

Marine Toys for Tots Foundation

Financial Report
December 31, 2018

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Independent Auditor's Report

RSM US LLP

To the Board of Directors
Marine Toys for Tots Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of Marine Toys for Tots Foundation (the Foundation), which comprise the balance sheets as of December 31, 2018 and 2017, 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 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 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 reasonable 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 Marine Toys for Tots Foundation as of December 31, 2018 and 2017, 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.

RSM US LLP

McLean, Virginia
April 12, 2019

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Marine Toys for Tots Foundation

Balance Sheets

December 31, 2018 and 2017

	2018	2017
Assets		
Cash		
Investments	\$ 18,192,003	\$ 18,429,854
Promises to give	91,685,058	93,836,478
Prepaid expenses and other	5,505,782	12,054,762
Inventory	14,589	17,132
Property and equipment, net	36,020,885	36,070,160
	4,534,822	4,647,474
Total assets	\$ 155,953,139	\$ 165,055,860
Liabilities and Net Assets		
Liabilities:		
Accounts payable and other	\$ 11,229,613	\$ 16,521,151
Accrued vacation	83,034	102,580
Total liabilities	11,312,647	16,623,731
Commitment (Note 8)		
Net assets without donor restrictions:		
Undesignated	5,694,205	3,968,646
Board designated:		
Endowment	73,921,984	78,854,074
Building fund	503,418	539,249
Inventory designated for 2019 and 2018, respectively	36,020,885	36,070,160
Toy purchase for 2019 and 2018	28,500,000	29,000,000
	138,946,287	144,463,483
Total net assets	144,640,492	148,432,129
Total liabilities and net assets	\$ 155,953,139	\$ 165,055,860

See notes to financial statements.

Marine Toys for Tots Foundation

Statements of Activities

Years Ended December 31, 2018 and 2017

	2018	2017
Support and revenue:		
Contributions:		
Toys	\$ 214,554,520	\$ 209,265,122
Direct mail	25,857,089	25,180,989
Individual	22,494,298	20,558,766
Corporate	8,226,943	12,271,576
Donated services	7,565,360	8,888,956
Combined federal campaign	129,984	198,792
Interest and dividends, net	4,569,045	3,185,819
Other	42,587	124,238
Events	141,997	140,482
Unrealized and realized (loss) gain on investments, net	(9,563,110)	6,602,747
Total support and revenue	274,018,713	286,417,487
Expenses:		
Program services:		
Toy distribution program	264,147,434	254,932,996
Education program	3,499,131	2,937,608
Supporting services:		
Fundraising	9,354,014	9,300,423
Management and general	809,771	921,706
Total expenses	277,810,350	268,092,733
Change in net assets	(3,791,637)	18,324,754
Net assets:		
Beginning	148,432,129	130,107,375
Ending	\$ 144,640,492	\$ 148,432,129

See notes to financial statements.

Marine Toys for Tots Foundation

**Statement of Functional Expenses
Year Ended December 31, 2018**

Description	Program Services			Supporting Services			Total
	Toys Distribution	Education	Program	Fundraising	Management and General	Supporting	
Toys distributed	\$ 250,623,270	\$ -	\$ 250,623,270	\$ -	\$ -	\$ -	\$ 250,623,270
Printing and support materials	1,798,879	742,728	2,541,607	1,432,260	1,012	1,433,272	3,974,879
Public relations and development	6,024,197	3,147	6,027,344	1,887,555	-	1,887,555	7,914,899
Postage and shipping	1,407,855	1,894,386	3,302,241	3,680,665	18,480	3,699,145	7,001,386
Professional fees and services	369,447	857,285	1,226,732	1,897,998	361,323	2,259,321	3,486,053
Travel and conferences	1,514,802	1,585	1,516,387	23,123	136,072	159,195	1,675,582
Office expense	56,410	-	56,410	15,761	10,784	26,545	82,955
Repairs and maintenance	53,419	-	53,419	14,926	10,212	25,138	78,557
Telephone	87,162	-	87,162	9,775	7,830	17,605	104,767
Insurance	50,603	-	50,603	13,432	5,071	18,503	69,106
Occupancy	825,140	-	825,140	5,155	3,527	8,682	833,822
Salaries	1,168,932	-	1,168,932	326,613	223,472	550,085	1,719,017
Payroll related expense	71,571	-	71,571	19,998	13,683	33,681	105,252
Subtotal	264,051,687	3,499,131	267,550,818	9,327,261	791,466	10,118,727	277,669,545
Depreciation	95,747	-	95,747	26,753	18,305	45,058	140,805
Total expenses	\$ 264,147,434	\$ 3,499,131	\$ 267,646,565	\$ 9,354,014	\$ 809,771	\$ 10,163,785	\$ 277,810,350

