

Marine Toys for Tots Foundation

Financial Report
December 31, 2022

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RSM US LLP

Independent Auditor's Report

Board of Directors
Marine Toys for Tots Foundation

Opinion

We have audited the financial statements of Marine Toys for Tots Foundation (the Foundation), which comprise the balance sheets as of December 31, 2022 and 2021, the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

RSM US LLP

McLean, Virginia
April 5, 2023

Marine Toys for Tots Foundation

Balance Sheets

December 31, 2022 and 2021

	2022	2021
Assets		
Cash	\$ 15,214,115	\$ 28,787,424
Investments	152,420,153	161,653,127
Promises to give	5,488,204	7,452,423
Prepaid expenses and other	2,475	2,475
Inventory	46,911,700	51,721,409
Property and equipment, net	4,196,911	4,324,239
Total assets	\$ 224,233,558	\$ 253,941,097
Liabilities and Net Assets		
Liabilities:		
Accounts payable and other	\$ 6,280,169	\$ 7,784,187
Total liabilities	6,280,169	7,784,187
Commitment and contingency (Note 7)		
Net assets:		
Without donor restrictions:		
Undesignated	20,684,863	21,908,462
Board-designated:		
Endowment	109,276,974	122,089,367
Building fund	518,980	644,265
Inventory-designated for 2023 and 2022, respectively	46,911,700	51,721,409
Toy purchase for 2023 and 2022	38,900,000	48,000,000
Total net assets without donor restrictions	216,292,517	244,363,503
With donor restrictions	1,660,872	1,793,407
Total net assets	217,953,389	246,156,910
Total liabilities and net assets	\$ 224,233,558	\$ 253,941,097

See notes to financial statements.

Marine Toys for Tots Foundation

Statements of Activities Years Ended December 31, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:						
Contributions:						
Toys	\$ 297,933,366	\$ -	\$ 297,933,366	\$ 260,765,585	\$ -	\$ 260,765,585
Direct mail	27,809,759	-	27,809,759	31,444,315	-	31,444,315
Individual	35,736,422	-	35,736,422	39,380,982	-	39,380,982
Corporate	13,003,179	-	13,003,179	15,589,223	-	15,589,223
Donated services	7,389,122	-	7,389,122	7,822,587	-	7,822,587
Combined federal campaign	34,986	-	34,986	120,990	-	120,990
Interest and dividends, net	3,651,869	35,539	3,687,408	8,472,788	28,445	8,501,233
Other	282,417	-	282,417	278,743	-	278,743
Events	130,855	-	130,855	130,233	-	130,233
Unrealized and realized (loss) gain on investments, net	(19,314,751)	(168,074)	(19,482,825)	7,011,384	243,754	7,255,138
Net assets released from restrictions	-	-	-	228,792	(228,792)	-
Total support and revenue	366,657,224	(132,535)	366,524,689	371,245,622	43,407	371,289,029
Expenses:						
Program services:						
Toy distribution program	377,997,060	-	377,997,060	330,755,831	-	330,755,831
Education program	4,396,475	-	4,396,475	4,416,058	-	4,416,058
Supporting services:						
Fundraising	9,996,222	-	9,996,222	9,098,268	-	9,098,268
Management and general	2,338,453	-	2,338,453	1,280,383	-	1,280,383
Total expenses	394,728,210	-	394,728,210	345,550,540	-	345,550,540
Change in net assets	(28,070,986)	(132,535)	(28,203,521)	25,695,082	43,407	25,738,489
Net assets:						
Beginning	244,363,503	1,793,407	246,156,910	218,668,421	1,750,000	220,418,421
Ending	\$ 216,292,517	\$ 1,660,872	\$ 217,953,389	\$ 244,363,503	\$ 1,793,407	\$ 246,156,910

See notes to financial statements.

