

**THE KAREN TOFFLER
CHARITABLE TRUST**

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

THE KAREN TOFFLER CHARITABLE TRUST

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

CONTENTS

	Page
Independent Auditor's Report	1
Statement of Financial Position	2
Statement of Activities.....	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
The Karen Toffler Charitable Trust

Report on Financial Statements

We have audited the accompanying financial statements of The Karen Toffler Charitable Trust (a nonprofit organization), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Karen Toffler Charitable Trust as of December 31, 2019, 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.

Emphasis of Matter

As discussed in Note 6 to the financial statements, the recent COVID-19 pandemic in the United States and worldwide has resulted in reduced economic activity and market declines. As the extent and duration of the future impact to The Karen Toffler Charitable Trust are uncertain, no adjustments were necessary to the financial statements, and our opinion is not modified with respect to this matter.

Green Hasson & Janks LLP

July 10, 2020
Los Angeles, California

THE KAREN TOFFLER CHARITABLE TRUST

STATEMENT OF FINANCIAL POSITION

December 31, 2019

ASSETS

Cash and Cash Equivalents	\$	311,051
Investments		<u>6,322,347</u>
<i>TOTAL ASSETS</i>	\$	<u>6,633,398</u>

LIABILITIES AND NET ASSETS

LIABILITIES:		
Accounts Payable and Accrued Liabilities	\$	21,117
NET ASSETS:		
Without Donor Restrictions		<u>6,612,281</u>
<i>TOTAL LIABILITIES AND NET ASSETS</i>	\$	<u>6,633,398</u>

The Accompanying Notes are an Integral Part of These Financial Statements

THE KAREN TOFFLER CHARITABLE TRUST

STATEMENT OF ACTIVITIES
Year Ended December 31, 2019

REVENUE AND GAINS:

Contributions	\$ 6,000,000
In-Kind Services	58,690
Investment Return (Net)	<u>349,196</u>

TOTAL REVENUE AND GAINS

6,407,886

EXPENSES:

Program Services	208,690
Management and General	<u>67,653</u>

TOTAL EXPENSES

276,343

***CHANGE IN NET ASSETS WITHOUT
DONOR RESTRICTIONS***

6,131,543

Net Assets Without Donor Restrictions - Beginning of Year

480,738

***NET ASSETS WITHOUT DONOR
RESTRICTIONS - END OF YEAR***

\$ 6,612,281

The Accompanying Notes are an Integral Part of These Financial Statements

THE KAREN TOFFLER CHARITABLE TRUST

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2019

	Program Services:		Management and	Total
	Grantmaking		General	
Grants	\$ 150,000	\$ -	\$ -	\$ 150,000
In-Kind Services	58,690	-	-	58,690
Professional Fees	-	59,603	-	59,603
Other	-	8,050	-	8,050
<i>TOTAL FUNCTIONAL EXPENSES</i>	\$ 208,690	\$ 67,653	\$ -	\$ 276,343

The Accompanying Notes are an Integral Part of These Financial Statements

THE KAREN TOFFLER CHARITABLE TRUST

STATEMENT OF CASH FLOWS Year Ended December 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in Net Assets Without Donor Restrictions	\$ 6,131,543
Adjustments to Reconcile Change in Net Assets Without Donor Restrictions to Net Cash Provided by Operating Activities:	
Net Unrealized Gains on Investments	(309,551)
Increase in:	
Accounts Payable and Accrued Liabilities	<u>21,117</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES 5,843,109

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from Sale of Investments	2,223,997
Purchases of Investments	<u>(8,236,793)</u>

NET CASH USED IN INVESTING ACTIVITIES (6,012,796)

NET DECREASE IN CASH AND CASH EQUIVALENTS (169,687)

Cash and Cash Equivalents - Beginning of Year	<u>480,738</u>
---	----------------

CASH AND CASH EQUIVALENTS - END OF YEAR \$ 311,051

The Accompanying Notes are an Integral Part of These Financial Statements

THE KAREN TOFFLER CHARITABLE TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 1 - ORGANIZATION

The Karen Toffler Charitable Trust (the "Trust") is a private, nonprofit, public benefit corporation organized to promote and engage exclusively in charitable grant-making activities. The Trust does not make grants to individuals.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) BASIS OF PRESENTATION

The accompanying financial statements have been prepared on the accrual basis of accounting.

