



*Report of Independent Auditors and
Financial Statements*

The Valhalla Charitable Foundation

December 31, 2019 and 2018

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Report of Independent Auditors

To the Board of Directors
The Valhalla Charitable Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of The Valhalla Charitable Foundation (the "Foundation"), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation'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 Valhalla Charitable Foundation as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Mass Adams LLP

San Francisco, California
July 23, 2020

Financial Statements

The Valhalla Charitable Foundation
Statements of Financial Position
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
ASSETS		
Cash and cash equivalents	\$ 113,809,012	\$ 88,337,313
Accounts receivable	12,308	137,701
Investments held at fair value	215,480,572	11,364,640
Investments in privately-held companies, cost (net of impairment)	9,037,215	9,223,428
Program related:		
Note receivable	254,914	-
Prepaid expenses and other assets	143,500	-
	<u>338,737,521</u>	<u>109,063,082</u>
Total assets	<u>\$ 338,737,521</u>	<u>\$ 109,063,082</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Grants payable	\$ 36,177,612	\$ 7,875,038
Accounts payable	578,150	715,986
	<u>36,755,762</u>	<u>8,591,024</u>
Total liabilities	36,755,762	8,591,024
NET ASSETS		
Without donor restrictions	<u>301,981,759</u>	<u>100,472,058</u>
	<u>\$ 338,737,521</u>	<u>\$ 109,063,082</u>
Total liabilities and net assets	<u>\$ 338,737,521</u>	<u>\$ 109,063,082</u>

The Valhalla Charitable Foundation
Statements of Activities
For the Years Ended December 31, 2019 and 2018

	2019	2018
REVENUE, GAINS, AND LOSSES		
Contributions	\$ 242,678,308	\$ 34,646,433
Interest and dividend income, net of fees	5,262,766	673,815
Impairment on privately held companies	(2,864,772)	-
Realized gain on investments	4,004,807	7,932,709
Unrealized gain on investments	8,770,686	240,408
	257,851,795	43,493,365
EXPENSES		
Program expenses		
Grants made	49,298,452	28,558,191
Program consultants and services	1,815,501	1,842,355
Professional fees	17,852	1,725
Travel and conferences	19,039	27,365
	51,150,844	30,429,636
Management and general		
Office expenses	22,696	33,577
Professional fees	119,999	125,702
Federal excise tax	5,048,555	275,000
	5,191,250	434,279
Total expenses	56,342,094	30,863,915
CHANGE IN NET ASSETS	201,509,701	12,629,450
NET ASSETS WITHOUT DONOR RESTRICTIONS, beginning of year	100,472,058	87,842,608
NET ASSETS WITHOUT DONOR RESTRICTIONS, end of year	\$ 301,981,759	\$ 100,472,058

The Valhalla Charitable Foundation
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 201,509,701	\$ 12,629,450
Adjustments to reconcile change in net assets to net cash from operating activities:		
Noncash grants made	-	30,809,261
Impairment on investments in privately-held companies	2,864,772	-
Realized gain on investments	(4,004,807)	(7,932,709)
Unrealized gain on investments	(8,770,686)	(240,408)
Changes in operating assets and liabilities		
Accounts receivable	125,393	75,279
Accrued interest - note receivable	(4,914)	-
Prepaid and other assets	(143,500)	155,571
Grants payable	28,302,574	(31,459,874)
Accounts payable	(137,836)	244,984
	<u>219,740,697</u>	<u>4,281,554</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	10,877,856	72,798,202
Purchase of investments	(200,454,140)	(2,809,022)
Sale of investments of privately-held companies	235,849	-
Purchases of investments of privately-held companies	(4,678,563)	(1,249,998)
Origination of program related note receivable	(250,000)	-
	<u>(194,268,998)</u>	<u>68,739,182</u>
Net cash (used in) from investing activities		
CHANGE IN CASH AND CASH EQUIVALENTS	25,471,699	73,020,736
CASH AND CASH EQUIVALENTS, beginning of year	<u>88,337,313</u>	<u>15,316,577</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 113,809,012</u>	<u>\$ 88,337,313</u>
SUPPLEMENTAL DISCLOSURE ON OPERATING AND INVESTING ACTIVITIES		
Investments transferred as grant payments	\$ -	\$ 30,809,261

The Valhalla Charitable Foundation

Notes to Financial Statements

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – The Valhalla Charitable Foundation (the “Foundation”) was established in 2003 as a California nonprofit public benefit corporation for the purpose of providing support to charitable organizations. The Foundation’s grant making activities are currently concentrated in the areas of early childhood development, K12 education, medical research and talent, environmental innovation, and collaborative philanthropy.

