

Audited Financial Statements

THE TOY FOUNDATION

December 31, 2017

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T A T E



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Independent Auditor's Report

To the Board of Trustees
The Toy Foundation

We have audited the accompanying financial statements of The Toy Foundation, formerly the Toy Industry Foundation, (the "Foundation"), which comprise the statements of financial position as of December 31, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements. The financial statements as of and for the year ended December 31, 2016, were audited by other auditors whose report thereon, dated May 11, 2017, expressed an unmodified opinion on those 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 audit. We conducted our audit 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 Foundation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the 2017 financial statements referred to above present fairly, in all material respects, the financial position of The Toy Foundation as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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May 7, 2018

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The Toy Foundation
Statements of Financial Position

December 31,	2017	2016
Assets		
Cash and cash equivalents	\$ 1,445,237	\$ 812,360
Restricted cash	6,716	6,716
Investments	1,121,741	1,058,318
Accounts Receivable	158,217	231,652
Due from/(to) The Toy Association, Inc., net	58,776	219,451
Prepaid expenses	214,112	45,316
Total assets	\$ 3,004,799	\$ 2,373,813
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 15,227	\$ 13,000
Grants payable	331,716	206,716
Deferred income	158,680	105,680
Total liabilities	505,623	325,396
Commitments and contingencies	-	-
Net assets		
Unrestricted	2,499,176	2,045,808
Temporarily restricted	-	2,609
Total net assets	2,499,176	2,048,417
Total liabilities and net assets	\$ 3,004,799	\$ 2,373,813

The Toy Foundation

Statements of Activities

Year Ended December 31,	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue and support						
In-kind donations - Toy Bank	\$ 14,884,459	\$ -	\$ 14,884,459	\$ 47,396,276	\$ -	\$ 47,396,276
In-kind donations - public service announcements	8,024,647	-	8,024,647	-	-	-
TOTY special event revenue, net of costs of direct benefits to donors	772,975	-	772,975	690,576	-	690,576
Donations from The Toy Association, Inc.	775,442	-	775,442	598,548	-	598,548
Online Retail Holiday Campaign	485,000	-	485,000	382,500	-	382,500
Other donations	141,799	-	141,799	155,409	2,609	158,018
Investment income	125,286	-	125,286	34,493	-	34,493
Net assets released from restriction	2,609	(2,609)	-	-	-	-
Total revenue and support	25,212,217	(2,609)	25,209,608	49,257,802	2,609	49,260,411
Expenses						
Program services						
Charitable partnerships/Grants	23,797,243	-	23,797,243	48,200,826	-	48,200,826
	23,797,243	-	23,797,243	48,200,826	-	48,200,826
Supporting Services						
General and administrative	301,505	-	301,505	253,290	-	253,290
Fundraising	660,101	-	660,101	485,649	-	485,649
	961,606	-	961,606	738,939	-	738,939
Total expenses	24,758,849	-	24,758,849	48,939,765	-	48,939,765
Change in net assets	453,368	(2,609)	450,759	318,037	2,609	320,646
Net assets, beginning of year	2,045,808	2,609	2,048,417	1,727,771	-	1,727,771
Net assets, end of year	\$ 2,499,176	\$ -	\$ 2,499,176	\$ 2,045,808	\$ 2,609	\$ 2,048,417

See notes to the financial statements.

The Toy Foundation

Statement of Functional Expenses

For the year ended December 31, 2017

With comparative totals for the year ended December 31, 2016

For the Year Ended December 31, 2017						
	Program Services	Supporting Services			Total 2017	Total 2016
	Charitable Partnerships & Grants	General and Administrative	Fundraising	Total Supporting Services		
Salaries and related benefits	\$ 184,364	\$ 212,951	\$ 335,177	\$ 548,128	\$ 732,492	\$ 547,968
Charitable grants	686,186	-	-	-	686,186	600,000
Toy Bank donations	14,886,547	-	17,703	17,703	14,904,250	47,415,970
In-kind donations - public service announcements	8,024,647	-	-	-	8,024,647	-
Professional services	-	30,002	-	30,002	30,002	15,707
Promotional communications	-	1,000	29,726	30,726	30,726	21,591
Administrative services and other	15,499	57,552	277,495	335,047	350,546	338,529
Cost of direct benefits to donors	-	-	243,440	243,440	243,440	318,055
Subtotal	23,797,243	301,505	903,541	1,205,046	25,002,289	49,257,820
Less: expenses deducted directly from revenues on the statement of activities	-	-	(243,440)	(243,440)	(243,440)	(318,055)
Total expenses	\$ 23,797,243	\$ 301,505	\$ 660,101	\$ 961,606	\$24,758,849	\$ 48,939,765