(b) NET ASSETS

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- **Net Assets Without Donor Restrictions.** Net assets available for use in general operations and not subject to donor-imposed restrictions.
- **Net Assets With Donor Restrictions.** Net assets subject to donor-imposed restrictions.

None of the Trust's assets were subject to donor-imposed restrictions at December 31, 2019.

(c) 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 reported amounts of assets, liabilities, revenues and expenses as of the date and for the period presented. Actual results could differ from those estimates.

(d) CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, the Trust considers cash on hand and deposits in banks to be cash and cash equivalents. The carrying value of cash and cash equivalents at December 31, 2019 approximates its fair value.

The Trust maintains its cash and cash equivalents in bank deposit and other investment accounts which may, at times, exceed federally insured limits. The Trust has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

THE KAREN TOFFLER CHARITABLE TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) INVESTMENTS

Investments in equity and debt securities with readily determinable market values are reported at fair value. The fair value of investments is valued at the closing price on the last business day of the fiscal year. Securities are generally held in custodial investment accounts administered by financial institutions. Investments in hedge funds of funds and common or commingled funds are valued using net asset value (NAV) per share of units held by the Foundation, as provided by the fund managers or general partners. Investments valued at NAV (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

Investment purchases and sales are accounted for on a trade-date basis. Realized gains and losses are calculated based upon the underlying cost of the securities traded. Gains or losses (including investments bought, sold, and held during the year), and interest and dividend income are reflected in the statement of activities as increases or decreases in net assets without donor restrictions unless their use is restricted by donor stipulations or by law.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain long-term investments, it is reasonably possible that changes in the values of these investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

(f) CONTRIBUTIONS

The Trust recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest are received. Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met.

(g) IN-KIND CONTRIBUTIONS

Contributions of donated non-cash assets are recorded at fair value in the period received. Contributions of donated services are recognized if the services received (a) create or enhance long-lived assets, or (b) require specialized skills, were provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of services received from personnel of affiliated organizations that directly benefit the Trust are recognized at the cost recognized by the affiliate in providing those services.

(h) GRANTS

Unconditional grants are charged against operations when authorized by the Trust's Board of Trustees. The actual payment of the grant may not necessarily occur in the year of authorization.

THE KAREN TOFFLER CHARITABLE TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) TAX EXEMPT STATUS AND FEDERAL EXCISE TAXES

The Trust is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701(d). However, the Trust is classified under IRC Section 509(a) as a private foundation and, as such, for the year ended December 31, 2019, was subject to a 2% federal excise tax on net investment income, with a possible reduction to 1% providing certain distribution requirements were met.

Beginning in 2020, the federal excise tax rate on net investment income has been changed to a flat rate of 1.39%. Deferred excise taxes arise from the net unrealized appreciation in the fair value of investments and have been calculated using the 1.39% excise tax rate at December 31, 2019. The Trust does not have a material deferred excise tax liability at December 31, 2019 and therefore the accompanying financial statements do not include a provision for deferred excise taxes.

In accordance with the Financial Accounting Standards Board's (FASB) Accounting Standards Codification Topic No. 740, *Uncertainty in Income Taxes*, the Trust recognizes the impact of tax positions in the financial statements if that position is more likely than not to be sustained on audit, based on the technical merits of the position. The Trust has performed an evaluation of uncertain tax positions and no matters were noted that would require recognition in the financial statements or which might have an effect on its tax-exempt status.

(j) FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the Trust's programs and other activities are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit, such as time worked.

(k) NEW ACCOUNTING PRONOUNCEMENT

In June 2018, FASB issued Accounting Standards Update (ASU) No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which is intended to clarify the accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance. The Trust implemented the ASU prospectively during the year ending December 31, 2019. No significant impact to the Trust's financial statements was noted as a result of this implementation.