See notes to financial statements.

Marine Toys for Tots Foundation

**Statement of Functional Expenses
Year Ended December 31, 2017**

Description	Program Services			Supporting Services			Total
	Toy Distribution	Education	Total Program	Fundraising	Management and General	Total Supporting	
Toys distributed	\$ 240,885,721	\$ -	\$ 240,885,721	\$ -	\$ -	\$ -	\$ 240,885,721
Printing and support materials	1,719,082	637,021	2,356,103	1,409,637	807	1,410,444	3,766,547
Public relations and development	6,532,958	2,637	6,535,595	2,041,194	-	2,041,194	8,576,789
Postage and shipping	1,683,679	1,562,007	3,245,686	3,467,700	22,946	3,490,646	6,736,332
Professional fees and services	283,251	734,379	1,017,630	1,920,613	460,100	2,380,713	3,398,343
Travel and conferences	1,495,003	1,564	1,496,567	23,678	134,262	157,940	1,654,507
Office expense	48,152	-	48,152	14,592	10,214	24,806	72,958
Repairs and maintenance	53,390	-	53,390	15,138	10,596	25,734	79,124
Telephone	63,429	-	63,429	8,479	6,659	15,138	78,567
Insurance	49,795	-	49,795	14,044	6,379	20,423	70,218
Occupancy	866,966	-	866,966	6,084	4,259	10,343	877,309
Salaries	1,092,438	-	1,092,438	331,041	231,729	562,770	1,655,208
Payroll related expense	66,750	-	66,750	20,228	14,159	34,387	101,137
Subtotal	254,840,614	2,937,608	257,778,222	9,272,428	902,110	10,174,538	267,952,760
Depreciation	92,382	-	92,382	27,995	19,596	47,591	139,973
Total expenses	\$ 254,932,996	\$ 2,937,608	\$ 257,870,604	\$ 9,300,423	\$ 921,706	\$ 10,222,129	\$ 268,092,733

See notes to financial statements.

Marine Toys for Tots Foundation

Statements of Cash Flows

Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ (3,791,637)	\$ 18,324,754
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Unrealized and realized loss (gain) on investments, net	9,563,110	(6,602,747)
Loss on disposal of property and equipment	-	3,436
Depreciation	140,805	139,973
Change in assets and liabilities:		
Decrease (increase) in:		
Promises to give	6,548,980	(3,231,664)
Inventory	49,275	(5,706,104)
Prepaid expenses and other	2,543	(733)
(Decrease) increase in:		
Accounts payable and other	(5,291,538)	4,469,962
Accrued vacation	(19,546)	8,001
Net cash provided by operating activities	7,201,992	7,404,878
Cash flows from investing activities:		
Purchase of property and equipment	(28,153)	(14,861)
Proceeds from sale of investments	21,546,611	13,878,242
Purchase of investments	(28,958,301)	(19,533,113)
Net cash used in investing activities	(7,439,843)	(5,669,732)
Net (decrease) increase in cash	(237,851)	1,735,146
Cash:		
Beginning	18,429,854	16,694,708
Ending	\$ 18,192,003	\$ 18,429,854

See notes to financial statements.

