,233 |
| Other | 3,155 | 867 | 2,188 | 6,210 |
| | <u>\$ 216,187</u> | <u>\$ 157,679</u> | <u>\$ 308,587</u> | <u>\$ 682,453</u> |
| | <u>\$ 2,041,047</u> | <u>\$ 157,679</u> | <u>\$ 843,357</u> | <u>\$ 3,042,083</u> |

See Notes to Financial Statements.

VARIETY - THE CHILDREN'S CHARITY
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2017

| | <u>Program Services</u> | <u>Administrative</u> | <u>Fundraising</u> | <u>Total</u> |
|---------------------------------------|-----------------------------|-----------------------|--------------------|---------------------|
| Charity grants, less designated funds | \$ 2,633,674 | \$ - | \$ - | \$ 2,633,674 |
| Special events - direct expenses | \$ - | \$ - | \$ 364,634 | \$ 364,634 |
| Expenses: | | | | |
| Salaries, payroll taxes and benefits | \$ 170,354 | \$ 93,918 | \$ 253,896 | \$ 518,168 |
| International dues | - | 30,686 | - | 30,686 |
| Professional fees | 2,209 | 1,218 | 3,293 | 6,720 |
| Supplies | 911 | 443 | 1,197 | 2,551 |
| Telephone and internet | 2,287 | 1,261 | 3,408 | 6,956 |
| Postage and shipping | 761 | 194 | 524 | 1,479 |
| Office and occupancy | 14,963 | 8,249 | 22,301 | 45,513 |
| Equipment rental and maintenance | 939 | 517 | 1,399 | 2,855 |
| Printing and publications | 1,598 | 430 | 1,161 | 3,189 |
| Travel | 3,727 | 614 | 1,658 | 5,999 |
| Conferences and meetings | 5,884 | 2,202 | 5,954 | 14,040 |
| Depreciation | 829 | 457 | 1,235 | 2,521 |
| Insurance | 2,875 | 1,585 | 4,286 | 8,746 |
| Marketing | 8,455 | 3,876 | 10,478 | 22,809 |
| Other | 3,850 | 1,083 | 2,929 | 7,862 |
| | <u>\$ 219,642</u> | <u>\$ 146,733</u> | <u>\$ 313,719</u> | <u>\$ 680,094</u> |
| | <u>\$ 2,853,316</u> | <u>\$ 146,733</u> | <u>\$ 678,353</u> | <u>\$ 3,678,402</u> |

See Notes to Financial Statements.

VARIETY - THE CHILDREN'S CHARITY
STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2018 AND 2017

| | 2018 | 2017 |
|---|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 1,162,804 | \$ 154,788 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 2,860 | 2,521 |
| Change in value of interest in assets held by Community Foundation of Greater Des Moines | (16,414) | (13,980) |
| Change in assets and liabilities: | | |
| (Increase)decrease in contributions receivable | (388,991) | 102,438 |
| (Increase) in prepaid expenses | (44,870) | (16,208) |
| (Decrease)increase in accounts payable | (4,381) | (26,329) |
| (Decrease)increase in accrued payroll taxes | (10,860) | 1,610 |
| Increase in deferred revenue | 3,873 | 31,877 |
| (Decrease)increase in charitable grants payable | (97,688) | 305,421 |
| Net cash provided by operating activities | \$ 606,333 | \$ 542,138 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of equipment | \$ (5,100) | \$ (1,750) |
| Transfers to Community Foundation of Greater Des Moines | (506,500) | (128,000) |
| Net cash (used in) investing activities | \$ (511,600) | \$ (129,750) |
| Increase in cash and cash equivalents | \$ 94,733 | \$ 412,388 |
| Cash and cash equivalents at beginning of year | 1,438,305 | 1,025,917 |
| Cash and cash equivalents at end of year | \$ 1,533,038 | \$ 1,438,305 |

See Notes to Financial Statements.

VARIETY – THE CHILDREN’S CHARITY OF IOWA

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2018 AND 2017

Note 1. Nature of Activities and Significant Accounting Policies

Nature of organization:

Variety - The Children’s Charity of Iowa (Variety) is organized to raise, manage, and administer contributions for other nonprofit and charitable organizations, thereby enhancing and benefiting services to the children of Iowa. Variety is affiliated with Variety International, and Variety’s main event is an annual telethon. Variety receives most of its revenue through private, individual, and corporate contributions.

Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires Variety’s management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses including functional allocations, during the reporting period. Actual results could differ from those estimates.