The Foundation’s primary sources of revenue are: (i) direct contributions from the founders, and (ii) periodic distributions from charitable remainder unitrusts, of which the founders are the trustors.

Basis of accounting – The financial statements are prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned, and expenses are recognized when incurred.

Description of net assets – Net assets are classified based on existence or absence of donor-imposed restrictions as follows:

Without Donor Restriction is defined as that portion of net assets that has no use or time restrictions.

With Donor Restriction is defined as that portion of net assets that consist of a restriction on the specific use or the occurrence of a certain future event. There were no net assets with donor restriction at December 31, 2019 and 2018.

Income taxes – The Foundation is a private foundation and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from California franchise and/or income taxes under Section 23701d of the Revenue and Taxation Code. The Foundation had no unrecognized tax benefits at December 31, 2019 and 2018. The Foundation files an exempt organization return in the U.S. federal jurisdiction and with the California Franchise Tax Board. The Foundation is not aware of any transactions that would affect its tax-exempt status. Private foundations are liable for an excise tax of 2% (1% if minimum payout requirements prescribed by the Internal Revenue Code are met) on net investment income, excluding net unrealized gains, as defined. The Foundation’s excise tax rate was 2% and 1% for the years ended December 31, 2019 and 2018, respectively.

Deferred federal excise taxes arise primarily from unrealized tax basis gains on investments and are calculated at the maximum rate expected to be paid by the Foundation on the excess of fair value over cost, if any, as of the respective year end. For the year ended December 31, 2019, the Foundation recorded prepaid federal excise tax asset of \$131,000, that is included in prepaid expenses and other assets on the accompanying statements of financial position. For the year ended December 31, 2018, the Foundation recorded a provision of \$268,000, for deferred federal excise taxes, that is included in accounts payable on the accompanying statements of financial position.

The Foundation is subject to distribution requirements of the Internal Revenue Code. In determining qualifying distributions, grant payments are considered on a cash basis and certain expenses are considered as qualifying distributions.

Cash and cash equivalents – Cash and cash equivalents represent all highly liquid investments, including money-market accounts, with original maturities of three months or less at date of purchase.

The Valhalla Charitable Foundation

Notes to Financial Statements

Investments held at fair value – Investments are stated at fair value, determined by quoted market prices. Fair values of alternative investments are based on net asset values (“NAV”) as reported by fund managers. Due to the inherent uncertainty of the valuation of these nonmarketable investments, those estimated values may differ significantly from the values that would have been used had a ready market for the securities existed.

Investments are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investments, it is at least reasonably possible changes in the values of investments will occur in the near term and such changes could materially affect total net assets and the amounts reported in the statements of financial position.

Investments in privately held companies – Investments in privately held companies represent the unpaid principal balance and accrued interest of notes receivable converted to equity shares of the respective privately held companies per the terms of the note agreement, as well as purchases of equity shares offered directly by the companies.

For the years ended December 31, 2019 and 2018, gross cost basis of the Foundation’s privately held company investments prior to any impairments or realized losses was \$11,901,987 and \$9,223,428, respectively. At each reporting date the Foundation assesses whether there is evidence that investments in privately held companies are impaired. Impairment occurs when evidence demonstrates that a loss event has occurred after the initial recognition of the investment, and that the loss event has an impact on the future cash flows and carrying value of the investment. For the years ended December 31, 2019 and 2018, the impairment recognized for investments in privately held companies was \$2,864,772 and \$0, respectively.

Program related note receivable – The program related note receivable consists of a loan to a commercial company which supports the Foundation’s charitable objectives and accrued interest related thereto. Management determines the allowance for doubtful accounts by evaluating individual balances and assessing the likelihood of collections. No allowance for doubtful accounts for the program related note receivable has been recorded at December 31, 2019 and 2018, respectively.

Grants payable/expense – Grants are recorded by the Foundation upon approval by the Board of Directors, provided the grant is not subject to future barriers. Grants with payment terms in excess of one year were not subject to discounting as the Foundation believes the discount is insignificant to the financial statements as a whole.

