

Marine Toys for Tots Foundation

Financial Report
December 31, 2020

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RSM US LLP

Independent Auditor's Report

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, 2020 and 2019, 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 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, 2020 and 2019, 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 9, 2021

Marine Toys for Tots Foundation

Balance Sheets

December 31, 2020 and 2019

	2020	2019
Assets		
Cash	\$ 36,897,500	\$ 17,679,785
Investments	125,145,296	107,762,266
Promises to give	7,752,833	6,536,501
Prepaid expenses and other	2,475	14,008
Inventory	52,253,835	43,338,027
Property and equipment, net	4,319,903	4,430,244
	<u>226,371,842</u>	<u>179,760,831</u>
Total assets	\$ 226,371,842	\$ 179,760,831
Liabilities and Net Assets		
Liabilities:		
Accounts payable and other	\$ 5,953,421	\$ 8,766,979
Total liabilities	<u>5,953,421</u>	<u>8,766,979</u>
Commitment and contingency (Note 7)		
Net assets:		
Without donor restrictions:		
Undesignated	22,847,888	84,172
Board designated:		
Endowment	104,906,406	91,684,445
Building fund	660,292	593,849
Inventory designated for 2021 and 2020, respectively	52,253,835	43,338,027
Toy purchase for 2021 and 2020	38,000,000	33,400,000
Total net assets without donor restrictions	<u>218,668,421</u>	<u>169,100,493</u>
With donor restrictions	1,750,000	1,893,359
Total net assets	<u>220,418,421</u>	<u>170,993,852</u>
Total liabilities and net assets	<u>\$ 226,371,842</u>	<u>\$ 179,760,831</u>

See notes to financial statements.

Marine Toys for Tots Foundation

Statements of Activities

Years Ended December 31, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:						
Contributions:						
Toys	\$ 201,122,076	\$ -	\$ 201,122,076	\$ 198,126,924		\$ 198,126,924
Direct mail	30,901,355	-	30,901,355	26,398,408		26,398,408
Individual	40,231,820	-	40,231,820	22,316,562	1,750,000	24,066,562
Corporate	20,927,625	-	20,927,625	9,418,394		9,418,394
Donated services	7,615,807	-	7,615,807	7,651,115		7,651,115
Combined federal campaign	131,654	-	131,654	139,613		139,613
Interest and dividends, net	3,761,511	36,298	3,797,809	3,964,535	29,432	3,993,967
Other	346,574	-	346,574	321,256		321,256
Events	135,700	-	135,700	143,423		143,423
Unrealized and realized gain on investments, net	7,586,341	20,580	7,606,921	10,090,325	113,927	10,204,252
Net assets released from restrictions	200,237	(200,237)	-	-	-	-
Total support and revenue	312,960,700	(143,359)	312,817,341	278,570,555	1,893,359	280,463,914
Expenses:						
Program services:						
Toy distribution program	249,218,361	-	249,218,361	239,766,811	-	239,766,811
Education program	4,042,240	-	4,042,240	3,635,710	-	3,635,710
Supporting services:						
Fundraising	9,112,838	-	9,112,838	9,660,692	-	9,660,692
Management and general	1,019,333	-	1,019,333	1,047,341	-	1,047,341
Total expenses	263,392,772	-	263,392,772	254,110,554	-	254,110,554
Change in net assets	49,567,928	(143,359)	49,424,569	24,460,001	1,893,359	26,353,360
Net assets:						
Beginning	169,100,493	1,893,359	170,993,852	144,640,492	-	144,640,492
Ending	\$ 218,668,421	\$ 1,750,000	\$ 220,418,421	\$ 169,100,493	\$ 1,893,359	\$ 170,993,852

See notes to financial statements.

Marine Toys for Tots Foundation

Statement of Functional Expenses Year Ended December 31, 2020

Description	Program Services			Supporting Services			Total
	Toy Distribution	Education	Total Program	Fundraising	Management and General	Total Supporting	
Toys distributed	\$ 236,304,506	\$ -	\$ 236,304,506	\$ -	\$ -	\$ -	\$ 236,304,506
Printing and support materials	1,544,135	1,021,854	2,565,989	1,663,534	882	1,664,416	4,230,405
Public relations and development	6,062,838	3,517	6,066,355	1,438,750	-	1,438,750	7,505,105
Postage and shipping	1,339,389	2,071,768	3,411,157	3,382,430	35,800	3,418,230	6,829,387
Professional fees and services	411,087	944,976	1,356,063	2,344,008	588,705	2,932,713	4,288,776
Travel and conferences	751,846	125	751,971	16,582	63,387	79,969	831,940
Office expense	93,334	-	93,334	13,689	17,423	31,112	124,446
Repairs and maintenance	32,681	-	32,681	4,793	6,101	10,894	43,575
Telephone	47,566	-	47,566	3,652	4,095	7,747	55,313
Insurance	89,280	-	89,280	16,143	11,157	27,300	116,580
Occupancy	1,001,985	-	1,001,985	3,432	4,369	7,801	1,009,786
Salaries	1,349,905	-	1,349,905	197,986	251,983	449,969	1,799,874
Payroll related expense	81,326	-	81,326	11,928	15,181	27,109	108,435
Subtotal	249,109,878	4,042,240	253,152,118	9,096,927	999,083	10,096,010	263,248,128
Depreciation	108,483	-	108,483	15,911	20,250	36,161	144,644
Total expenses	\$ 249,218,361	\$ 4,042,240	\$ 253,260,601	\$ 9,112,838	\$ 1,019,333	\$ 10,132,171	\$ 263,392,772