Unrestricted, temporarily restricted and permanently restricted net assets:

The financial statements of Variety have been prepared on the accrual basis of accounting. Net assets, revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, Variety presents the following categories of revenues and expenses on its statements of activities:

Unrestricted net assets:

Net assets that are not subject to donor-imposed restrictions. Variety’s Board of Directors may designate portions of its unrestricted net assets as board-designated for various purposes.

Temporarily restricted net assets:

Net assets subject to donor-imposed restrictions that will be met by the actions of Variety or by the passage of time.

Permanently restricted net assets:

Net assets subject to donor-imposed restrictions to be maintained in perpetuity.

Cash and cash equivalents:

Variety considers unrestricted and restricted cash (including certificates of deposits) and highly liquid debt instruments purchased with an original maturity of three months or less to be cash and cash equivalents for the purpose of the cash flow statement.

VARIETY – THE CHILDREN’S CHARITY OF IOWA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2018 AND 2017

Note 1. Nature of Activities and Significant Accounting Policies (*Continued*)

Interest in assets held by Community Foundation of Greater Des Moines:

Investments are recorded at fair value. Realized gains/losses and the change in unrealized appreciation on investments are included in net gains/losses on investments and reported as revenue in the statements of activities.

Contributions receivable:

Contributions received, including unconditional promises to give, are recognized as revenue in the period received and contributions receivable are recognized when they become unconditional; that is, when the conditions on which they depend are substantially met. Outstanding donor contributions are recorded in the year pledged at the amount estimated to be collectible. Variety anticipates that contributions receivable will be collected within one year.

Equipment:

All acquisitions of equipment in excess of \$1,000 are capitalized. Equipment is stated at cost and depreciated by the straight-line and accelerated methods over the estimated useful lives of the related assets.

Charity grants payable:

Charity grants payable represent the grants that have been authorized by the Board of Directors of Variety to be disbursed to various charities from monies raised through April 30, 2018.

Contributions:

Variety considers all contributions to be unrestricted unless specifically restricted by the donor. Amounts received that are designated for future periods or specific purposes are reported as temporarily restricted support. When a donor restriction expires (i.e., when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

Donor-designated funds:

Variety receives and disburses certain donor-designated funds representing contributions designated by the donor for a specific charity served by Variety. Variety does not have the ability to vary the designation. Donor-designated funds are included in the total amount raised, but excluded from net revenue and contributions.

Donated services, materials and facilities:

Many volunteers donate significant amounts of time to the fundraising activities of Variety; however, these donated services are not reflected in the financial statements since their services do not require specialized skills. Donated professional services are reflected in the statements of activities at their fair value. Significant materials and other assets received as donations are recorded and reflected in the accompanying financial statements at their fair values on the date of receipt.

VARIETY – THE CHILDREN’S CHARITY OF IOWA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2018 AND 2017

Note 1. Nature of Activities and Significant Accounting Policies (*Continued*)

Statements of functional expenses:

Expenses are attributed to Variety’s primary functions of program services, fundraising and administration based on specific identification where possible. When specific identification is not possible, indirect expenses are allocated to a particular function using time studies and estimates made by management. Program service expenses include the cost to manage certain charitable programs offered by Variety such as the annual charity grants process, the John R. Grubb Variety Transportation Program, Kids on the Go! Mobility Program and other Variety programs. Fundraising expenses arise from conducting special events and soliciting contributions, gifts and grants. Administrative expenses include expenses that are not directly related to programming or fundraising but still support the overall operation of Variety.

Income tax status and accounting for uncertain tax positions:

Variety is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and annually files a federal return as an exempt organization. Variety has been classified as other than a private foundation by the Internal Revenue Service. As such, Variety owes taxes on “unrelated trade or business” income to the extent that it exceeds expenses attributable to such income. No unrelated trade or business income was generated during the fiscal year by Variety.

Variety has a determination letter from the IRS stating Variety is exempt from income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code. Variety has filed a Form 990 tax return in the U.S. federal jurisdiction. Management of Variety believes they have no material uncertain tax positions and, accordingly, will not recognize any liability for unrecognized tax benefits. Any interest and penalty payments would be recorded in separate accounts in the financial statements. Variety’s remaining open years subject to examination include the years ended September 30, 2015 through September 30, 2018.

Note 2. Interest in Assets Held By Community Foundation of Greater Des Moines

Variety has an interest in assets held at the Community Foundation of Greater Des Moines (CFGDM). The assets are invested in CFGDM’s pooled long-term growth portfolio under an investment allocation determined by CFGDM’s Investment Committee. At September 30, 2018, the majority of assets in the long-term growth portfolio were comprised of fixed income securities and domestic and international equities. The remaining assets are invested in money markets, real estate investments, private equity investments, and hedge fund of funds investments. Variety may request these assets or the net investment income of these assets at any time from the CFGDM. Distributions are not subject to variance power (i.e., the CFGDM does not have the power to redirect the assets or the net investment income to an entity other than Variety). The realized gains/losses and unrealized appreciation/depreciation on the endowment at September 30, 2018 and 2017 are reflected in unrestricted net assets.

