

The Ralph M. Parsons Foundation

Financial Statements

December 31, 2019
(With Comparative Totals for 2018)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Ralph M. Parsons Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of The Ralph M. Parsons Foundation (a nonprofit corporation), 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 Ralph M. Parsons Foundation 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.

To the Board of Directors
The Ralph M. Parsons Foundation

Emphasis of Matter

As discussed in Note 2 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 Ralph M. Parsons Foundation are uncertain, no adjustments were necessary to the financial statements, and our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited The Ralph M. Parsons Foundation's 2018 financial statements, and our report dated September 18, 2019 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Green Hasson & Janks LLP

September 16, 2020
Los Angeles, California

The Ralph M. Parsons Foundation
Statement of Financial Position
December 31, 2019
(With Comparative Totals for 2018)

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 18,626,569	\$ 10,076,620
Interest and dividends receivable	285,967	252,459
Investments, at fair value	374,579,377	349,522,842
Investments sold receivable	2,597,120	438,378
Prepaid expenses and other assets	484,713	505,063
Property and equipment, net	<u>647,121</u>	<u>675,457</u>
 Total assets	 <u>\$ 397,220,867</u>	 <u>\$ 361,470,819</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 510,090	\$ 808,854
Investments purchases payable	36,339	41,168
Grants payable, net	9,440,451	7,653,861
Deferred excise taxes	<u>1,237,424</u>	<u>756,417</u>
Total liabilities	11,224,304	9,260,300
 Net assets without donor restrictions	 <u>385,996,563</u>	 <u>352,210,519</u>
 Total liabilities and net assets	 <u>\$ 397,220,867</u>	 <u>\$ 361,470,819</u>

The accompanying notes are an integral part of these financial statements.

The Ralph M. Parsons Foundation
Statement of Activities
For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

	<u>2019</u>	<u>2018</u>
Net investment return	\$ 58,890,271	\$ (20,462,093)
Functional expenses		
Program services	23,764,775	22,700,579
Management and general	<u>1,339,452</u>	<u>1,090,854</u>
Total functional expenses	<u>25,104,227</u>	<u>23,791,433</u>
Change in net assets	33,786,044	(44,253,526)
Net assets without donor restrictions, beginning of year	<u>352,210,519</u>	<u>396,464,045</u>
Net assets without donor restrictions, end of year	<u>\$ 385,996,563</u>	<u>\$ 352,210,519</u>

The accompanying notes are an integral part of these financial statements.

The Ralph M. Parsons Foundation
Statement of Functional Expenses
For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

	<u>Program</u> <u>Services</u>	<u>Management</u> <u>and General</u>	<u>2019</u> <u>Total</u>	<u>2018</u> <u>Total</u>
Grants expense	\$ 20,308,040	\$ -	\$ 20,308,040	\$ 20,006,491
Salaries and wages	1,523,405	507,802	2,031,207	1,568,664
Employee benefits	546,898	182,299	729,197	551,869
Directors' fees and expenses	191,928	191,929	383,857	330,777
Rent	228,709	76,236	304,945	248,143
Communications and IT	213,152	71,051	284,203	154,548
Office expense	196,067	65,358	261,425	213,772
Conferences and staff development	160,728	59,448	220,176	205,874
Consulting and legal	153,828	51,276	205,104	218,508
Payroll taxes	94,777	31,592	126,369	100,008
Depreciation and amortization	91,499	30,500	121,999	81,564
Insurance	4,990	66,298	71,288	65,831
Automobile	50,754	-	50,754	39,606
Miscellaneous	-	5,663	5,663	5,778
	<u>\$ 23,764,775</u>	<u>\$ 1,339,452</u>	<u>\$ 25,104,227</u>	<u>\$ 23,791,433</u>

The accompanying notes are an integral part of these financial statements.

The Ralph M. Parsons Foundation
Statement of Cash Flows
For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Change in net assets without donor restrictions	\$ 33,786,044	\$ (44,253,526)
Adjustments to reconcile change in net assets without donor restrictions to net cash used in operating activities		
Net realized and unrealized (gains) losses on investments	(57,096,797)	22,642,670
Depreciation and amortization	121,999	81,564
Adjustment to present value discount on grants payable	(143,410)	12,916
Deferred excise tax expense (benefit)	481,007	(633,553)
Loss on disposal of property and equipment	8,160	10,220
Changes in operating assets and liabilities		
Interest and dividends receivable	(33,508)	(12,931)
Prepaid expenses and other assets	20,350	(255,688)
Accounts payable and accrued expenses	(298,764)	(9,305)
Grants payable	<u>1,930,000</u>	<u>1,871,000</u>
Net cash used in operating activities	<u>(21,224,919)</u>	<u>(20,546,633)</u>
Cash flows from investing activities		
Proceeds on sale of investments	94,470,049	78,497,805
Purchases of investments	(64,593,358)	(55,072,058)
Purchases of property and equipment	<u>(101,823)</u>	<u>(523,305)</u>
Net cash provided by investing activities	<u>29,774,866</u>	<u>22,902,442</u>
Net increase in cash	8,549,949	2,355,809
Cash, beginning of year	<u>10,076,620</u>	<u>7,720,811</u>
Cash, end of year	<u>\$ 18,626,569</u>	<u>\$ 10,076,620</u>

