

Marine Toys for Tots Foundation

Financial Report
December 31, 2016

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Independent Auditor's Report

RSM US LLP

To the Board of Directors
Marine Toys for Tots Foundation
Triangle, Virginia

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, 2016 and 2015, 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, 2016 and 2015, 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 7, 2017

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Marine Toys for Tots Foundation

Balance Sheets December 31, 2016 and 2015

	2016	2015
Assets		
Cash	\$ 29,347,944	\$ 20,593,927
Investments	68,925,624	70,800,036
Promises to give	8,823,098	8,539,557
Prepaid expenses and other	16,399	27,390
Inventory	30,364,056	31,333,313
Property and equipment, net	4,776,022	4,909,498
	<u>4,776,022</u>	<u>4,909,498</u>
Total assets	<u>\$ 142,253,143</u>	<u>\$ 136,203,721</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and other	\$ 12,051,189	\$ 10,682,327
Accrued vacation	94,579	126,579
Total liabilities	<u>12,145,768</u>	<u>10,808,906</u>
Net assets:		
Unrestricted:		
Undesignated	<u>1,474,572</u>	6,046,269
Board designated:		
Endowment	68,795,262	62,073,855
Building fund	473,485	441,378
Inventory designated for 2017 and 2016, respectively	30,364,056	31,333,313
Toy purchase for 2017 and 2016	29,000,000	25,500,000
	<u>128,632,803</u>	<u>119,348,546</u>
Total net assets	<u>130,107,375</u>	<u>125,394,815</u>
Total liabilities and net assets	<u>\$ 142,253,143</u>	<u>\$ 136,203,721</u>

See notes to financial statements.

Marine Toys for Tots Foundation

Statements of Activities
Years Ended December 31, 2016 and 2015

	2016	2015
Support and revenue:		
Contributions:		
Toys	\$ 216,046,383	\$ 210,733,376
Direct mail	24,191,032	21,733,354
Individual	18,076,202	19,036,213
Corporate	12,183,836	11,559,359
Donated services	3,982,523	4,717,831
Combined federal campaign	266,154	225,644
Interest and dividends	2,157,682	3,185,113
Other	1,021,627	1,170,745
Events	135,957	129,038
Unrealized and realized gain (loss) on investments, net	2,515,289	(2,979,485)
Total support and revenue	280,576,685	269,511,188
Expenses:		
Program services:		
Toy distribution program	263,821,405	251,402,107
Education program	3,240,044	3,160,931
Supporting services:		
Fundraising	7,586,021	7,318,553
Management and general	1,216,655	1,043,260
Total expenses	275,864,125	262,924,851
Change in net assets	4,712,560	6,586,337
Net assets:		
Beginning	125,394,815	118,808,478
Ending	\$ 130,107,375	\$ 125,394,815

See notes to financial statements.

Marine Toys for Tots Foundation

Statement of Functional Expenses Year Ended December 31, 2016

Description	Program Services			Supporting Services			Total
	Toy Distribution	Education	Total Program	Fundraising	Management and General	Total Supporting	
Toys distributed	\$ 253,466,810	\$ -	\$ 253,466,810	\$ -	\$ -	\$ -	\$ 253,466,810
Printing and support materials	1,668,366	722,419	2,390,785	1,335,676	870	1,336,546	3,727,331
Public relations and development	3,563,280	3,263	3,566,543	1,042,302	-	1,042,302	4,608,845
Postage and shipping	1,189,216	1,614,397	2,803,613	2,864,717	47,381	2,912,098	5,715,711
Professional fees and services	384,345	898,430	1,282,775	1,937,133	721,312	2,658,445	3,941,220
Travel and conferences	1,503,471	1,535	1,505,006	25,140	134,680	159,820	1,664,826
Office expense	52,072	-	52,072	13,991	11,658	25,649	77,721
Repairs and maintenance	65,317	-	65,317	17,258	14,382	31,640	96,957
Telephone	75,331	-	75,331	8,169	7,331	15,500	90,831
Insurance	52,266	-	52,266	13,535	5,624	19,159	71,425
Occupancy	598,609	-	598,609	5,089	4,240	9,329	607,938
Salaries	1,044,378	-	1,044,378	280,579	233,816	514,395	1,558,773
Payroll related expense	64,448	-	64,448	17,314	14,429	31,743	96,191
Subtotal	263,727,909	3,240,044	266,967,953	7,560,903	1,195,723	8,756,626	275,724,579
Depreciation	93,496	-	93,496	25,118	20,932	46,050	139,546
Total expenses	\$ 263,821,405	\$ 3,240,044	\$ 267,061,449	\$ 7,586,021	\$ 1,216,655	\$ 8,802,676	\$ 275,864,125

See notes to financial statements.