VARIETY – THE CHILDREN’S CHARITY OF IOWA

NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2018 AND 2017

Note 3. Fair Value Measurements

Fair values of the assets measured on a recurring basis at September 30, 2018 are as follows:

| | Fair Value | Quoted Prices In Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|-----------------------|---|--|--|
| Interest in assets held by Community Foundation of Greater Des Moines | <u>\$ 777,868</u> | <u>-</u> | <u>-</u> | <u>\$ 777,868</u> |
| Total | <u>\$ 777,868</u> | <u>-</u> | <u>-</u> | <u>\$ 777,868</u> |

The makeup of the caption “change in value of interest in assets held by Community Foundation of Greater Des Moines” are the following:

| | |
|-----------------------------------|------------------|
| Net unrealized gains-unrestricted | \$ 7,486 |
| Net unrealized gains-unrestricted | 4,681 |
| | <u>\$ 12,167</u> |

Fair values of the assets measured on a recurring basis at September 30, 2017 are as follows:

| | Fair Value | Quoted Prices In Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|-----------------------|---|--|--|
| Interest in assets held by Community Foundation of Greater Des Moines | <u>\$ 254,954</u> | <u>-</u> | <u>-</u> | <u>\$ 254,954</u> |
| Total | <u>\$ 254,954</u> | <u>-</u> | <u>-</u> | <u>\$ 254,954</u> |

VARIETY – THE CHILDREN’S CHARITY OF IOWA

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

Note 3. Fair Value Measurements (Continued)

The makeup of the caption “change in value of interest in assets held by Community Foundation of Greater Des Moines” are the following:

| | |
|-----------------------------------|------------------|
| Net unrealized gains-unrestricted | \$ 3,769 |
| Net realized gains-unrestricted | 8,373 |
| | <u>\$ 12,142</u> |

Variety accounts for its investments and assets held at the CFGDM at fair value. Fair value is defined 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 in its principal market or in the absence of a principal market, the most advantageous market for the investment or liability. Variety has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. These levels are as follows:

Level 1 - Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 - Variety does not hold any level 2 assets.

Level 3 - Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques. The fair value of the investment is based on a combination of audited financial statements of the investees and monthly or quarterly statements received from investees.

Assets held by the CFGDM consist of pooled funds invested at CFGDM. Variety holds a share of pooled funds and not direct ownership of the underlying investments. Although the pooled funds include equity, fixed income, and other marketable securities, the pool itself is not a publicly traded instrument. Variety estimates the fair value of its pooled funds at the balance sheet date based on its relative ownership investment in the pool. All funds held at the CFGDM as well as assets held in trust by others are considered Level 3 investments, as there is not direct ownership of the underlying investments. However, the underlying investments in the pooled funds consist of investments that have been measured using Level 1, Level 2 and Level 3 inputs. The CFGDM invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the beneficial interest in each fund at the CFGDM.

VARIETY – THE CHILDREN’S CHARITY OF IOWA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2018 AND 2017

Note 3. Fair Value Measurements (Continued)

The following table provides a summary of changes in fair value of Variety’s Level 3 funds for the year ended:

| | 2018 | 2017 |
|------------------------|------------|------------|
| Beginning balance | \$ 254,954 | \$ 112,974 |
| Contributions | 506,500 | 128,000 |
| Interest and dividends | 5,623 | 2,430 |
| Realized gains | 7,486 | 8,373 |
| Unrealized gains | 4,680 | 3,769 |
| Investment expenses | (1,375) | (592) |
| Grants | - | - |
| Ending balance | \$ 777,868 | \$ 254,954 |

Note 4. Charity Grants Payable

As of September 30, 2018, charity grants payable consists of:

| | |
|--------------------------------------|------------|
| Blank Children’s Hospital | \$ 250,000 |
| MercyOne – Des Moines | 250,000 |
| Broadlawns | 100,000 |
| Camp Fire | 33,388 |
| Children & Families Urban Ministries | 35,387 |
| Compassion Fund-Blank | 12,923 |
| Friends of Des Moines Parks | 3,000 |
| House of Mercy | 38,687 |
| Waypoint | 30,358 |
| Other | 12,946 |
| | \$ 766,689 |