Marine Toys for Tots Foundation

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: Marine Toys for Tots Foundation (the Foundation) is recognized by the U.S. Marine Corps as the authorized fundraising and support organization for the U.S. Marine Corps Reserve Toys for Tots Program (the Program). A Memorandum of Understanding between the Commander, Marine Forces Reserve and the President and the Foundation establishes and governs the relationship between the U.S. Marine Corps and the Foundation.

The mission of the Foundation is to support the Program by raising funds to provide toys to supplement the collections of local Program campaigns; providing promotion and support materials to help local Program coordinators conduct more effective local campaigns; providing administrative, advisory, financial, logistic and promotion support to local Program campaigns; managing all funds raised and donations received based on the use of the Program name and logo; providing other support that the Marine Corps, as a federal agency, cannot provide; and conducting public information and education programs about the benefits of the Program that call the general public to action in support of this patriotic community action program.

The Foundation's annual fundraising campaign includes: soliciting funds from individual Americans through a direct mail campaign; soliciting funds from corporations; soliciting bulk toy donations from toy manufacturers and retailers; soliciting online donations; participating in the Combined Federal Campaign; pursuing an array of special fundraising projects; and conducting special events, such as golf tournaments. Toys are distributed to needy children through approximately 800 authorized local Program coordinators in all 50 states, the District of Columbia, Puerto Rico and the Virgin Islands.

Basis of accounting: The financial statements of the Foundation have been prepared on the accrual basis of accounting. Accordingly, unconditional support is recognized when notification of the contribution is received, revenue is recognized when earned and expenses are recognized when incurred.

Adoption of recent accounting pronouncements: There were several Accounting Standards Update (ASU) adopted during the year ended December 31, 2018.

ASU 2016-14

In August 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The ASU is effective for fiscal years beginning after December 15, 2017. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied.

The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities and set forth the FASB's improvement's to net asset classification requirements and information about a not-for-profit's liquidity.

ASU 2014-09

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard replaces most existing revenue recognition in generally accepted accounting principles in the United States of America (U.S. GAAP) and permits the use of either a full retrospective or retrospective with cumulative effect transition method.

The Foundation early adopted this guidance during the year ended December 31, 2018. There were no changes to revenue recordation and presentation for 2018 and 2017 as a result. Events revenue is subject to this guidance and meets the requirements of the guidance to be fully recognized as revenue during the respective year. It is recognized at a point in time, when the event occurs in June. There are no receivables, assets, or liabilities related to event revenue on the balance sheets.

Marine Toys for Tots Foundation

Notes to Financial Statements

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

ASU 2016-02

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating with classification affecting the pattern of expense recognition in the statement of activities.

The Foundation early adopted this guidance during the year ended December 31, 2018. There were no changes as a result of the adoption of this guidance. The Foundation's 2018 and 2017 leases are determined to be short-term and will be recorded as expenses are incurred.

ASU 2018-08

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. Where the Foundation is the resource recipient, the ASU is applicable to contributions received for interim periods within annual periods beginning after December 15, 2018.

The Foundation early adopted this guidance during the year ended December 31, 2018. There were no significant changes to revenue recordation and presentation as a result.

ASU 2018-13

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The ASU results in the removal, modification and addition of certain disclosure requirements related to transfers between levels within the fair value hierarchy, valuation processes and unrealized gains/losses presentation for Level 3 measurements and liquidation timing for investments held at net asset value. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied except for the changes related to Level 3 measurements, which should be applied prospectively.

The Foundation early adopted this guidance during the year ended December 31, 2018. There were no significant changes as a result of the adoption of this guidance. The Foundation did not have any transfers within the fair value hierarchy and there are no Level 3 measurements held.

Basis of presentation: The financial statement presentation follows the recommendations of the FASB Accounting Standards Codification (ASC). As required by the Non-Profit Entities topic of the FASB ASC, Financial Statements of Not-for-Profit Organizations, the Foundation is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. The Foundation had no net assets with donor restrictions at December 31, 2018 and 2017.