Marine Toys for Tots Foundation

Statement of Functional Expenses Year Ended December 31, 2015

Description	Program Services			Supporting Services			Total
	Toy Distribution	Education	Total Program	Fundraising	Management and General	Total Supporting	
Toys distributed	\$ 240,781,251	\$ -	\$ 240,781,251	\$ -	\$ -	\$ -	\$ 240,781,251
Printing and support materials	1,416,331	862,192	2,278,523	1,528,691	818	1,529,509	3,808,032
Public relations and development	4,109,942	2,298	4,112,240	1,204,676	-	1,204,676	5,316,916
Postage and shipping	1,088,495	1,351,307	2,439,802	2,148,556	42,041	2,190,597	4,630,399
Professional fees and services	314,146	943,424	1,257,570	1,989,887	618,414	2,608,301	3,865,871
Travel and conferences	1,473,874	1,710	1,475,584	26,038	133,673	159,711	1,635,295
Office expense	67,890	-	67,890	19,968	11,981	31,949	99,839
Repairs and maintenance	46,533	-	46,533	13,686	8,212	21,898	68,431
Telephone	71,096	-	71,096	8,372	6,191	14,563	85,659
Insurance	59,236	-	59,236	15,870	4,245	20,115	79,351
Occupancy	760,708	-	760,708	6,160	3,695	9,855	770,563
Salaries	1,051,972	-	1,051,972	309,404	185,642	495,046	1,547,018
Payroll related expense	66,308	-	66,308	19,502	11,702	31,204	97,512
Subtotal	251,307,782	3,160,931	254,468,713	7,290,810	1,026,614	8,317,424	262,786,137
Depreciation	94,325	-	94,325	27,743	16,646	44,389	138,714
Total expenses	\$ 251,402,107	\$ 3,160,931	\$ 254,563,038	\$ 7,318,553	\$ 1,043,260	\$ 8,361,813	\$ 262,924,851

See notes to financial statements.

Marine Toys for Tots Foundation

Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ 4,712,560	\$ 6,586,337
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Unrealized and realized (gain) loss on investments, net	(2,515,289)	2,979,485
Loss on disposal of property and equipment	1,080	424
Depreciation	139,546	138,714
Change in assets and liabilities:		
(Increase) decrease in:		
Promises to give	(283,541)	926,555
Inventory	969,257	(4,049,166)
Prepaid expenses and other	10,991	58,498
Increase (decrease) in:		
Accounts payable and other	1,368,862	(1,502,397)
Accrued vacation	(32,000)	5,524
Net cash provided by operating activities	4,371,466	5,143,974
Cash flows from investing activities:		
Purchase of property and equipment	(7,150)	(10,950)
Proceeds from sale of investments	31,663,442	25,737,227
Purchase of investments	(27,273,741)	(28,829,536)
Net cash provided by (used in) investing activities	4,382,551	(3,103,259)
Net increase in cash	8,754,017	2,040,715
Cash:		
Beginning	20,593,927	18,553,212
Ending	\$ 29,347,944	\$ 20,593,927

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. A Memorandum of Understanding between the Commander, Marine Forces Reserve and the President, 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 U.S. Marine Corps Reserve Toys for Tots Program by raising funds to provide toys to supplement the collections of local Toys for Tots campaigns; providing promotion and support materials to help local Toys for Tots coordinators conduct more effective local campaigns; providing administrative, advisory, financial, logistic and promotion support to local Toys for Tots campaigns; managing all funds raised and donations received based on the use of the Toys for Tots 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 Toys for Tots 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 790 authorized local Toys for Tots 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.

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 three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The Foundation had no temporarily or permanently restricted net assets at December 31, 2016 and 2015.