Conditional grants are recognized as grant expenses and as a grant payable in the period in which the grantee meets the terms of the conditions. Conditional grants for the years ended December 31, 2019 and 2018, amounted to \$15,226,682 and \$11,562,397, respectively. The conditions are expected to be met through the year ending December 31, 2023.

Functional expense allocations –The costs of providing program services and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, costs have been allocated among program services and supporting services based on direct usage of resources.

Revenue recognition – For year ended December 31, 2019, the Foundation has adopted Accounting Standards Update (ASU) No. 2018-08, Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. Management has undertaken a review of contracts and revenue streams for all of the Foundation’s net revenues. Management concluded the adoption of the ASU No. 2018-08 did not have a significant impact on the financial statements.

The Valhalla Charitable Foundation

Notes to Financial Statements

Contribution revenue – Contributions, including donated securities, are recorded at the fair value of the gift at the date of the donation. Subsequent gains or losses on donated securities are recognized in the statements of activities. Donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. All contributions were considered to be net assets without donor restrictions for the years ended December 31, 2019 and 2018.

Concentration of risk – Financial instruments, which potentially subject the Foundation to concentrations of credit risk, consist primarily of investment in equity instruments in excess of Securities Investor Protection Corporation insurance limits. The Foundation's cash has been placed with a major financial institution. At times, such amounts may exceed Federal Deposit Insurance Corporation limits. The Foundation has not experienced any losses in such accounts in the past.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Reclassifications – Certain reclassifications have been made to the 2018 financial statements to conform to the current year presentation. Such reclassifications did not change total assets, liabilities, revenues, expenses, or changes in net assets, as reflected in the 2018 financial statements.

Subsequent events – Subsequent events are events or transactions that occur after the statement of financial position date but before the financial statements are available to be issued. The Foundation recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including any estimates inherent in the process of preparing the financial statements. The Foundation's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before the financial statements were available to be issued.

Subsequent to December 31, 2019, the World Health Organization declared the novel coronavirus outbreak a public health emergency. The outbreak, and the reaction of government agencies, has disrupted economic markets and the Foundation has experienced volatility in the market value of its investments. The duration and economic impact of the outbreak is uncertain but could have a material impact to the Foundation's asset base.

The Foundation has evaluated subsequent events through July 23, 2020, which is the date the financial statements were available to be issued.

NOTE 2 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments – In accordance with US GAAP, the Foundation determines the fair value of assets and liabilities consistent with a fair value framework that defines fair value for financial reporting, establishes a hierarchy for measuring fair value, and requires additional disclosures about the use of fair value measurements.

The Valhalla Charitable Foundation

Notes to Financial Statements

Fair value measurement reporting provides a consistent definition of fair value which focuses on an exit price, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value reporting standards prioritize, within the measurement of fair value, the use of market-based information over entity-specific information and establish a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date.

For those investments not held at net asset value, the three-level hierarchy for fair value measurements is defined as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities. Common stock is valued using quoted market prices.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

In certain cases, inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement where Level 1 is the highest and Level 3 is the lowest. The Foundation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

The following summarizes the composition of investments, at fair value, at December 31, 2019 and 2018:

	Fair Value as of December 31, 2019			Total
	Level 1	Level 2	Level 3	
Fixed Income Funds				
Domestic	\$ 46,078,726	\$ -	\$ -	\$ 46,078,726
International	17,437,259	-	-	17,437,259
Global Equity	142,261,598	-	-	142,261,598
Government Bonds				
Global	-	-	-	-
	<u>\$ 205,777,583</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 205,777,583</u>
Measured at NAV				
Alternative Investments				
Venture Capital				<u>9,702,989</u>
Total Investments				<u>\$ 215,480,572</u>

The Valhalla Charitable Foundation
Notes to Financial Statements

	Fair Value as of December 31, 2018			Total
	Level 1	Level 2	Level 3	
Government Bonds				
Global	\$ -	\$ 3,358,337	\$ -	\$ 3,358,337
	\$ -	\$ 3,358,337	\$ -	\$ 3,358,337
Measured at NAV				
Alternative Investments				
Venture Capital				8,006,303
Total Investments				<u>\$ 11,364,640</u>

Government bonds – The fair value of government bonds is estimated using recently executed transactions, market price quotations and pricing models that factor in, where applicable, interest rates, bond or credit-default swap spreads and volatility. These bonds are generally categorized in Level 2 of the fair value hierarchy.