Marine Toys for Tots Foundation

Notes to Financial Statements

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

Campaign cash and investments: The Foundation maintains cash and investment accounts for each local Program campaign. This represents cash remitted to the Foundation from local Program coordinators. Local coordinators are authorized to accept locally donated and raised funds on behalf of the Foundation. Such funds and donations are immediately forwarded to the Foundation, which manages all funds raised and donated based on the use of the Program name and logo. The Foundation manages these funds so that the funds are expended in the geographical areas in which the funds originated. In 2017, a new cash account was established for local units to deposit cash only transactions. The balance of these funds at December 31, 2018, was \$19,987,026. At December 31, 2018, \$15,359,845 of these funds are included in investments and the remaining \$4,628,181 are included in cash. At December 31, 2017, \$17,927,831 of these funds were included in cash.

Financial risk: The Foundation maintains its cash in bank deposit accounts which, at times, may exceed federally-insured limits. The Foundation believes it is not exposed to any significant financial risk on cash.

The Foundation invests in a professionally-managed portfolio that contains various securities, which are exposed to risks such as interest rate, market and credit risk. Due to the level of risk associated with such investments, and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near-term could materially affect investment balances and the amounts reported in the financial statements.

Promises to give: Contributions are recognized when the donor makes a written promise to give to the Foundation that is, in substance, unconditional or when the conditions, including barriers have been met. All promises to give are generally receivable within two months of year-end. Management determines the allowance for doubtful promises by regularly evaluating individual promises to give and considering prior history of donor and proven collectability of past donations. Promises to give are written off when deemed uncollectible. Recoveries of promises to give previously written off are recorded when received. Management believes promises to give were fully collectible and no provision for doubtful promises to give was necessary. All promises to give are due in the year ending December 31, 2019.

Inventory: Inventory consists of toys, either donated from individuals or corporations, which have not been distributed at December 31, 2018. For those donated by individuals, a mean value per toy is determined by applying a statistical analysis that includes obtaining actual, pre-Christmas retail prices for those toys included in the analysis. For those donated by corporations, a current fair market value is obtained at the date of donation. Since there are observable retail prices, inventory is considered a Level 2 item. Toys purchased by the Foundation are recorded at cost.

Property and equipment: The Foundation records property and equipment at cost or, if donated, at its fair market value when received. Depreciation expense is recorded using the straight-line method over the assets' estimated useful lives of 5 to 39 years.

Valuation of long-lived assets: Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Marine Toys for Tots Foundation

Notes to Financial Statements

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

Investments: Investments with readily determinable fair values are reflected at fair market value. To adjust the carrying value of these investments, the change in fair market value is charged or credited to current operations. Interest and dividends are recorded in the statements of activities when earned and net of investment fees. Cash and equivalents held within the investment portfolio are presented with investments on the balance sheet.

Board designated net assets: Board designated net assets consist of an endowment fund, a building fund and cash and inventory for the following year's campaign. The purpose of the endowment fund is to generate sufficient investment income to defray the Foundation's annual operating expenses. The building fund was established in January 2006 to defray the construction costs of the Foundation's office facility in Prince William County, Virginia. The building construction was completed in December 2007 and the Foundation took ownership in January 2008. The remaining balance of the building fund is being maintained to fund the future repairs and maintenance of the building.

Support and revenue: Contributions received are recorded as with or without donor restrictions, depending on the existence and/or nature of any donor time, purpose or perpetual restrictions. Contributions, restricted by a donor, are required to be reported as restricted support and are then reclassified to net assets without donor restrictions upon expiration of the restriction.

Donated toys are recorded as a contribution at its estimated fair market value, which is based on a statistical toy study and is recorded as revenue at the date of donation.

Donated services, including public service announcements and professional fees, are recorded at the fair market value at the time of donation.

Expenses: The costs of providing the Foundation's various programs and supporting services have been summarized on a functional basis in the statements of activities. Direct costs associated with specific programs are recorded as program expenses. Expenses are allocated among the programs and supporting services benefited in the statements of functional expenses and statements of activities. The Foundation utilizes a time study ratio and joint cost ratio for purposes of allocating selected expenses. Remaining management and general expenses are unallocated in the statements of activities.