See notes to financial statements.

Marine Toys for Tots Foundation

Statement of Functional Expenses Year Ended December 31, 2019

Description	Program Services			Supporting Services			Total
	Toy Distribution	Education	Total Program	Fundraising	Management and General	Total Supporting	
Toys distributed	\$ 226,430,412	\$ -	\$ 226,430,412	\$ -	\$ -	\$ -	\$ 226,430,412
Printing and support materials	1,802,198	826,828	2,629,026	1,526,461	1,008	1,527,469	4,156,495
Public relations and development	5,863,026	3,466	5,866,492	1,837,959	-	1,837,959	7,704,451
Postage and shipping	1,132,397	1,836,801	2,969,198	3,396,851	22,220	3,419,071	6,388,269
Professional fees and services	358,329	966,797	1,325,126	2,355,977	506,192	2,862,169	4,187,295
Travel and conferences	1,429,556	1,818	1,431,374	22,574	131,048	153,622	1,584,996
Office expense	58,744	-	58,744	18,075	13,556	31,631	90,375
Repairs and maintenance	50,379	-	50,379	15,502	11,626	27,128	77,507
Telephone	95,105	-	95,105	9,717	8,364	18,081	113,186
Insurance	52,816	-	52,816	14,757	6,212	20,969	73,785
Occupancy	1,010,027	-	1,010,027	6,259	4,695	10,954	1,020,981
Salaries	1,317,597	-	1,317,597	405,414	304,061	709,475	2,027,072
Payroll related expense	74,369	-	74,369	22,883	17,162	40,045	114,414
Subtotal	239,674,955	3,635,710	243,310,665	9,632,429	1,026,144	10,658,573	253,969,238
Depreciation	91,856	-	91,856	28,263	21,197	49,460	141,316
Total expenses	\$ 239,766,811	\$ 3,635,710	\$ 243,402,521	\$ 9,660,692	\$ 1,047,341	\$ 10,708,033	\$ 254,110,554

See notes to financial statements.

Marine Toys for Tots Foundation

Statements of Cash Flows Years Ended December 31, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ 49,424,569	\$ 26,353,360
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Unrealized and realized gain on investments, net	(7,606,921)	(10,204,252)
Depreciation	144,644	141,316
Change in assets and liabilities:		
Decrease (increase) in:		
Promises to give	(1,216,332)	(1,030,719)
Inventory	(8,915,808)	(7,317,142)
Prepaid expenses and other	11,533	581
(Decrease) increase in:		
Accounts payable and other	(2,813,558)	(2,545,668)
Net cash provided by operating activities	29,028,127	5,397,476
Cash flows from investing activities:		
Purchase of property and equipment	(34,303)	(36,738)
Proceeds from sale of investments	47,458,695	47,821,591
Purchase of investments	(57,234,804)	(53,694,547)
Net cash used in investing activities	(9,810,412)	(5,909,694)
Net increase (decrease) in cash	19,217,715	(512,218)
Cash:		
Beginning	17,679,785	18,192,003
Ending	\$ 36,897,500	\$ 17,679,785

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 810 authorized local Program coordinators in all 50 states, the District of Columbia, Puerto Rico and the Virgin Islands.

Basis of presentation: The financial statement presentation follows the recommendations of the Financial Accounting Standards Board (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.

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. The balance of these funds at December 31, 2020 and 2019, was \$23,096,202 and \$19,424,059, respectively. At December 31, 2020 and 2019, \$9,163,452 and \$10,729,140 of these funds are included in investments and the remaining \$13,932,750 and \$8,694,919 are included in cash, respectively.

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.

Marine Toys for Tots Foundation

Notes to Financial Statements

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

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, 2021.

Inventory: Inventory consists of toys, either donated from individuals or corporations, which have not been distributed at December 31, 2020. 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 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.