The Toy Foundation
Statement of Functional Expenses

For the year ended December 31, 2016

	<u>Program Services</u>	<u>Supporting Services</u>			Total 2016
	Charitable Partnerships & Grants	General and Administrative	Fundraising	Total Supporting Services	
Salaries and related benefits	\$ 178,282	\$ 170,114	\$ 199,572	\$ 369,686	\$ 547,968
Charitable grants	600,000	-	-	-	600,000
Toy Bank donations	47,399,207	-	16,763	16,763	47,415,970
Professional services	-	15,707	-	15,707	15,707
Promotional communications	-	-	21,591	21,591	21,591
Administrative services and other	23,337	67,469	247,723	315,192	338,529
Cost of direct benefits to donors	-	-	318,055	318,055	318,055
Subtotal	48,200,826	253,290	803,704	1,056,994	49,257,820
Less: expenses deducted directly from revenues on the statement of activities	-	-	(318,055)	(318,055)	(318,055)
Total expenses	\$ 48,200,826	\$ 253,290	\$ 485,649	\$ 738,939	\$ 48,939,765

See notes to the financial statements.

The Toy Foundation
Statements of Cash Flows

<i>Year Ended December 31,</i>	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 450,759	\$ 320,646
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized and unrealized (gain) loss on investments	(58,641)	2,763
Changes in operating assets and liabilities:		
Cash held for restricted purposes	-	7,178
Accounts receivable	73,435	(188,656)
Prepaid expenses and deposits	(168,796)	116,819
Accounts payable and accrued expenses	2,227	(8,114)
Grants payable	125,000	192,822
Due from/(to) The Toy Association, Inc., net	160,675	(165,364)
Deferred income	53,000	(89,270)
Total adjustments	186,900	(131,822)
Net cash provided by operating activities	637,659	188,824
Cash flows from investing activities		
Purchases of investments	(79,508)	(209,345)
Proceeds from sales and maturities of investments	74,726	150,000
Net cash used in investing activities	(4,782)	(59,345)
Net increase in cash and cash equivalents	632,877	129,479
Cash and cash equivalents, beginning of year	812,360	682,881
Cash and cash equivalents, end of year	\$ 1,445,237	\$ 812,360

See notes to the financial statements.

The Toy Foundation

Notes to the Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: The Toy Foundation, formerly the Toy Industry Foundation (the "Foundation") is a not-for-profit organization dedicated to bringing joy and comfort to children in need through the experience of toys and play. The Foundation operates several programs that serve children who are sick, impoverished, in military families, in foster care, or those suffering in the wake of natural disasters. The Foundation distributes toys (contributed by manufacturers, retailers, and distributors) through the Toy Bank, its signature year-round product donation program. The Toy Bank distributes toys to various charities who serve children in need. In addition, the Foundation makes grants to national partner organizations to fund the distribution of toys throughout their organizations and to enhance the work these organizations do on behalf of children in need.

In October 2017 the Foundation's Board of Directors approved a name change to The Toy Foundation. The name change and a new logo launched in January 2018.

Income taxes: The Foundation is exempt from the payment of federal income taxes on its exempt activities under Section 501(c)(3) of the Internal Revenue Code, and is not a private foundation under Section 509(a)(1) of the Internal Revenue Code. However, the Foundation is taxed on any unrelated business income.

Basis of accounting: The financial statements have been prepared on the accrual basis of accounting. Consequently, revenue is recognized when earned and expense when the obligation is incurred.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from estimates.

Cash and cash equivalents: The Foundation considers all highly liquid instruments (money market funds, certificates of deposit, and United States treasury bills) purchased with a maturity of three months or less to be cash equivalents.

Investments in equity securities: Investments in equity securities with readily determinable fair values and all debt securities are reported at their fair values. Changes in the fair value of investments are recorded as unrealized gains and losses included in the accompanying statements of activities. Realized gains and losses arising from the sale or other disposition of investments are determined by the average cost method.

Receivables: Receivables consist primarily of on-line holiday campaign receivables. Management periodically reviews the status of all receivable balances for collectability, and provides for probable losses using the allowance method. The allowance is determined based on management's experience and collection efforts. As of December 31, 2017 and 2016, management has determined that an allowance for uncollectible accounts receivable was not necessary. Balances that remain outstanding after the Foundation has used reasonable collection efforts are written off. There were no write-offs of receivables during the years ended December 31, 2017 and 2016.

