

Marine Toys for Tots Foundation

Financial Report
December 31, 2023

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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, 2023 and 2022, 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, 2023 and 2022, and the change 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.

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 14, 2024

Marine Toys for Tots Foundation

Balance Sheets

December 31, 2023 and 2022

	2023	2022
Assets		
Cash	\$ 22,320,280	\$ 15,214,115
Investments	142,785,250	152,420,153
Promises to give	5,462,333	5,488,204
Prepaid expenses and other	2,475	2,475
Inventory	40,701,650	46,911,700
Property and equipment, net	4,049,991	4,196,911
	<u>4,049,991</u>	<u>4,196,911</u>
Total assets	<u>\$ 215,321,979</u>	<u>\$ 224,233,558</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and other	\$ 6,241,552	\$ 6,280,169
Total liabilities	<u>6,241,552</u>	<u>6,280,169</u>
Commitment and contingency (Note 7)		
Net assets:		
Without donor restrictions:		
Undesignated	9,394,803	20,684,863
Board-designated:		
Endowment	117,613,620	109,276,974
Building fund	564,312	518,980
Inventory	40,701,650	46,911,700
Toy purchases	39,000,000	38,900,000
Total net assets without donor restrictions	<u>207,274,385</u>	<u>216,292,517</u>
With donor restrictions	1,806,042	1,660,872
Total net assets	<u>209,080,427</u>	<u>217,953,389</u>
Total liabilities and net assets	<u>\$ 215,321,979</u>	<u>\$ 224,233,558</u>

See notes to financial statements.

Marine Toys for Tots Foundation

Statements of Activities Years Ended December 31, 2023 and 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:						
Contributions:						
Toys	\$ 279,317,335	\$ -	\$ 279,317,335	\$ 297,933,366	\$ -	\$ 297,933,366
Direct mail	27,948,367	-	27,948,367	27,809,759	-	27,809,759
Individual	36,383,443	-	36,383,443	35,736,422	-	35,736,422
Corporate	9,682,951	-	9,682,951	13,003,179	-	13,003,179
Contributions of nonfinancial assets	9,636,468	-	9,636,468	7,389,122	-	7,389,122
Combined federal campaign	77,907	-	77,907	34,986	-	34,986
Interest and dividends, net	4,428,842	61,737	4,490,579	3,651,869	35,539	3,687,408
Other	300,059	-	300,059	282,417	-	282,417
Events	99,583	-	99,583	130,855	-	130,855
Unrealized and realized gain (loss) on investments, net	8,260,204	83,433	8,343,637	(19,314,751)	(168,074)	(19,482,825)
Total support and revenue	376,135,159	145,170	376,280,329	366,657,224	(132,535)	366,524,689
Expenses:						
Program services:						
Toy distribution program	367,349,926	-	367,349,926	377,997,060	-	377,997,060
Education program	4,970,539	-	4,970,539	4,396,475	-	4,396,475
Supporting services:						
Fundraising	11,069,227	-	11,069,227	9,996,222	-	9,996,222
Management and general	1,763,599	-	1,763,599	2,338,453	-	2,338,453
Total expenses	385,153,291	-	385,153,291	394,728,210	-	394,728,210
Change in net assets	(9,018,132)	145,170	(8,872,962)	(28,070,986)	(132,535)	(28,203,521)
Net assets:						
Beginning	216,292,517	1,660,872	217,953,389	244,363,503	1,793,407	246,156,910
Ending	\$ 207,274,385	\$ 1,806,042	\$ 209,080,427	\$ 216,292,517	\$ 1,660,872	\$ 217,953,389

See notes to financial statements.

Marine Toys for Tots Foundation

Statement of Functional Expenses Year Ended December 31, 2023

Description	Program Services			Supporting Services			Total
	Toy Distribution	Education	Total Program	Fundraising	Management and General	Total Supporting	
Toys distributed	\$ 347,530,361	\$ -	\$ 347,530,361	\$ -	\$ -	\$ -	\$ 347,530,361
Printing and support materials	3,199,147	1,404,103	4,603,250	1,950,307	11,306	1,961,613	6,564,863
Public relations and development	7,303,792	5,237	7,309,029	2,257,014	-	2,257,014	9,566,043
Postage and shipping	1,131,746	2,362,206	3,493,952	3,273,277	266,363	3,539,640	7,033,592
Professional fees and services	576,370	1,116,147	1,692,517	3,217,723	688,785	3,906,508	5,599,025
Travel and conferences	1,846,307	82,846	1,929,153	25,362	151,603	176,965	2,106,118
Office expense	93,653	-	93,653	11,546	23,092	34,638	128,291
Repairs and maintenance	69,198	-	69,198	8,531	17,062	25,593	94,791
Telephone	35,433	-	35,433	2,105	2,353	4,458	39,891
Insurance	189,897	-	189,897	34,484	25,279	59,763	249,660
Occupancy	3,064,443	-	3,064,443	4,136	8,271	12,407	3,076,850
Salaries	2,066,414	-	2,066,414	254,763	509,527	764,290	2,830,704
Payroll-related expense	127,604	-	127,604	15,732	31,464	47,196	174,800
Subtotal	367,234,365	4,970,539	372,204,904	11,054,980	1,735,105	12,790,085	384,994,989
Depreciation	115,561	-	115,561	14,247	28,494	42,741	158,302
Total expenses	\$ 367,349,926	\$ 4,970,539	\$ 372,320,465	\$ 11,069,227	\$ 1,763,599	\$ 12,832,826	\$ 385,153,291