Inventory includes toys purchased through the Virtual Toy Box program on the Foundation's website. These toys have been selected and paid for by the donor as of December 31, 2020. The toys will be provided by a third party vendor that is supporting the initiative during the year ended December 31, 2021, and are considered to be in transit at year end; therefore are included as part of the inventory balance at December 31, 2020. The toys are recorded at the fair value as of the date of the donation, which total \$2,893,450 at December 31, 2020. The program was new in 2020, and no amounts were included in inventory for the year ended December 31, 2019.

Property and equipment: The Foundation records property and equipment at cost or, if donated, at its fair value when received. Depreciation expense is recorded using the straight-line method over the 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.

Investments: Investments with readily determinable fair values are reflected at fair value. To adjust the carrying value of these investments, the change in fair 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 sheets.

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.

Marine Toys for Tots Foundation

Notes to Financial Statements

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

Support and revenue: Revenue is accounted under the guidance of Accounting Standards Update (ASU) 2014-09 and ASU 2018-08. 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. There were no conditional contributions at December 31, 2020 and 2019.

Donated toys are recorded as a contribution at its estimated fair 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 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 97% to 3% and 96% to 4% for program services versus supporting services for the years ended December 31, 2020 and 2019, respectively. The functional allocation expense ratio excludes donated services.

During the years ended December 31, 2020 and 2019, 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 \$1,849,982 and \$2,087,751 for the years ended December 31, 2020 and 2019, 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, 2020 and 2019.

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

Use of estimates: The preparation of financial statements in conformity with generally accepted accounting principles 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 the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Marine Toys for Tots Foundation

Notes to Financial Statements

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

Recently issued accounting pronouncements (not yet adopted): In July 2020, the FASB issued ASU 2020-07, Not-for-Profit Entities (Topic 958), *Presentation and Disclosures by Not-for-Profit Entities for contributed Nonfinancial Assets*. The ASU will improve transparency of contributed nonfinancial assets for not-for-profit (NFP) entities through enhancements to presentation and disclosure. The amendments in this update address certain stakeholder' concerns about the lack of transparency about the measurement of contributed nonfinancial assets recognized by NFPs, as well as the amount of those contributions used in an NFP's programs and other activities. This ASU should be applied on a retrospective basis and are effective for annual periods beginning after June 15, 2021. Early adoption is permitted. The Foundation is currently evaluating the impact of the pending adoption of the new standard on its financial statements.

Subsequent events: The Foundation evaluated subsequent events for required disclosure through April 9, 2021, 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 2020 and 2019, the following financial assets are available to meet annual operating needs of the following fiscal years:

	2020	2019
Cash	\$ 36,897,500	\$ 17,679,785
Investments	125,145,296	107,762,266
Promises to give, amounts expected to be collected within one year	7,752,833	6,536,501
	<u>169,795,629</u>	<u>131,978,552</u>
Less board designated endowment fund cash and investments	104,906,406	91,684,445
Less board designated building fund cash and investments	660,292	593,849
Less donor restricted fund cash and investments	1,750,000	1,893,359
	<u>\$ 62,478,931</u>	<u>\$ 37,806,899</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 (e.g., 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, 2020.

Marine Toys for Tots Foundation

Notes to Financial Statements

Note 3. 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 Foundation classifies as perpetually restricted net assets: (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. Accumulations to the donor-restricted endowment fund are classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effects of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other Foundation resources
- The Foundation's investment policies

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. Management recognizes and accepts 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-term 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, 2020 and 2019, the Board approved the utilization of the Endowment Fund for payment of all employee salaries, bonuses, health and welfare benefits and pension contributions.

For the donor restricted endowment fund, the earnings will be used in support of the Pennsylvania program, the Wisconsin program, and the remaining 48 other state programs, with each receiving one-third of the yearly investment income based on the request of the donor.

Marine Toys for Tots Foundation

Notes to Financial Statements

Note 3. Endowment Funds (Continued)

Changes in board designated net assets consist of the following at December 31, 2020 and 2019:

	2020	2019
Beginning balance	\$ 91,684,445	\$ 73,921,984
Appropriation of additional funds	4,000,000	6,000,000
Investment income, net	11,071,943	13,850,212
Appropriation of endowment expenditures	(1,849,982)	(2,087,751)
Ending balance	<u>\$ 104,906,406</u>	<u>\$ 91,684,445</u>

Changes in donor restricted net assets consist of the following at December 31, 2020 and 2019:

	2020	2019
Beginning balance	\$ 1,893,359	\$ -
Contributions	-	1,750,000
Investment income, net	56,878	143,359
Appropriation of endowment expenditures	(200,237)	-
Ending balance	<u>\$ 1,750,000</u>	<u>\$ 1,893,359</u>

Donor restricted and board designated net assets consist of the following at December 31, 2020 and 2019:

	2020	2019
Cash and cash equivalents	\$ 928,134	\$ 525,548
Investments	105,728,272	93,052,256
	<u>\$ 106,656,406</u>	<u>\$ 93,577,804</u>

Note 4. Investments and Fair Value Measurement

Investments consist of the following at December 31, 2020 and 2019:

	2020	2019
Cash equivalents	\$ 18,562,282	\$ 14,119,364
Mutual funds	106,583,014	93,642,902
	<u>\$ 125,145,296</u>	<u>\$ 107,762,266</u>

Marine Toys for Tots Foundation

Notes to Financial Statements

Note 4. Investments and Fair Value Measurement (Continued)

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 accounting principles generally accepted in the United States of America or expands disclosure about fair 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.

