

**VARIETY – THE CHILDREN’S CHARITY OF
THE UNITED STATES**

**FINANCIAL STATEMENTS
And
SUPPLEMENTARY INFORMATION**

YEARS ENDED SEPTEMBER 30, 2006 AND 2005

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Melvyn E. Shiaman, C.P.A.

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Variety – The Children's Charity of the United States:

I have audited the accompanying statement of financial position of Variety – The Children's Charity of the United States (a nonprofit organization) as of September 30, 2006 and the related statements of activities, cash flows and functional expenses for the year then ended. These statements have the comparative information for the year 2005 included but were not audited by me since they were compiled by a predecessor accountant. These financial statements are the responsibility of the Organization's management. My responsibility is to express an opinion on only the financial statements for the period beginning on October 1, 2005 and ending on September 30, 2006.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements for the period beginning on October 1, 2005 and ending on September 30, 2006 present fairly, in all material respects, the financial position of Variety – The Children's Charity of the United States as of September 30, 2006 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Woodland Hills, California
January 12, 2007

VARIETY - THE CHILDREN'S CHARITY OF THE UNITED STATES

STATEMENTS OF FINANCIAL POSITION

ASSETS	September 30,	
	2006	2005
CURRENT ASSETS:		
Cash	\$ 325,606	\$ 519,654
Accounts receivable	73,060	62,691
Grants receivable	10,000	-
Inventory	291,778	-
Prepaid expenses	2,920	2,496
TOTAL CURRENT ASSETS	703,364	584,841
PROPERTY AND EQUIPMENT (Net)	9,430	8,150
OTHER ASSETS		
Deposit	1,508	-
TOTAL OTHER ASSETS	1,508	-
TOTAL ASSETS	\$ 714,302	\$ 592,991
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 64,731	\$ 20,194
Due to chapters	3,432	-
Accrued vacation	1,376	-
Employee benefits payable	606	-
TOTAL LIABILITIES	70,145	20,194
COMMITMENTS AND CONTINGENCIES		
NET ASSETS:		
Unrestricted	644,157	572,797
TOTAL NET ASSETS	644,157	572,797
TOTAL LIABILITIES AND NET ASSETS	\$ 714,302	\$ 592,991

See accompanying notes and auditor's report

VARIETY - THE CHILDREN'S CHARITY OF THE UNITED STATES

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

	Years Ended September 30,	
	2006	2005
REVENUES:		
Fundraising events:		
Fred Astaire Dance Studios	\$ 20,784	\$ -
Gold Hearts	380,611	696,355
Paper Hearts	-	2,400
Radiothon	-	5,000
Grants and Campaign Income	560,875	139,259
National Conference	16,600	-
Interest income	16,650	6,996
Miscellaneous income	1,154	7,271
TOTAL REVENUES	996,674	857,281
EXPENSES:		
National Program	817,992	433,329
Management and general	84,812	95,976
Fundraising	22,510	106,363
TOTAL EXPENSES	925,314	635,668
INCREASE IN NET ASSETS	71,360	221,613
Net assets - Beginning of year	572,797	351,184
NET ASSETS - END OF YEAR	644,157	572,797

See accompanying notes and auditor's report

VARIETY - THE CHILDREN'S CHARITY OF THE UNITED STATES

STATEMENTS OF CASH FLOWS

	Years Ended September 30,	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (Decrease) in Net Assets	\$ 71,360	\$ 221,613
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	3,000	3,328
Increase (Decrease) in operating assets:		
Accounts receivable	(10,369)	(52,580)
Grants receivable	(10,000)	-
Inventory	(291,778)	-
Prepaid expenses	(424)	3,504
Deposit	(1,508)	-
Increase (Decrease) in operating liabilities:		
Accounts payable and accrued expenses	44,537	17,194
Due to chapters	3,432	-
Accrued vacation	1,376	-
Employee benefits payable	606	-
Deferred revenue	-	(141,750)
	<u>(189,768)</u>	<u>51,309</u>
NET CASH USED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(4,280)	(4,944)
	<u>(4,280)</u>	<u>(4,944)</u>
NET CASH USED IN INVESTING ACTIVITIES:		
	<u>(4,280)</u>	<u>(4,944)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	(194,048)	46,365
Cash and cash equivalents - Beginning of year	519,654	473,289
	<u>519,654</u>	<u>473,289</u>
CASH AND CASH EQUIVALENTS - END OF YEAR		
	<u>\$ 325,606</u>	<u>\$ 519,654</u>