Campaign cash and investments: The Foundation maintains cash and investment accounts for each local Toys for Tots campaign. This represents cash remitted to the Foundation from local Toys for Tots 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 Toys for Tots 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, 2016 and 2015, was \$16,464,234 and \$15,539,978, respectively. At December 31, 2016, these funds are included in cash. Of these amounts, \$8,131,517 and \$7,408,461 is included in cash and investments, respectively, at December 31, 2015.

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.

Marine Toys for Tots Foundation

Notes to Financial Statements

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

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. 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, 2017.

Inventory: Inventory consists of toys, either donated from individuals or corporations, which have not been distributed at December 31, 2016.

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.

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.

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.

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 unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Contributions, temporarily restricted by a donor, are required to be reported as temporarily restricted support and are then reclassified to unrestricted net assets upon expiration of the restriction.

Marine Toys for Tots Foundation

Notes to Financial Statements

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

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: Direct costs associated with specific programs are recorded as program expenses. General and administrative expenses are unallocated in the statements of functional expenses and 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, 2016 and 2015. The functional allocation expense ratio excludes donated services.

During the years ended December 31, 2016 and 2015, 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 \$1,586,705 and \$1,559,853 for the years ended December 31, 2016 and 2015, respectively, as shown in the accompanying statements of functional expenses, included in the salaries and insurance expense lines.

The costs of providing the Foundation's various programs and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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, 2016 and 2015.

Management has evaluated the Foundation's tax positions and has concluded that the Foundation has taken no uncertain tax positions that require disclosure. Generally, the Foundation is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2013.

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.

Recent accounting pronouncement: In August 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of nonprofit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a nonprofit entity's liquidity, financial performance and cash flows. The ASU will be effective for fiscal years beginning after December 15, 2017. Earlier adoption is permitted. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. Management is currently evaluating the impact of this ASU on the financial statements.

Marine Toys for Tots Foundation

Notes to Financial Statements

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

Subsequent events: The Foundation evaluated subsequent events for required disclosure through April 7, 2017, which is the date the financial statements were available to be issued.

Note 2. Board Designated Endowment Funds

The ASC provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit 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, 2016 and 2015, 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, 2016 and 2015:

	2016	2015
Beginning balance	\$ 62,073,855	\$ 59,483,815
Appropriation of additional funds	4,000,000	4,000,000
Investment income, net	4,308,112	149,893
Appropriation of endowment expenditures	(1,586,705)	(1,559,853)
Ending balance	<u>\$ 68,795,262</u>	<u>\$ 62,073,855</u>
	2016	2015
Cash and cash equivalents	\$ 340,778	\$ 308,230
Investments	68,454,484	61,765,625
	<u>\$ 68,795,262</u>	<u>\$ 62,073,855</u>

Marine Toys for Tots Foundation

Notes to Financial Statements

Note 3. Investments

Investments consist of the following at December 31, 2016 and 2015:

	2016	2015
Endowment fund:		
Mutual funds:		
Equities	\$ 41,846,979	\$ 38,187,298
Fixed income – bonds	20,418,910	19,218,901
Hybrid	4,743,460	4,359,426
Real estate	1,445,135	-
	<u>68,454,484</u>	<u>61,765,625</u>
Foundation and reserve units:		
Treasury strips	-	8,591,625
Mutual funds – equities	-	3,598
	<u>-</u>	<u>8,595,223</u>
Building fund – mutual funds:		
Equities	287,569	271,563
Fixed income – bonds	140,508	136,631
Hybrid	32,647	30,994
Real estate	10,416	-
	<u>471,140</u>	<u>439,188</u>
	<u>\$ 68,925,624</u>	<u>\$ 70,800,036</u>

Note 4. 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 generally accepted accounting principles and 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. There were no Level 3 inputs for any assets held by the Foundation at December 31, 2016 and 2015. There were no liabilities incurred by the Foundation subject to fair value measurement at December 31, 2016 and 2015.