The Foundation attained a functional allocation expense ratio of approximately 9.7 to 0.3 for program services versus supporting services for the years ended December 31, 2018 and 2017. The functional allocation expense ratio excludes donated services.

During the years ended December 31, 2018 and 2017, the Board approved that the Endowment Fund be utilized to finance all employee salaries, bonuses, health and welfare benefits and pension contributions, the amount of which was \$1,767,662 and \$1,684,924 for the years ended December 31, 2018 and 2017, respectively, as shown in the accompanying statements of functional expenses, included in the salaries and insurance expense lines.

Income taxes: The Foundation is generally exempt from federal income tax under Internal Revenue Code Section 501(c)(3). In addition, the Foundation qualifies for charitable contribution deductions and has been classified as an organization that is not a private foundation. Income that is not related to its exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. The Foundation did not have any net unrelated business income for the years ended December 31, 2018 and 2017.

Management has evaluated the Foundation's tax positions and has concluded that the Foundation has taken no uncertain tax positions that require disclosure.

Marine Toys for Tots Foundation

Notes to Financial Statements

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

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications: Certain items in the December 31, 2017, information have been reclassified to conform to the December 31, 2018, financial statement presentation. The reclassifications had no effect on the previously reported change in net assets or net assets.

Subsequent events: The Foundation evaluated subsequent events for required disclosure through April 12, 2019, which is the date the financial statements were available to be issued.

Note 2. Liquidity

The Foundation frequently monitors the liquidity required to meet its annual operating needs and manages its cash available to meet general expenditures via the following principles:

- Operating effectively and efficiently through prudent and stable investment policies and well-managed operational procedures.
- Maintaining a sufficient level of asset liquidity through well-managed and flexible investments.

As of December 31, 2018, the following financial assets are available to meet annual operating needs of the 2019 fiscal year:

Cash	\$ 18,192,003
Investments	91,685,058
Promises to give, amounts expected to be collected in 2019	<u>5,505,782</u>
	115,382,843
Less board designated endowment fund cash and investments	73,921,984
Less board designated building fund cash and investments	<u>503,418</u>
	<u>\$ 40,957,441</u>

The Foundation maintains its investments in very liquid securities, which allows the Foundation to easily move needed monies from investment accounts into operational accounts when large expenses are anticipated (i.e. major toy purchases). Conversely when major expenditures are not anticipated the Foundation can easily move monies from operational accounts into investments in order to maximize the earnings of non-operational funds. In the event of an unanticipated liquidity need, the Board can re-designate endowment and building funds for operational use. The Foundation pays all liabilities as they are due and there are no long-term or debt obligations necessary to fund operations as of December 31, 2018.

Marine Toys for Tots Foundation

Notes to Financial Statements

Note 3. Board Designated Endowment Funds

The ASC provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). UPMIFA is a model act approved by the Uniform Law Commission (ULC, formerly known as the National Conference of Commissioners on Uniform State Laws) that serves as a guideline for states to use in enacting legislation. It also improves disclosures about an organization's endowment funds (both donor-restricted endowment funds and board designated endowment funds) whether or not the organization is subject to UPMIFA. The required disclosures are as follows:

Return objective and risk parameters: The Foundation's objective is to earn a respectable, long-term, risk-adjusted total rate of return to support the designated programs. We recognize and accept that pursuing a respectable rate of return involves risk and potential volatility. The generation of current income will be a secondary consideration.

The Foundation targets a diversified asset allocation that places a greater emphasis on professionally-managed fund investments to achieve its long-term return objectives within prudent risk constraints. The Foundation has established a policy portfolio or normal asset allocation. While the policy portfolio can be tactically adjusted from time to time, it is strategically designed to serve for long-time horizons based upon long-term expected returns. The Foundation has a preference for simple investment structures, which will have lower cost, easier oversight and less complexity for internal financial management and auditing.