Net assets: Net assets are comprised of the following categories:

Unrestricted: Unrestricted net assets represent those resources that have no donor restrictions as to their use or the donor-imposed restrictions have expired.

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Net assets (continued)

Temporarily restricted: Temporarily restricted net assets result from contributions and other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time-period in which the contribution is received, the Foundation reports the support as unrestricted. In 2016, the Foundation received \$5,000 in contributions restricted by the donors for the use in the Toy Bank program of which \$2,609 and \$2,391 were released during the years ended December 31, 2017 and 2016, respectively.

Permanently restricted: Permanently restricted net assets represent those resources received subject to donor-imposed stipulations that they be maintained intact in perpetuity by the Foundation. At December 31, 2017 and 2016, the Foundation had no permanently restricted net assets.

Fair value measurements: Fair value measurements are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three levels.

The fair value hierarchy defines the three levels as follows:

Level 1 – Valuations based on quoted prices (unadjusted) in an active market that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2 – Valuations based on observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from, or corroborated with, observable market data.

Level 3 – Valuations based on unobservable inputs are used when little or no market data exists. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible in its assessment of fair value.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the end of the reporting period. For the years ended December 31, 2017 and 2016, there were no transfers.

Donations: Contributions, donated toys, and public service announcements are recorded as support when received or promised unconditionally, at their estimated fair value. Fair value with respect to toys is initially supplied by the donor and is generally determined based on the price that the recipient charity would pay in the normal market place. The fair value of public service announcements is provided by a third-party marketing research company that specializes in pooling together fair market price information paid by the nation's largest media buying services.

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Donations (continued)

Unconditional contributions, including those from The Toy Association, Inc. (the "Association"), are recorded at the net present value of the amounts expected to be collected. Contributions that are conditioned upon the occurrence of future events are recorded as refundable advances until the conditions are satisfied. No such conditional contributions were received during the years ended December 31, 2017 and 2016.

Funds received in connection with the Toy of the Year event ("TOTY") are initially deferred and included in the accompanying statements of financial position as deferred income. Expenditures incurred in connection with TOTY are initially deferred and included in the accompanying statements of financial position as prepaid expenses. Revenues, net of direct expenses, are recognized in the statement of activities for the years ended December 31, 2017 and 2016 in the year the event is held. The direct costs of TOTY include expenses for the benefit of the donors.

Functional allocation of expenses: The costs of providing the various programs and supporting services have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services based on estimates determined by management.

B. CONCENTRATIONS

Credit risk: The Foundation maintains demand deposits with commercial banks and money market funds with financial institutions. At times, certain balances held within these accounts may not be fully guaranteed or insured by the U.S. federal government. The uninsured portions of cash and money market accounts are backed solely by the assets of the underlying institution. As such, the failure of an underlying institution could result in financial loss to the Foundation.

Market risk: The Foundation also invests funds in various types of marketable securities. Such investments are exposed to various risks, such as fluctuations in fair value. As a result, the investment balances reported in the accompanying financial statements may not be reflective of the portfolio's value during subsequent periods.

The Toy Foundation

Notes to the Financial Statements

C. INVESTMENTS

Investments, measured at fair value on a recurring basis, consist of the following at December 31,:

2017	Total	Level 1	Level 2	Level 3
Fixed income mutual fund	\$ 246,675	\$ 246,675	\$ -	\$ -
Large capital growth mutual fund	232,821	232,821	-	-
Inflation-protected bond mutual fund	115,301	115,301	-	-
International large value mutual fund	60,728	60,728	-	-
International growth mutual fund	55,486	55,486	-	-
Small mid-capital growth mutual fund	52,925	52,925	-	-
Small capital blend mutual fund	26,107	26,107	-	-
Corporate Bonds	331,698	-	331,698	-
Total investments at fair value	\$ 1,121,741	\$ 790,043	\$ 331,698	\$ -

2016	Total	Level 1	Level 2	Level 3
Fixed income mutual fund	\$ 320,855	\$ 320,855	\$ -	\$ -
Large capital growth mutual fund	205,442	205,442	-	-
Inflation-protected bond mutual fund	114,770	114,770	-	-
International large value mutual fund	47,639	47,639	-	-
International growth mutual fund	45,640	45,640	-	-
Small mid-capital growth mutual fund	43,283	43,283	-	-
Small capital blend mutual fund	26,082	26,082	-	-
Corporate Bonds	254,607	-	254,607	-
Total investments at fair value	\$ 1,058,318	\$ 803,711	\$ 254,607	\$ -

Investments in mutual funds are valued using market prices in active markets and are classified as Level 1. Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets. Investments in corporate bonds are designated as Level 2 instruments and valuations are obtained from readily available pricing sources for comparable instruments. The Foundation did not hold any Level 3 investments as of December 31, 2017 and 2016.