Alternative investments – The fair values associated with the alternative investments were estimated using the NAV per share (practical expedient) of the underlying investment funds using information provided by the individual fund managers and communications with the fund managers.

Valuation of alternative investments requires significant judgment by the Foundation due to the absence of quoted market values and the long-term nature of such investments.

Venture capital – The category consists of diversified multi-asset funds. The primary investments included in these funds are U.S. and non U.S. equities, and privately-held investments. Venture capital funds are valued based on the NAV reported by the fund manager as a practical expedient.

The following table represents the liquidity and redemption restrictions on alternative investments above:

Strategies	Fair Value at December 31, 2019	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Venture capital	\$ 9,702,989	\$ 4,869,649	Illiquid	N/A

Valuation process – The Foundation determines fair value measurement policies and procedures for assets and liabilities under the supervision of the Board of Directors. These policies and procedures are reassessed annually to determine if the current valuation techniques are still appropriate. A variety of qualitative factors are used to subjectively determine the most appropriate valuation methodologies, and are consistent with market, income, and cost approaches. Unobservable inputs used in the fair value measurements are evaluated, as necessary, based on current market conditions, reporting from fund managers, and other third party information, including contract terms.

The Foundation endeavors to ensure that fair values of the financial instruments reported in the financial statements are appropriate and determined on a reasonable basis.

The Valhalla Charitable Foundation

Notes to Financial Statements

While the Foundation believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Those estimated values may differ significantly from the values that would have been used had a readily available market for such assets existed, or had such assets been liquidated, and these differences could be material to the financial statements.

For transfers between Level 1 and Level 2 of the fair value hierarchy, the Foundation has adopted a policy of recognizing the transfers at the beginning of year. There were no transfers between levels during the years ended December 31, 2019 and 2018.

NOTE 3 – INVESTMENTS IN PRIVATELY HELD COMPANIES

Investments held in privately-held companies are recorded at cost less impairment. The following is a summary of investments December 31:

	<u>2019</u>	<u>2018</u>
Privately-held companies	\$ 9,037,215	\$ 9,223,428

The investments are in companies that are privately held and in early stages of growth. The Foundation's privately-held company investments seek capital appreciation and alignment with the Foundation's charitable objectives, and are dependent upon the performance of these companies. Distributions from the Foundation's investments are dependent on a secondary market and the demand for such non-publicly traded stock.

The Foundation does not maintain direct operational control of these privately-held companies.

The Valhalla Charitable Foundation
Notes to Financial Statements

NOTE 4 – LIQUIDITY AND FUNDS AVAILABLE

The following table reflects the Foundation’s financial assets as of December 31, 2019 and 2018, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year.

Financial assets available to meet cash needs for general expenditures within one year as of December 31:

	2019	2018
Financial Assets		
Cash and cash equivalents	\$ 113,809,012	\$ 88,337,313
Accounts receivable	12,308	137,701
Note receivable - program related	254,914	-
Investments held at fair value	215,480,572	11,364,640
Investments in privately held companies held at cost	9,037,215	9,223,428
Financial Assets, at December 31:	338,594,021	109,063,082
Less those unavailable for general expenditure within one year, due to:		
Note receivable, collectible beyond one year	254,914	-
Investments not convertible to cash within the next 12 months	18,740,204	17,229,731
Financial assets available to meet cash needs for general expenditures within one year	\$ 319,598,903	\$ 91,833,351

NOTE 5 – GRANTS PAYABLE

Grants payable by maturity date as of December 31, 2019, are summarized as follows:

<u>Years Ending December 31,</u>	
2020	\$ 20,497,412
2021	12,680,200
2022	2,000,000
2023	1,000,000
Grants payable	\$ 36,177,612

NOTE 6 – RELATED PARTY TRANSACTIONS AND CONCENTRATIONS

For the years ended December 31, 2019 and 2018, the Foundation received 100% of its contributions from either (i) direct contributions from the founders, and/or (ii) periodic distributions from charitable remainder unitrusts, of which the founders are the trustees.