See notes to financial statements.

Marine Toys for Tots Foundation

Statement of Functional Expenses Year Ended December 31, 2022

Description	Program Services			Supporting Services			Total
	Toy Distribution	Education	Total Program	Fundraising	Management and General	Total Supporting	
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

Statements of Cash Flows Years Ended December 31, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ (8,872,962)	\$ (28,203,521)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Unrealized and realized (gains) losses on investments, net	(8,343,637)	19,482,825
Depreciation	158,302	166,384
Change in assets and liabilities:		
Decrease in:		
Promises to give	25,871	1,964,219
Inventory	6,210,050	4,809,709
Decrease in:		
Accounts payable and other	(38,617)	(1,504,018)
Net cash used in operating activities	(10,860,993)	(3,284,402)
Cash flows from investing activities:		
Purchase of property and equipment	(11,382)	(39,056)
Proceeds from sale of investments	53,384,500	100,571,221
Purchase of investments	(35,405,960)	(110,821,072)
Net cash provided by (used in) investing activities	17,967,158	(10,288,907)
Net increase (decrease) in cash	7,106,165	(13,573,309)
Cash:		
Beginning	15,214,115	28,787,424
Ending	\$ 22,320,280	\$ 15,214,115

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 860 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, 2023 and 2022, was \$24,737,070 and \$24,183,929, respectively. At December 31, 2023 and 2022, these amounts were included in cash and investments on the balance sheets.

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 collectibility 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, 2024.

Inventory: Inventory consists of toys, books and stocking stuffers (toys), either donated from individuals or corporations, which have not been distributed at December 31, 2023. 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, 2023. The toys will be provided by a third-party vendor that is supporting the initiative during the year ended December 31, 2023, and are considered to be in transit at year-end; therefore, are included as part of the inventory balance at December 31, 2023.

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, 2023 and 2022.

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, 2023 and 2022. The functional allocation expense ratio excludes donated services.

During the years ended December 31, 2023 and 2022, 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 \$2,289,075 and \$1,967,427 for the years ended December 31, 2023 and 2022, 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.

The Foundation applies the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this policy, the Foundation may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position would be sustained on examination by taxing authorities, based on the technical merits of the position. Management has evaluated the Foundation's tax positions and has concluded that the Foundation has taken no uncertain tax positions that require adjustment to the financial statements to comply with provisions of this guidance.

Marine Toys for Tots Foundation

Notes to Financial Statements

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

Use of estimates: The preparation of financial statements 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.

Subsequent events: The Foundation has evaluated subsequent events through April 14, 2024, 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, 2023 and 2022, the following financial assets are available to meet annual operating needs of the following fiscal years:

	2023	2022
Cash	\$ 22,320,280	\$ 15,214,115
Investments	142,785,250	152,420,153
Promises to give, amounts expected to be collected within one year	5,462,333	5,488,204
	<u>170,567,863</u>	<u>173,122,472</u>
Less board-designated endowment fund cash and investments	117,613,620	109,276,974
Less board-designated building fund cash and investments	564,312	518,980
Less donor-restricted fund cash and investments	1,806,042	1,660,872
	<u>\$ 50,583,889</u>	<u>\$ 61,665,646</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 nonoperational 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, 2023.

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.

Marine Toys for Tots Foundation

Notes to Financial Statements

Note 3. Endowment Funds (Continued)

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, 2023 and 2022, 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.

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.

Marine Toys for Tots Foundation

Notes to Financial Statements

Note 3. Endowment Funds (Continued)

Changes in board-designated net assets consist of the following at December 31, 2023 and 2022:

	2023	2022
Beginning balance	\$ 109,276,974	\$ 122,089,367
Appropriation of additional funds	-	4,000,000
Investment income (loss), net	10,625,721	(14,844,966)
Appropriation of endowment expenditures	(2,289,075)	(1,967,427)
Ending balance	<u>\$ 117,613,620</u>	<u>\$ 109,276,974</u>

Changes in donor-restricted net assets consist of the following at December 31, 2023 and 2022:

	2023	2022
Beginning balance	\$ 1,660,872	\$ 1,793,407
Contributions	-	-
Investment income (loss), net	145,170	(132,535)
Appropriation of endowment expenditures	-	-
Ending balance	<u>\$ 1,806,042</u>	<u>\$ 1,660,872</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 2023.