Marine Toys for Tots Foundation

Notes to Financial Statements

Note 4. 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, 2016:

	Level 1	Level 2	Level 3	Total
Mutual funds:				
Bond funds:				
Multi-sector bond	\$ 13,063,114	\$ -	\$ -	\$ 13,063,114
Global bond	4,080,398	-	-	4,080,398
Inflation-protected bond	1,688,086	-	-	1,688,086
Bank loan	1,727,820	-	-	1,727,820
	<u>20,559,418</u>	<u>-</u>	<u>-</u>	<u>20,559,418</u>
Hybrid funds:				
Preferred stock	4,776,107	-	-	4,776,107
	<u>4,776,107</u>	<u>-</u>	<u>-</u>	<u>4,776,107</u>
Equity funds:				
Large growth	1,022,209	-	-	1,022,209
Foreign large blend	9,787,339	-	-	9,787,339
Large blend	9,058,302	-	-	9,058,302
Large value	5,504,687	-	-	5,504,687
Large cap value	5,252,316	-	-	5,252,316
Small value	5,284,170	-	-	5,284,170
Small growth	1,702,981	-	-	1,702,981
Mid-cap growth	4,522,544	-	-	4,522,544
	<u>42,134,548</u>	<u>-</u>	<u>-</u>	<u>42,134,548</u>
Real estate funds:				
Mid growth	1,455,551	-	-	1,455,551
	<u>1,455,551</u>	<u>-</u>	<u>-</u>	<u>1,455,551</u>
	<u>\$ 68,925,624</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 68,925,624</u>
Inventory	\$ -	\$ 30,364,056	\$ -	\$ 30,364,056

Marine Toys for Tots Foundation

Notes to Financial Statements

Note 4. 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, 2015:

	Level 1	Level 2	Level 3	Total
Mutual funds:				
Bond funds:				
Multi-sector bond	\$ 8,978,543	\$ -	\$ -	\$ 8,978,543
Global bond	4,400,205	-	-	4,400,205
Inflation protected bond	3,038,436	-	-	3,038,436
Bank loan	2,938,348	-	-	2,938,348
	<u>19,355,532</u>	<u>-</u>	<u>-</u>	<u>19,355,532</u>
Hybrid funds:				
Preferred stock	4,390,420	-	-	4,390,420
	<u>4,390,420</u>	<u>-</u>	<u>-</u>	<u>4,390,420</u>
Equity funds:				
Large growth	10,060,714	-	-	10,060,714
Foreign large blend	8,793,121	-	-	8,793,121
Large blend	5,884,024	-	-	5,884,024
Large value	4,515,856	-	-	4,515,856
Small value	3,210,472	-	-	3,210,472
Small growth	3,172,657	-	-	3,172,657
Mid-cap growth	2,825,615	-	-	2,825,615
	<u>38,462,459</u>	<u>-</u>	<u>-</u>	<u>38,462,459</u>
	<u>62,208,411</u>	<u>-</u>	<u>-</u>	<u>62,208,411</u>
Treasury strips	8,591,625	-	-	8,591,625
	<u>8,591,625</u>	<u>-</u>	<u>-</u>	<u>8,591,625</u>
	<u>\$ 70,800,036</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 70,800,036</u>
Inventory	\$ -	\$ 31,333,313	\$ -	\$ 31,333,313

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

For inventory 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.

Marine Toys for Tots Foundation

Notes to Financial Statements

Note 5. Property and Equipment

Property and equipment and accumulated depreciation at December 31, 2016 and 2015, consist of the following:

	2016	2015
Building	\$ 4,931,122	\$ 4,931,122
Land	944,700	944,700
Furniture and equipment	351,822	344,672
	<u>6,227,644</u>	<u>6,220,494</u>
Less accumulated depreciation	1,451,622	1,310,996
	<u>\$ 4,776,022</u>	<u>\$ 4,909,498</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 \$139,546 and \$138,714 for the years ended December 31, 2016 and 2015, 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, 2016 and 2015, the Foundation incurred joint costs of \$9,233,646 and \$8,762,005, respectively, for informational materials and activities that included fundraising appeals. Of those costs, \$3,231,776 and \$3,154,321 was allocated to program expenses and \$6,001,870 and \$5,607,684 was allocated to supporting services for the years ended December 31, 2016 and 2015, 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

The Foundation has entered into a contract for hotel rooms and a convention center relating to its September 2017 coordinator conferences. 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 8. 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, 2016 and 2015, the Foundation contributed \$152,025 and \$135,603, respectively, to the Plan.