Marine Toys for Tots Foundation

Statement of Functional Expenses Year Ended December 31, 2022

Description	Program Services			Supporting Services			
	Toy Distribution	Education	Total Program	Fundraising	Management and General	Total Supporting	Total
Toys distributed	\$ 359,941,848	\$ -	\$ 359,941,848	\$ -	\$ -	\$ -	\$ 359,941,848
Printing and support materials	2,695,154	1,317,613	4,012,767	2,155,250	5,461	2,160,711	6,173,478
Public relations and development	5,913,249	3,329	5,916,578	1,772,657	-	1,772,657	7,689,235
Postage and shipping	2,256,631	2,023,944	4,280,575	3,311,063	483,511	3,794,574	8,075,149
Professional fees and services	422,643	1,000,947	1,423,590	2,476,553	1,073,827	3,550,380	4,973,970
Travel and conferences	1,844,867	50,642	1,895,509	28,604	149,373	177,977	2,073,486
Office expense	113,861	-	113,861	11,449	31,300	42,749	156,610
Repairs and maintenance	57,158	-	57,158	5,747	15,716	21,463	78,621
Telephone	40,940	-	40,940	2,398	2,879	5,277	46,217
Insurance	166,716	-	166,716	29,752	21,945	51,697	218,413
Occupancy	2,559,072	-	2,559,072	3,165	8,656	11,821	2,570,893
Salaries	1,752,816	-	1,752,816	176,246	481,964	658,210	2,411,026
Payroll-related expense	111,144	-	111,144	11,175	30,561	41,736	152,880
Subtotal	377,876,099	4,396,475	382,272,574	9,984,059	2,305,193	12,289,252	394,561,826
Depreciation	120,961	-	120,961	12,163	33,260	45,423	166,384
Total expenses	\$ 377,997,060	\$ 4,396,475	\$ 382,393,535	\$ 9,996,222	\$ 2,338,453	\$ 12,334,675	\$ 394,728,210

See notes to financial statements.

Marine Toys for Tots Foundation

Statement of Functional Expenses Year Ended December 31, 2021

Description	Program Services			Supporting Services			
	Toy Distribution	Education	Total Program	Fundraising	Management and General	Total Supporting	Total
Toys distributed	\$ 316,273,773	\$ -	\$ 316,273,773	\$ -	\$ -	\$ -	\$ 316,273,773
Printing and support materials	1,339,579	1,154,262	2,493,841	1,728,755	1,653	1,730,408	4,224,249
Public relations and development	5,359,594	3,929	5,363,523	1,637,313	-	1,637,313	7,000,836
Postage and shipping	1,018,324	2,220,176	3,238,500	3,330,823	118,962	3,449,785	6,688,285
Professional fees and services	522,190	1,037,301	1,559,491	2,113,485	574,414	2,687,899	4,247,390
Travel and conferences	1,592,307	390	1,592,697	24,748	118,972	143,720	1,736,417
Office expense	82,216	-	82,216	9,714	18,450	28,164	110,380
Repairs and maintenance	46,289	-	46,289	5,469	10,392	15,861	62,150
Telephone	43,301	-	43,301	2,953	3,883	6,836	50,137
Insurance	124,693	-	124,693	23,576	12,936	36,512	161,205
Occupancy	2,502,351	-	2,502,351	2,708	5,144	7,852	2,510,203
Salaries	1,648,697	-	1,648,697	194,797	370,115	564,912	2,213,609
Payroll-related expense	98,059	-	98,059	11,585	22,013	33,598	131,657
Subtotal	330,651,373	4,416,058	335,067,431	9,085,926	1,256,934	10,342,860	345,410,291
Depreciation	104,458	-	104,458	12,342	23,449	35,791	140,249
Total expenses	\$ 330,755,831	\$ 4,416,058	\$ 335,171,889	\$ 9,098,268	\$ 1,280,383	\$ 10,378,651	\$ 345,550,540

See notes to financial statements.