Spending policy: During the years ended December 31, 2018 and 2017, the Board approved the utilization of the Endowment Fund for payment of all employee salaries, bonuses, health and welfare benefits and pension contributions.

Board designated net assets consists of the following at December 31, 2018 and 2017:

	2018	2017
Beginning balance	\$ 78,854,074	\$ 68,795,262
Appropriation of additional funds	2,000,000	2,000,000
Investment (loss) income, net	(5,164,428)	9,743,736
Appropriation of endowment expenditures	(1,767,662)	(1,684,924)
Ending balance	<u>\$ 73,921,984</u>	<u>\$ 78,854,074</u>
	2018	2017
Cash and cash equivalents	\$ 307,002	\$ 374,421
Investments	73,614,982	78,479,653
	<u>\$ 73,921,984</u>	<u>\$ 78,854,074</u>

Marine Toys for Tots Foundation

Notes to Financial Statements

Note 4. Investments

Investments consist of the following at December 31, 2018 and 2017:

	2018	2017
Endowment fund:		
Mutual funds:		
Equities	\$ 41,707,584	\$ 46,905,363
Fixed income – bonds	26,716,987	24,538,862
Hybrid	1,950,557	5,462,647
Commodities	1,700,608	-
Real estate	1,539,246	1,572,781
Cash equivalents	307,002	374,702
	<u>73,921,984</u>	<u>78,854,355</u>
Foundation and reserve units:		
Cash equivalents	17,255,546	14,437,766
Mutual funds – equities	4,110	5,108
	<u>17,259,656</u>	<u>14,442,874</u>
Building fund:		
Cash equivalents	2,092	2,569
Mutual funds:		
Equities	284,090	320,709
Fixed income – bonds	181,910	167,852
Hybrid	13,268	37,366
Commodities	11,580	-
Real estate	10,478	10,753
	<u>503,418</u>	<u>539,249</u>
	<u>\$ 91,685,058</u>	<u>\$ 93,836,478</u>

Note 5. Fair Value Measurement

The ASC Topic on Fair Value Measurement requires disclosures of financial position in periods subsequent to initial recognition whether the measurements are made on a recurring basis or a non-recurring basis, establishes a framework for measuring fair value in accordance with U.S. GAAP or expands disclosure about fair market value measurements. This enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking quality and reliability of the information used to determine fair value. The provision applies to all assets and liabilities that are being measured and reported on a fair value basis, and are disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, the Foundation performs a detailed analysis of the assets and liabilities that are subject to fair value measurements. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

Marine Toys for Tots Foundation

Notes to Financial Statements

Note 5. Fair Value Measurement (Continued)

There were no Level 3 inputs for any assets held by the Foundation at December 31, 2018 and 2017.

There were no liabilities incurred by the Foundation subject to fair value measurement at December 31, 2018 and 2017.

The table below presents the balances of assets measured at fair value on a recurring basis by level within the hierarchy at December 31, 2018:

	Level 1	Total
Mutual funds:		
Bond funds:		
Multi-sector bond	\$ 17,367,464	\$ 17,367,464
Global bond	4,081,589	4,081,589
Bank loan	5,449,844	5,449,844
	<u>26,898,897</u>	<u>26,898,897</u>
Hybrid funds:		
Preferred stock	1,963,825	1,963,825
	<u>1,963,825</u>	<u>1,963,825</u>
Equity funds:		
Large cap value	12,643,691	12,643,691
Foreign large blend	9,939,581	9,939,581
Large cap blend	7,407,419	7,407,419
Small cap core	4,954,934	4,954,934
Mid cap value	3,492,636	3,492,636
Small cap growth	1,722,875	1,722,875
Mid cap growth	1,097,481	1,097,481
Large cap growth	737,167	737,167
	<u>41,995,784</u>	<u>41,995,784</u>
Commodities:		
Strategy	1,712,188	1,712,188
	<u>1,712,188</u>	<u>1,712,188</u>
Real estate funds:		
Mid growth	1,549,724	1,549,724
	<u>1,549,724</u>	<u>1,549,724</u>
Cash equivalents	74,120,418	74,120,418
	-	17,564,640
	<u>\$ 74,120,418</u>	<u>\$ 91,685,058</u>