Donor-restricted and board-designated net assets consist of the following at December 31, 2023 and 2022:

	2023	2022
Cash and cash equivalents	\$ 1,225,855	\$ 3,523,243
Investments	118,193,807	107,414,603
	<u>\$ 119,419,662</u>	<u>\$ 110,937,846</u>

Note 4. Investments and Fair Value Measurement

Investments consist of the following at December 31, 2023 and 2022:

	2023	2022
Cash equivalents	\$ 3,492,262	\$ 15,707,489
Fixed income	23,319,338	38,896,748
Money market	8,994,662	5,135,768
Mutual funds	106,978,988	92,680,148
	<u>\$ 142,785,250</u>	<u>\$ 152,420,153</u>

Marine Toys for Tots Foundation

Notes to Financial Statements

Note 4. Investments and Fair Value Measurement (Continued)

The ASC Topic on Fair Value Measurement requires disclosures of financial position in periods subsequent to initial recognition whether the measurements are made on a recurring basis or a nonrecurring 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, 2023 and 2022. There were no liabilities incurred by the Foundation subject to fair value measurement at December 31, 2023 and 2022.

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, 2023:

	Level 1	Level 2	Total
Mutual funds:			
Bond funds:			
Multi-sector bond	\$ 31,779,338	\$ -	\$ 31,779,338
	<u>31,779,338</u>	<u>-</u>	<u>31,779,338</u>
Equity funds:			
Large cap value	21,695,767	-	21,695,767
Commodities	2,086,704	-	2,086,704
Large cap blend	940,123	-	940,123
Small cap core	11,307,368	-	11,307,368
Small cap value	3,858,132	-	3,858,132
Mid cap growth	6,792,570	-	6,792,570
Large cap growth	21,978,295	-	21,978,295
Foreign large blend	6,540,691	-	6,540,691
	<u>75,199,650</u>	<u>-</u>	<u>75,199,650</u>
Fixed income:			
Corporate bonds	-	13,559,723	13,559,723
U.S. Treasury bills and notes	-	9,759,615	9,759,615
	<u>-</u>	<u>23,319,338</u>	<u>23,319,338</u>
Money market:			
Liquidity	8,994,662	-	8,994,662
	<u>8,994,662</u>	<u>-</u>	<u>8,994,662</u>
Total investments held at fair value	<u>\$ 115,973,650</u>	<u>\$ 23,319,338</u>	139,292,988
Cash equivalents			<u>3,492,262</u>
			<u>\$ 142,785,250</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, 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			15,707,489
			<u>\$ 152,420,153</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, 2023 and 2022, consist of the following:

	2023	2022
Building	\$ 4,957,922	\$ 4,957,922
Land	944,700	944,700
Furniture and equipment	488,397	477,015
	<u>6,391,019</u>	<u>6,379,637</u>
Less accumulated depreciation	2,341,028	2,182,726
	<u>\$ 4,049,991</u>	<u>\$ 4,196,911</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 \$158,302 and \$166,384 for the years ended December 31, 2023 and 2022, 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, 2023 and 2022, the Foundation incurred joint costs of \$11,624,898 and \$11,427,644, respectively, for informational materials and activities that included fundraising appeals. Of those costs, \$4,882,456 and \$4,342,504 was allocated to program expenses and \$6,742,442 and \$7,085,140 was allocated to supporting services for the years ended December 31, 2023 and 2022, 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 2024 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.

The Foundation entered into noncancelable contracts with several vendors for services to be provided through December 2028. The commitments at December 31, 2023, total \$2,619,150.

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, 2023 and 2022, the Foundation contributed \$257,333 and \$211,607, respectively, to the Plan.

Marine Toys for Tots Foundation

Notes to Financial Statements

Note 9. Contributions of Nonfinancial Assets

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 \$288,953,803 and \$305,322,488 with a corresponding expense or asset recorded during the years ended December 31, 2023 and 2022, respectively. The amount received can be broken down into the following categories:

	2023	2022
Toys—locally donated	\$ 222,019,498	\$ 224,874,215
Toys—corporate sponsors	57,297,837	73,059,151
Media services	7,017,536	5,404,847
Warehouse/storage	2,087,833	1,377,197
Packaging boxes and shipping	463,721	443,306
Legal fees	67,378	163,772
	<u>\$ 288,953,803</u>	<u>\$ 305,322,488</u>