Marine Toys for Tots Foundation

Statements of Cash Flows Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ (28,203,521)	\$ 25,738,489
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Unrealized and realized losses (gains) on investments, net	19,482,825	(7,255,138)
Depreciation	166,384	140,249
Change in assets and liabilities:		
Decrease in:		
Promises to give	1,964,219	300,410
Inventory	4,809,709	532,426
(Decrease) increase in:		
Accounts payable and other	(1,504,018)	1,830,766
Net cash (used in) provided by operating activities	(3,284,402)	21,287,202
Cash flows from investing activities:		
Purchase of property and equipment	(39,056)	(144,585)
Proceeds from sale of investments	100,571,221	123,334,350
Purchase of investments	(110,821,072)	(152,587,043)
Net cash used in investing activities	(10,288,907)	(29,397,278)
Net decrease in cash	(13,573,309)	(8,110,076)
Cash:		
Beginning	28,787,424	36,897,500
Ending	\$ 15,214,115	\$ 28,787,424

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 830 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, 2022 and 2021, was \$24,183,929 and \$26,611,445, respectively. At December 31, 2022 and 2021, all of these amounts were included in investments.

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, 2023.

Inventory: Inventory consists of toys, books, and stocking stuffers (toys), either donated from individuals or corporations, which have not been distributed at December 31, 2022. 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, which is based on the price it would cost the Foundation to purchase the toys. 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, 2022. The toys will be provided by a third-party vendor that is supporting the initiative during the year ended December 31, 2022, and are considered to be in transit at year-end; therefore, are included as part of the inventory balance at December 31, 2022. The toys are recorded at the fair value as of the date of the donation, and total \$0 and \$2,279,679 at December 31, 2022 and 2021, respectively.

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 five 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 to fund the future repairs and maintenance of the Foundation's office facility in Prince William County, Virginia.

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 for 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, 2022 and 2021.

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% for program services versus supporting services for the years ended December 31, 2022 and 2021. The functional allocation expense ratio excludes donated services.

During the years ended December 31, 2022 and 2021, the Board approved that the Endowment Fund be utilized to finance employee salaries, bonuses, health and welfare benefits and pension contributions, the amount of which was \$1,967,427 and \$2,308,393 for the years ended December 31, 2022 and 2021, respectively, as shown in the accompanying statements of functional expenses, included in the salaries and insurance expense lines.

Income taxes: The Foundation is organized as a Commonwealth of Virginia nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under IRS Section 501(a) as an organization described in IRS Section 501(c)(3), qualify for the charitable contribution deduction under Internal Revenue Code Sections 170(b)(1)(A)(vi) and (viii), and has been determined not to be a private foundation under IRS Sections 509(a)(1) and (3). The Foundation is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Foundation is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purpose. The Foundation did not have any unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

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 amounts reported in the financial statements and accompanying notes. 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)

Adopted accounting pronouncements: 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 improves 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, and interim periods within annual periods beginning after June 15, 2022. The ASU was adopted during the year ended December 31, 2022, resulting in expanded disclosures.

Subsequent events: The Foundation has evaluated subsequent events through April 5, 2023, the date on which 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 by operating effectively and efficiently through prudent and stable investment policies and well-managed operational procedures. As of December 31, 2022 and 2021, the following financial assets are available to meet annual operating needs of the following fiscal years:

	2022	2021
Cash	\$ 15,214,115	\$ 28,787,424
Investments	152,420,153	161,653,127
Promises to give, amounts expected to be collected within one year	5,488,204	7,452,423
	<u>173,122,472</u>	<u>197,892,974</u>
Less board-designated endowment fund cash and investments	109,276,974	122,089,367
Less board-designated building fund cash and investments	518,980	644,265
Less donor-restricted fund cash and investments	1,660,872	1,793,407
	<u>\$ 61,665,646</u>	<u>\$ 73,365,935</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, 2022.

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 the Virginia 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 prefers 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, 2022 and 2021, the Board approved the utilization of the Terry and Bettie Cooper Endowment Fund for payment of all employee salaries, bonuses, health and welfare benefits, and pension contributions.

Marine Toys for Tots Foundation

Notes to Financial Statements

Note 3. Endowment Funds (Continued)

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. The Foundation can also elect to retain the portion for the other state programs, in order to grow the endowment.