There were no Level 3 inputs for any assets held by the Foundation at December 31, 2020 and 2019.

There were no liabilities incurred by the Foundation subject to fair value measurement at December 31, 2020 and 2019.

The table below presents the balances of assets measured at fair value on a recurring basis by level within the hierarchy at December 31, 2020:

	Level 1	Total
Mutual funds:		
Bond funds:		
Multi-sector bond	\$ 25,963,159	\$ 25,963,159
Global bond	4,613,947	4,613,947
	<u>30,577,106</u>	<u>30,577,106</u>
Hybrid funds:		
Preferred stock	6,758,240	6,758,240
	<u>6,758,240</u>	<u>6,758,240</u>
Equity funds:		
Large cap value	15,085,568	15,085,568
Foreign large blend	8,757,637	8,757,637
Large cap blend	9,052,593	9,052,593
Small cap core	8,930,011	8,930,011
Small cap growth	9,313,860	9,313,860
Mid cap growth	2,900,086	2,900,086
Large cap growth	15,207,913	15,207,913
	<u>69,247,668</u>	<u>69,247,668</u>
	106,583,014	106,583,014
Cash equivalents	-	18,562,282
	<u>\$106,583,014</u>	<u>\$125,145,296</u>

Marine Toys for Tots Foundation

Notes to Financial Statements

Note 4. Investments and 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, 2019:

	Level 1	Total
Mutual funds:		
Bond funds:		
Multi-sector bond	\$ 24,984,899	\$ 24,984,899
Global bond	4,555,727	4,555,727
	<u>29,540,626</u>	<u>29,540,626</u>
Hybrid funds:		
Preferred stock	6,408,753	6,408,753
	<u>6,408,753</u>	<u>6,408,753</u>
Equity funds:		
Large cap value	15,228,371	15,228,371
Foreign large blend	9,185,261	9,185,261
Large cap blend	6,044,225	6,044,225
Small cap core	6,912,263	6,912,263
Mid cap value	4,613,385	4,613,385
Small cap growth	2,304,078	2,304,078
Mid cap growth	2,300,335	2,300,335
Large cap growth	9,234,197	9,234,197
	<u>55,822,115</u>	<u>55,822,115</u>
Real estate funds:		
Mid growth	1,871,408	1,871,408
	<u>1,871,408</u>	<u>1,871,408</u>
	93,642,902	93,642,902
Cash equivalents	-	14,119,364
	<u>\$ 93,642,902</u>	<u>\$ 107,762,266</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 5. Property and Equipment

Property and equipment and accumulated depreciation at December 31, 2020 and 2019, consist of the following:

	2020	2019
Building	\$ 4,957,922	\$ 4,957,922
Land	944,700	944,700
Furniture and equipment	293,376	401,338
	<u>6,195,998</u>	<u>6,303,960</u>
Less accumulated depreciation	1,876,095	1,873,716
	<u>\$ 4,319,903</u>	<u>\$ 4,430,244</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 \$144,644 and \$141,316 for the years ended December 31, 2020 and 2019, respectively.

Note 6. 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, 2020 and 2019, the Foundation incurred joint costs of \$10,620,964 and \$10,358,003, respectively, for informational materials and activities that included fundraising appeals. Of those costs, \$4,035,967 and \$3,625,301 was allocated to program expenses and \$6,584,997 and \$6,732,702 was allocated to supporting services for the years ended December 31, 2020 and 2019, 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 7. Commitment and Contingency

The Foundation has entered into a contract for hotel rooms and a convention center relating to its September 2021 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.

Subsequent to the coronavirus (COVID-19) outbreak in 2020 in the United States, there has been substantial volatility in financial markets and the economy. COVID-19 and actions to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets, including the geographical areas in which the Foundation operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the Foundation, to date, the Foundation has not experienced any significant disruptions to its financial or operational activities during the year ended December 31, 2020. Management is continually monitoring the impact of COVID-19, and will adjust activities should there be a significant impact on its activities.

Marine Toys for Tots Foundation

Notes to Financial Statements

Note 8. Retirement Plan

The Foundation has a defined contribution retirement plan (the Plan) covering all employees who have completed one year of service. Under the Plan, the Foundation makes discretionary contributions. 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, 2020 and 2019, the Foundation contributed \$164,883 and \$186,324, respectively, to the Plan.