(l) SUBSEQUENT EVENTS

The Trust has evaluated events and transactions occurring subsequent to the statement of financial position date of December 31, 2019 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through July 10, 2020, the date these financial statements were available to be issued. No such material events or transactions were noted to have occurred, except as described in Note 6.

THE KAREN TOFFLER CHARITABLE TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENTS

The Trust has implemented the fair value accounting standard for those assets that are re-measured and reported at fair value at each reporting period. This standard establishes a single authoritative definition of fair value, sets out a framework for measuring fair value based on inputs used, and requires additional disclosures about fair value measurements.

In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets. Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset and include situations where there is little, if any, market activity for the asset.

The following table presents information about the Trust's assets that are measured at fair value on a recurring basis at December 31, 2019 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	Year Ended December 31, 2019	Fair Value Measurements Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value Per Share or its Equivalent (NAV)
Money Market Funds	\$ 804,500	\$ 804,500	\$ -	\$ -	\$ -
Mutual Funds					
Fixed Income	359,935	359,935	-	-	-
Equity	2,717,199	2,717,199	-	-	-
Exchange-Traded					
Fixed Income Funds	89,372	89,372	-	-	-
Fund of Funds and Commingled Funds	2,351,341	-	-	-	2,351,341
TOTAL INVESTMENTS	\$ 6,322,347	\$ 3,971,006	\$ -	\$ -	\$ 2,351,341

The fair values of investments within Level 1 inputs were obtained based on quoted market prices at the closing of the last business day of the fiscal year.

Investments valued using NAV are comprised of various hedge, long-only equity, and fixed income commingled funds and fund of funds. These investments (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. Investments are valued using the NAV provided by the fund managers or general partners. It is probable that the investments will be sold at an amount different from their fair value at December 31, 2019.

Redemptions of investments valued at NAV can be made monthly to quarterly upon 16-90 days advance written notice. Certain commingled funds are subject to a one year lock-up period expiring in 2020. Unfunded commitments totaled \$276,304 at December 31, 2019.

THE KAREN TOFFLER CHARITABLE TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 4 - LINE OF CREDIT

The Trust has a line of credit facility with a financial institution. The maximum available credit is dependent on the value of investments held with this financial institution. At December 31, 2019, no amount was outstanding on the line of credit. Interest is payable monthly on the outstanding balance at a variable interest rate depending on the amount outstanding under the line of credit.

NOTE 5 - RELATED PARTY TRANSACTIONS

The Trust is related to Adelaide Toffler Living Trust (the Living Trust) through common trustees. All of the contributions received by the Trust during the year ended December 31, 2019 were contributed by this related party. In addition, the Trust received \$58,690 of in-kind services provided by personnel of the Living Trust.

Pursuant to the Living Trust instrument, the Trust is entitled to the residual value of the assets of the Living Trust after the payment of certain fees and specified amounts to all other beneficiaries of the Living Trust. At December 31, 2019, the value of the assets in the Living Trust designated for the Trust was impracticable to estimate, and, as a result, no beneficial interest in such assets was recorded by the Trust.

NOTE 6 - LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

The total financial assets held by the Trust at December 31, 2019 and the amounts of those financial assets that could be made available for general expenditures within one year of the date of the statement of financial position are summarized in the following table:

Financial Assets at December 31, 2019	
Cash and Cash Equivalents	\$ 311,051
Investments	<u>6,322,347</u>
FINANCIAL ASSETS AVAILABLE TO MEET GENERAL EXPENDITURES WITHIN ONE YEAR	\$ <u>6,633,398</u>

The Trust regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. As part of the Trust's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Trust has access to a line of credit dependent on the value of investments held with a financial institution (Refer to Note 4).

Subsequent to year-end, an outbreak of a novel strain of coronavirus (COVID-19) surfaced in the United States and throughout the world, causing business disruption and significant market fluctuations, which may negatively impact the Trust's operations and investment portfolio holdings. The scope and duration of this impact cannot be reasonably estimated at this time. The Trust is closely monitoring its investment portfolio values and operations.