The following is a summary of investment income for the years ended December 31,:

	2017	2016
Interest and dividends	\$ 66,645	\$ 37,256
Realized losses, net	(903)	(7,799)
Unrealized gains, net	59,544	5,036
	\$ 125,286	\$ 34,493

D. GRANT EXPENSE/PAYABLE

During June 2016, the Foundation entered into a grant agreement with the Nemours Foundation. The goal of the agreement is to develop an innovative, evidence-based trauma-informed program through play-based intervention for implementation in children's hospitals. Under the terms of the agreement, the Foundation provided a grant of \$400,000 to the Nemours Foundation for the initial research phase of the program. As of December 31, 2017, the initial research grant was fully paid. As of December 31, 2016, \$200,000 of the initial research grant had been paid. Under the terms of the second phase of the agreement, the Foundation agreed to provide a \$425,000 grant for support of the Nemours Foundation's effort to provide research and play kit content, of which \$100,000 was paid in 2017. Grants payable in the amount of \$325,000 and \$200,000 as of December 31, 2017 and 2016, respectively, are included in the accompanying statements of financial position.

On December 1, 2012, the Foundation entered into a one-year grant agreement with National Court Appointed Special Advocate Association (aka CASA for Children, "CASA"). CASA provides trained volunteers who are appointed by judges to advocate for children who have been removed from their homes due to abuse or neglect and are awaiting placement in foster homes. Under the terms of the agreement, the Foundation will provide toys and cash to CASA. The commitment to provide toys to CASA is contingent on the receipt of toy donations in the future. This agreement has been extended each year since its commencement. In addition to the toys donated by the Foundation, cash grants of \$250,000 and \$200,000 were paid in 2017 and 2016, respectively.

In addition to the grants above, the Foundation provides cash grants to local charities that serve children in need. In 2017 and 2016, the Foundation made other cash grants totaling \$11,186, and \$0, respectively.

During June 2013, The Toy Association, Inc., a not-for profit and an affiliated entity (see Note E), entered into an agreement with The Strong Museum (the "Museum") whereby the Museum agreed to design, develop and construct an exhibit for the Toy Industry Hall of Fame at its Rochester, N.Y. facility. In conjunction with this agreement, the Foundation agreed to act as the agent for funds raised from third party donors in support of the exhibit and disburse the funds to the Museum or other vendors upon instructions from the Association. The exhibit was completed in September 2015. As of December 31, 2017 and 2016, the Foundation had exhibit-related cash and a grant payable in the amount of \$6,716, which are included in the accompanying statements of financial position. These funds were disbursed in January 2018.

The Toy Foundation

Notes to the Financial Statements

E. RELATED-PARTY TRANSACTIONS

Donations of contributed services and cash received from the Association for the years ended December 31, were:

	2017	2016
Salaries and related benefits	\$ 732,492	\$ 547,967
Administrative expenses	31,764	39,381
Other cash support	-	11,200
	<u>764,256</u>	<u>598,548</u>
Cash support for the TOTY special event	<u>91,500</u>	<u>278,507</u>
	<u>\$ 855,756</u>	<u>\$ 877,055</u>

Contributed services received from the Association are recorded at the Association's cost. The Association contributes in-kind services, office space, and cash to the Foundation.

The Association's support for the TOTY special event is included as part of the TOTY special event revenue, net of costs of direct benefits to donors.

Amounts payable to, or receivable from, the Association in the accompanying statements of financial position at December 31, 2017 and 2016 represented expenses paid or fundraising monies received by the Association on behalf of the Foundation and totaled \$58,776 and \$219,451 at December 31, 2017 and 2016, respectively.

F. ONLINE HOLIDAY RETAIL CAMPAIGN

During November 2016, the Foundation launched an online holiday retail campaign in partnership with two major online retailers. The campaign created an online and mobile storefront for customers to find, discover, and buy toys from companies nominated as finalists for the subsequent year's Toy of the Year awards. Revenues related to the campaign amounted to \$485,000 and \$382,500 for the years ended December 31, 2017 and 2016, respectively, and are included in the accompanying statements of activities.

G. SUBSEQUENT EVENTS

Subsequent events have been evaluated through May 7, 2018, which is the date the financial statements were available to be issued.