See accompanying notes and auditor's report

VARIETY - THE CHILDREN'S CHARITY OF THE UNITED STATES

STATEMENTS OF FUNCTIONAL EXPENSES

	Years Ended September 30,				2005
	2006				
	Program Services	Supporting Services			
National Resource and Strategies	Management and General	Fundraising	Total	Total	
Accounting	-	28,251	-	28,251	9,130
Automobile	2,767	618	284	3,669	3,600
Business Taxes	-	320	-	320	-
Computer	1,232	275	126	1,633	5,767
Depreciation	2,262	506	232	3,000	3,328
Design	8,239	-	-	8,239	210,000
Dues and Subscriptions	-	1,136	-	1,136	819
Employee Benefits	3,304	1,711	338	5,353	4,097
Grants and Allocations	510,127	-	-	510,127	142,683
Insurance	11,904	2,661	1,220	15,785	8,462
Journal Ads	6,000	-	-	6,000	4,012
Miscellaneous	-	864	-	864	-
National Conference	17,246	-	-	17,246	19,618
Office	3,393	3,489	348	7,230	3,361
Outside Services	-	3,620	-	3,620	16,671
Payroll Services	-	1,768	-	1,768	1,488
Payroll Tax Expense	10,031	2,242	1,028	13,301	10,619
Postage	4,846	269	269	5,384	3,107
Press Kit	-	-	200	200	-
Printing	74,106	1,715	1,000	76,821	1,017
Radiothon	-	-	-	-	5,000
Rent	14,829	3,315	1,520	19,664	22,487
Payroll - Office	125,090	27,962	12,821	165,873	124,446
Software for Chapters	433	-	-	433	-
Sponsor Appreciation	-	-	310	310	-
Taxes and Fees	-	150	-	150	-
Telephone	5,476	1,224	561	7,261	6,684
Travel and Entertainment	14,457	2,716	1,253	18,426	23,505
Website	2,250	-	1,000	3,250	5,767
TOTAL FUNCTIONAL EXPENSES	\$ 817,992	\$ 84,812	\$ 22,510	\$ 925,314	\$ 635,668

See accompanying notes and auditor's report

VARIETY – THE CHILDREN’S CHARITY OF THE UNITED STATES

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) NATURE OF ORGANIZATION

Variety – The Children’s Charity of the United States (the Charity) was incorporated on July 15, 1996 in the state of Pennsylvania. Its purpose is to engage in charitable activities, which includes providing support to the individual Variety Chapters located and operating in cities throughout the United States. It provides support through the coordination of fundraising events and activities setting fiduciary and administrative standards and overall marketing direction.

The Charity’s main sources of revenue are from sales of Gold Heart Pins, Fred Astaire Dance Studios Sponsorships, national conference registration fees, contributions and investment income.

(b) BASIS OF ACCOUNTING

The financial statements of the Charity have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

(c) MANAGEMENT’S USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to use certain estimates and assumptions. 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 during the reporting period. Although management believes its estimates are appropriate, changes in assumptions utilized in preparing such estimates could cause these estimates to change sometime in the future.

(d) FINANCIAL STATEMENT PRESENTATION

In accordance with Statements of Financial Accounting Standards no. 117 (Financial Statements of Not for Profit Organizations), Variety reports information regarding its financial position and activities as unrestricted net assets. For the year ended September 30, 2006, Variety did not have any temporary or permanently restricted net assets.

VARIETY – THE CHILDREN’S CHARITY OF THE UNITED STATES

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont’d)

(e) CONTRIBUTIONS AND DONATED SERVICES

All contributions received have been recorded as unrestricted and are available for use in the operations of Variety. Donated services are recognized as contributions in accordance with SFAS 116 (Accounting and contributions received).

(f) INCOME TAXES

Income tax provisions are not provided since the Charity is exempt from federal and state income taxes under Section 501 (c)(3) of the Internal Revenue Code and similar state provisions. The Charity is not classified as a private foundation.

(g) INVENTORY

Inventory has been reflected in the financial statements of the Charity in the amount of \$291,778 and valued at the lower of cost or market. No amount for beginning inventory has been reflected in these financial statements since all purchases made in 2005 were written off against income in the same year and there was minimal inventory on hand at the year ended September 30, 2005.