As of September 30, 2017, charity grants payable consists of:

| | |
|------------------------------------|------------|
| Blank Children’s Hospital | \$ 280,000 |
| MercyOne – Des Moines | 280,000 |
| YMCA of Greater Des Moines | 103,000 |
| YSS | 125,000 |
| Youth Emergency Services & Shelter | 20,000 |
| Boys & Girls Club of Cedar Rapids | 30,000 |
| Freedom for Youth | 5,000 |
| Other | 21,377 |
| | \$ 864,377 |

VARIETY – THE CHILDREN’S CHARITY OF IOWA

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2018 AND 2017

Note 5. Lease Commitment

Variety leases office space for \$3,516 per month on a month-to-month basis. In addition, Variety maintains office space in Des Moines and Cedar Rapids under a lease expiring on September 30, 2019 with a commitment of \$4,500 for the year ended September 30, 2019. Rent expense was \$43,204 and \$42,666 for the years ended September 30, 2018 and 2017, respectively.

Note 6. Net Assets

Unrestricted net assets are available for the following purposes:

| | <u>2018</u> | <u>2017</u> |
|---|--------------------|-------------------|
| Unrestricted | \$ 448,680 | \$ 199,745 |
| Unrestricted-Board designated endowment | 777,868 | 254,954 |
| | <u>\$1,226,548</u> | <u>\$ 454,699</u> |

Temporarily restricted net assets are available for the following purposes:

| | <u>2018</u> | <u>2017</u> |
|--|---------------------|-------------------|
| Kids on the Go! Mobility Program | \$ 302,066 | \$ 234,806 |
| Variety Star Playgrounds | 441,164 | 137,367 |
| John R. Grubb Variety Transportation Program | 13,946 | 62,551 |
| Compassion Funds | 279,965 | 211,462 |
| | <u>\$ 1,037,141</u> | <u>\$ 646,186</u> |

Note 7. Defined Contribution Retirement Plan

Variety has a salary deferral retirement plan. The plan allows eligible employees to defer a portion of their compensation up to the maximum allowed by law. Variety matches a portion of the employee’s contribution up to 4 percent of eligible wages. Total expense recorded for Variety’s match was \$15,984 and \$15,271 for the years ended September 30, 2018 and 2017, respectively.

Note 8. Major Contributors

Contributions include amounts from one major contributor totaling approximately \$406,060 and \$349,189 for the years ended September 30, 2018 and 2017, respectively. Major contributors are those contributors whose contributions for the year exceeded 10 percent of total revenue and contributions.

VARIETY – THE CHILDREN’S CHARITY OF IOWA

**NOTES TO FINANCIAL STATEMENTS
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Note 9. Concentrations of Credit Risk

Variety maintains cash and cash equivalents in financial institutions in excess of FDIC insurance coverage limits. Variety has not experienced any losses in such accounts.

Note 10. Endowment Funds

The Board of Directors of Variety created a fund to function as an endowment. 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.

The Board of Directors of Variety has interpreted the Iowa Prudent Management of Institutional Funds Act (IPMIFA) as requiring the preservation of the historic value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. In accordance with IPMIFA, 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.

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Note 10. Endowment Funds (Continued)

Investment Return Objectives, Risk Parameters and Strategies. The Organization has invested its assets in a pooled investment fund maintained by the CFGDM. The CFGDM and its Board of Directors have adopted a Statement of Investment Policy providing direction for the investment of funds. The CFGDM’s underlying investment policy objective is to achieve long-term asset appreciation through a diversified mix of asset classes, managed within prudent risk parameters so as not to expose the fund to unacceptable levels of risk.

Spending Policy. At this time, Variety has not established a spending policy as it relates to its board designated endowment fund. Variety’s intent is to grow the board designated endowment to the point that it generates enough income to cover the annual operating needs of Variety. The endowment net asset composition by type of fund as of September 30, 2018 is as follows:

| | <u>2018</u> | <u>2017</u> |
|---|-------------------|-------------------|
| Endowment net assets, beginning of year | \$ 254,954 | \$ 254,954 |
| Investment return: | | |
| Investment income | 5,622 | 2,430 |
| Realized and unrealized gains on investments | <u>12,167</u> | <u>12,142</u> |
| Total investment return | <u>17,789</u> | <u>14,573</u> |
| Contributions | <u>506,500</u> | <u>128,000</u> |
| Expenses | <u>(1,375)</u> | <u>(592)</u> |
| Endowment assets, end of year | <u>\$ 777,868</u> | <u>\$ 254,954</u> |

Note 11. Subsequent Events

Management has evaluated subsequent events through February 4, 2019, the date on which the financial statements were available to be issued. There were no subsequent events required to be accrued or disclosed.