An underwater endowment occurs when the fair value of the fund at the reporting date is less than either the original gift amount or the amount required to be maintained by the donor or UPMIFA. In the event that this were to occur, the Foundation would forgo its spending policy until the fair value exceeded the requirements.

Changes in board-designated net assets consist of the following at December 31, 2022 and 2021:

	2022	2021
Beginning balance	\$ 122,089,367	\$ 104,906,406
Appropriation of additional funds	4,000,000	4,000,000
Investment income, net	(14,844,966)	15,491,354
Appropriation of endowment expenditures	(1,967,427)	(2,308,393)
Ending balance	<u>\$ 109,276,974</u>	<u>\$ 122,089,367</u>

Changes in donor-restricted net assets consist of the following at December 31, 2022 and 2021:

	2022	2021
Beginning balance	\$ 1,793,407	\$ 1,750,000
Contributions	-	-
Investment income, net	(132,535)	272,199
Appropriation of endowment expenditures	-	(228,792)
Ending balance	<u>\$ 1,660,872</u>	<u>\$ 1,793,407</u>

During the year ended December 31, 2022, an underwater endowment did occur as a result of unexpected market losses during the fiscal year. The total amount of the corpus is \$1,750,000 and fair value as of year end was \$1,660,872, resulting in a deficiency of \$89,128 during the year ended December 31, 2022. There were no underwater amounts in 2021.

Donor-restricted and board-designated net assets consist of the following at December 31, 2022 and 2021:

	2022	2021
Cash and cash equivalents	\$ 3,523,243	\$ 1,225,855
Investments	107,414,603	122,656,919
	<u>\$ 110,937,846</u>	<u>\$ 123,882,774</u>

Marine Toys for Tots Foundation

Notes to Financial Statements

Note 4. Investments and Fair Value Measurement

Investments consist of the following at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Cash equivalents	\$ 15,707,489	\$ 17,988,686
Fixed income	38,896,748	19,609,834
Money market	5,135,768	-
Mutual funds	92,680,148	124,054,607
	<u>\$ 152,420,153</u>	<u>\$ 161,653,127</u>

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 (U.S. GAAP) 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, 2022 and 2021. There were no liabilities incurred by the Foundation subject to fair value measurement at December 31, 2022 and 2021.

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, 2022:

	Level 1	Level 2	Total
Mutual funds:			
Bond funds:			
Multi-sector bond	\$ 10,650,400	\$ -	\$ 10,650,400
Bank loans	19,257,055	-	19,257,055
	<u>29,907,455</u>	<u>-</u>	<u>29,907,455</u>
Equity funds:			
Large cap value	36,243,774	-	36,243,774
Commodities	2,104,638	-	2,104,638
Large cap blend	951,843	-	951,843
Small cap core	9,226,323	-	9,226,323
Small cap value	6,572,278	-	6,572,278
Mid cap growth	2,654,927	-	2,654,927
Large cap growth	5,018,910	-	5,018,910
	<u>62,772,693</u>	<u>-</u>	<u>62,772,693</u>
Fixed income:			
Corporate bonds	-	18,631,028	18,631,028
U.S. Treasury bills and notes	-	20,265,720	20,265,720
	<u>-</u>	<u>38,896,748</u>	<u>38,896,748</u>
Money market:			
Liquidity	2,873,656	-	2,873,656
Value	2,262,112	-	2,262,112
	<u>5,135,768</u>	<u>-</u>	<u>5,135,768</u>
Total investments held at fair value	<u>\$ 97,815,916</u>	<u>\$ 38,896,748</u>	136,712,664
Cash equivalents			<u>15,707,489</u>
			<u>\$ 152,420,153</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, 2021:

	Level 1	Level 2	Total
Mutual funds:			
Bond funds:			
Multi-sector bond	\$ 27,480,871	\$ -	\$ 27,480,871
Global bond	5,917,768	-	5,917,768
	<u>33,398,639</u>	<u>-</u>	<u>33,398,639</u>
Hybrid funds:			
Preferred stock	8,292,466	-	8,292,466
	<u>8,292,466</u>	<u>-</u>	<u>8,292,466</u>
Equity funds:			
Large cap value	27,698,598	-	27,698,598
Foreign large blend	9,997,946	-	9,997,946
Large cap blend	1,290,563	-	1,290,563
Small cap core	10,872,938	-	10,872,938
Small cap growth	10,996,674	-	10,996,674
Mid cap growth	3,116,787	-	3,116,787
Large cap growth	18,389,996	-	18,389,996
	<u>82,363,502</u>	<u>-</u>	<u>82,363,502</u>
Fixed income:			
Corporate bonds	-	19,609,834	19,609,834
	<u>-</u>	<u>19,609,834</u>	<u>19,609,834</u>
Total investments held at fair value	<u>\$ 124,054,607</u>	<u>\$ 19,609,834</u>	143,664,441
Cash equivalents			<u>17,988,686</u>
			<u>\$ 161,653,127</u>

The mutual funds and money markets are classified as a trading security and are publicly traded on the New York Stock Exchange; therefore, investments are considered Level 1 items. The corporate bonds and treasury bills are classified based on observable inputs but are not traded for identical assets and are, therefore, considered Level 2 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, 2022 and 2021, consist of the following:

	2022	2021
Building	\$ 4,957,922	\$ 5,037,208
Land	944,700	944,700
Furniture and equipment	477,015	358,674
	<u>6,379,637</u>	<u>6,340,582</u>
Less accumulated depreciation	2,182,726	2,016,343
	<u>\$ 4,196,911</u>	<u>\$ 4,324,239</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 \$166,384 and \$140,249 for the years ended December 31, 2022 and 2021, 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, 2022 and 2021, the Foundation incurred joint costs of \$11,427,644 and \$11,042,689, respectively, for informational materials and activities that included fundraising appeals. Of those costs, \$4,342,504 and \$4,417,075 was allocated to program expenses and \$7,085,140 and \$6,625,614 was allocated to supporting services for the years ended December 31, 2022 and 2021, 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 2023 coordinator conference. In the event of cancellation, the Foundation is required to pay various costs as stipulated in the contract, the amounts of which are dependent upon the date of cancellation.

Note 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, 2022 and 2021, the Foundation contributed \$211,607 and \$193,146, respectively, to the Plan.

Marine Toys for Tots Foundation

Notes to Financial Statements

Note 9. Donated Goods and Services

As part of its mission, the Foundation receives donated toys from two primary sources, local individuals and corporate sponsors, both of which are recorded as revenue when received. Locally donated toys are recorded as a contribution at their estimated fair value, which is based on a statistical toy study. Toys from corporate sponsors are valued based on the amount it would have cost the Foundation to obtain the goods had they not been donated. Any toys that are not distributed during the year are held in inventory at year end.

The Foundation also receives contributions of boxes and services from businesses and other organizations toward the fulfillment of program objectives and general operations. The items and services are provided by firms throughout the year, which have technical expertise in the related industries. The boxes are valued based on the amount it would have cost the Foundation to obtain them had they not been donated. The services are valued at the fair value on the date of donation based on the normal billing rates of the donating organizations.

The aforementioned goods and services are not monetized and used in the normal course of business as provided, and do not include donor-restrictions.

The Foundation recognized total donated toy revenue and donated service revenue of \$305,322,488 and \$268,588,172 with a corresponding expense or asset recorded during the years ended December 31, 2022 and 2021, respectively. The amount received can be broken down into the following categories:

	2022	2021
Toys - locally donated	\$ 224,874,215	\$ 234,538,540
Toys - corporate sponsors	73,059,151	26,227,045
Media services	5,404,847	5,638,653
Warehouse/storage	1,377,197	1,746,179
Packaging Boxes & Shipping	443,306	363,828
Legal fees	163,772	73,927
	<u>\$ 305,322,488</u>	<u>\$ 268,588,172</u>