(h) PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost, net of related accumulated depreciation. Depreciation is calculated on the straight-line method and is charged to operations over the useful lives of the related assets, which varies from five to seven years.

(i) DONATED GOODS AND SERVICES

Donated goods and services are recorded as contributions and expenses in the statement of activities at their estimated fair market values at the date of donation. These in-kind donations include shipping and fulfillment totaling \$30,000 and \$15,000, and storage and creative design totaling \$12,000 and \$5,000 respectively. Poster printing was valued at \$60,000.

VARIETY - THE CHILDREN'S CHARITY OF THE UNITED STATES

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2006</u>	<u>2005</u>
Automobile	-	6,500
Computers	8,213	19,143
Furniture and fixtures	5,423	5,423
Telephone System	4,280	-
TOTAL	<u>17,916</u>	<u>31,066</u>
Less: Accumulated Depreciation	<u>8,486</u>	<u>22,916</u>
NET PROPERTY AND EQUIPMENT	<u>\$ 9,430</u>	<u>\$ 8,150</u>

NOTE 3 - COMMITMENTS

(a) **CONDITIONAL COMMITMENTS**

The Charity has future conditional commitments to Variety Children's Lifeline totaling \$5,000 payable at \$1,000 per year over the next five years.

NOTE 4 - 401(k) PLAN

Beginning January 1, 2004, the Board of Directors approved the creation of the Charity's 401(k) Plan (the "Plan"), a defined contribution plan. Employees voluntarily make contributions to the Plan in amounts based upon limits established by Sections 402(g) and 414(v) of the Internal Revenue Code. The Charity matches the employees' contribution to the plan up to 3% for all eligible employees. The Charity contributed \$3,004 and \$3,028 to the plan during the years ended September 30, 2006 and 2005, respectively.

VARIETY – THE CHILDREN’S CHARITY OF THE UNITED STATES

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

NOTE 5 – CONCENTRATION OF RISK

The Charity’s financial instruments that are exposed to concentrations of credit risk consist of cash and cash equivalents placed at federally insured financial institutions. Such accounts may at times exceed federally insured limits. On September 30, 2006 the balances in accounts exceeded federally insured limits by \$225,405. The Charity has not experienced any losses on such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

NOTE 6 – LEASES

The Charity has entered into a lease agreement for their office at 5757 Wilshire Blvd. which commenced on January 15, 2006 for a duration of 36 months. The total amount of rent to be paid under the terms of the lease in 2007 and 2008 is \$35,672. A deposit of \$1,508 has been reflected in other assets on the statement of financial position.

NOTE 7 – RECLASSIFICATION

Certain accounts in the prior-year financial statements have been reclassified to conform to the presentation in the current year financial statements. The beginning net assets balance was not affected by these reclassifications.

NOTE 8 – GRANTS RECEIVABLE

During the year ended September 30, 2006, the Charity received a promise to give from a donor for a grant of \$10,000 to be used for the 2006 National Conference. As of September 30, 2006 this grant has not been received by the Charity. The Charity expects to collect the entire balance within a period of one year from the Financial Statement date.

VARIETY - THE CHILDREN'S CHARITY OF THE UNITED STATES

SUPPLEMENTAL INFORMATION

**YEARS ENDED
SEPTEMBER 30, 2006 and 2005**

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION

To the Board of Trustees of
Variety – The Children's Charity of the United States

My report on my audit of the basic financial statements of Variety – The Children's Charity of the United States appears on page 1. That audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of Gold Hearts is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Sincerely,



Melvyn E. Shiaman
Certified Public Accountant
Woodland Hills, California
January 12, 2007

VARIETY - THE CHILDREN'S CHARITY OF THE UNITED STATES

SCHEDULES OF GOLD HEARTS

	Years Ended September 30,	
	2006	2005
REVENUES:		
Receipts from fundraiser	\$ 725,730	\$ 866,525
In-kind donations	111,200	340,000
TOTAL REVENUE	836,930	1,206,525
EXPENSES:		
Pin costs	701,897	380,170
Shipping and Storage	46,200	130,000
Inventory - Ending	(291,778)	-
NET COST OF PINS	456,319	510,170
NET GOLD HEARTS	\$ 380,611	\$ 696,355

See accompanying notes and auditor's report