Marine Toys for Tots Foundation

Notes to Financial Statements

Note 5. Fair Value Measurement (Continued)

The table below presents the balances of assets measured at fair value on a recurring basis by level within the hierarchy at December 31, 2017:

	Level 1	Total
Mutual funds:		
Bond funds:		
Multi-sector bond	\$ 17,660,973	\$ 17,660,973
Global bond	5,065,449	5,065,449
Bank loan	1,980,292	1,980,292
	<u>24,706,714</u>	<u>24,706,714</u>
Hybrid funds:		
Preferred stock	5,500,013	5,500,013
	<u>5,500,013</u>	<u>5,500,013</u>
Equity funds:		
Large cap value	13,524,532	13,524,532
Foreign large blend	11,746,287	11,746,287
Large cap blend	8,005,621	8,005,621
Small cap core	5,974,256	5,974,256
Mid cap value	4,028,026	4,028,026
Small cap growth	1,977,906	1,977,906
Mid cap growth	1,178,859	1,178,859
Large cap growth	795,693	795,693
	<u>47,231,180</u>	<u>47,231,180</u>
Real estate funds:		
Mid growth	1,583,534	1,583,534
	<u>1,583,534</u>	<u>1,583,534</u>
Cash equivalents	79,021,441	79,021,441
	-	14,815,037
	<u>\$ 79,021,441</u>	<u>\$ 93,836,478</u>

The mutual funds are classified as a trading security and are publicly traded on the New York Stock Exchange; therefore, investments are considered Level 1 items.

Cash equivalents are held at cost and not subject to the provisions of fair value measurements.

Marine Toys for Tots Foundation

Notes to Financial Statements

Note 6. Property and Equipment

Property and equipment and accumulated depreciation at December 31, 2018 and 2017, consist of the following:

	2018	2017
Building	\$ 4,931,122	\$ 4,931,122
Land	944,700	944,700
Furniture and equipment	391,400	363,247
	6,267,222	6,239,069
Less accumulated depreciation	1,732,400	1,591,595
	<u>\$ 4,534,822</u>	<u>\$ 4,647,474</u>

Assets purchased with a cost threshold over \$1,000 and a useful life greater than one year are capitalized and all others are expensed. Depreciation expense was \$140,805 and \$139,973 for the years ended December 31, 2018 and 2017, respectively.

Note 7. Joint Costs

The Foundation consults with a full service direct mail marketing agency to assist in conducting an annual direct mail campaign. During the years ended December 31, 2018 and 2017, the Foundation incurred joint costs of \$10,262,570 and \$9,450,105, respectively, for informational materials and activities that included fundraising appeals. Of those costs, \$3,489,275 and \$2,929,532 was allocated to program expenses and \$6,773,295 and \$6,520,573 was allocated to supporting services for the years ended December 31, 2018 and 2017, respectively. The Physical Units Method was used to allocate joint costs.

The joint costs allocated to program services are classified as education program expenses. The Foundation's mission includes educating the public on how it can take action in communities to help underprivileged children.

Note 8. Commitment

The Foundation has entered into a contract for hotel rooms and a convention center relating to its September 2019 coordinator conference. In the event of cancellation, the Foundation is required to pay various costs as stipulated in the contract, the amounts of which are dependent upon the date of cancellation.

Note 9. Retirement Plan

The Foundation has a defined contribution retirement plan (the Plan) covering all full-time employees who have completed one year of service. Under the Plan, the Foundation makes a contribution to the Plan equal to 10% of an employee's total annual compensation. Employees must remain with the Foundation for three years in order for their retirement benefit to fully vest. If an employee departs before completing three Plan years, the unvested portion of his/her funds is forfeited to the Foundation. During the years ended December 31, 2018 and 2017, the Foundation contributed \$167,200 and \$154,687, respectively, to the Plan.