The accompanying notes are an integral part of these financial statements.

The Ralph M. Parsons Foundation
Notes to Financial Statements
December 31, 2019

1. ORGANIZATION

The Ralph M. Parsons Foundation (the "Foundation") is an independent grant-making philanthropy established in 1961. The Foundation focuses on four areas: human services, civic and cultural programs, health, and education. The Foundation makes grants for general operating support, programs, and capital needs in Los Angeles County, California. It does not conduct or administer its own charitable programs, but makes grants to qualified 501(c)(3) organizations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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

Net assets

Net assets, revenues, gains, and losses are presented based on the existence or absence of donor-imposed restrictions. Accordingly, all 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 Foundation's assets were subject to donor-imposed restrictions at December 31, 2019.

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.

Cash and cash equivalents

For purposes of the statement of cash flows, the Foundation considers cash on hand, deposits in banks, money market accounts and highly-liquid investments with an original maturity of three months or less to be cash and cash equivalents. The carrying value of cash and cash equivalents approximates its fair value.

The Ralph M. Parsons Foundation
Notes to Financial Statements
December 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentration of credit risk

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

Investments

Investments in equity and debt securities with readily determinable market values are reported at fair value. The fair value of these investments is determined based on the closing price on the last business day of the fiscal year. Investments in partnerships, for which there is no readily available market, are valued using net asset value (NAV) per share of units held by the Foundation or its equivalent.

Sales and purchases of securities are recorded on trade date, which results in receivables and payables on trades that have not yet settled at the financial statement date. Interest income is recorded as earned on an accrual basis, and dividend income is recorded based upon the ex-dividend date. Realized gains and losses are calculated based upon the underlying cost of the securities traded. Unrealized gains and losses are included in the statement of activities and represent the difference between the cost and current market quotations of investments held at the end of the fiscal year.

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.

Investments are made according to the investment policies, guidelines, and objectives adopted by the Foundation's Board of Directors. These guidelines provide for investments in equities, fixed income, and other securities with performance measured against appropriate indices. Market values of such investments are routinely reviewed by the Board of Directors.

Property and equipment

Property and equipment are recorded at cost. Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the related assets as follows:

Leasehold improvements	3 - 15 years
Furniture and fixtures	3 - 7 years
Equipment	3 - 5 years
Website	5 years

The Ralph M. Parsons Foundation
Notes to Financial Statements
December 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

Expenditures for maintenance and repairs are charged to operations as incurred while renewals and betterments are capitalized.

Long-lived assets

The Foundation reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the book value of the assets may not be recoverable. An impairment loss is recognized when the sum of the undiscounted future cash flows is less than the carrying amount of the asset, in which case a write-down is recorded to reduce the related asset to its estimated fair value. No impairment losses were recognized on long-lived assets during the year ended December 31, 2019.

Grants

Grants, including conditional grants, are charged against operations when authorized by the Foundation's Board of Directors. The actual payment of the grant may not necessarily occur in the year of authorization. Cancellations of grants occur when the grantees do not meet the terms under which the grants were awarded. Grants which are expected to be paid beyond one year are discounted at an appropriate rate, which management has determined to be 3%. Amortization of the present value discount is recorded as additional grants expense. Based on historical grant cancellation rates and the Foundation's giving trend, management has determined that there is only a remote chance that the conditional grants will not be paid and considers the liability for grants payable at December 31, 2019 to be fairly stated.

Taxes

The Foundation is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701(d). The Foundation is subject to a 2% (1% if certain criteria are met) Federal excise tax on net investment income. For the year ended December 31, 2019, the Foundation was subject to the 1% Federal excise tax. Deferred Federal excise taxes arise from the net unrealized appreciation in the fair value of investments and are calculated using the prevailing Federal excise tax rate. In December 2019, Congress modified the excise tax on net investment income from the two-tier 1%/2% rate to a flat rate of 1.39% for tax years beginning after December 20, 2019.

The Federal excise tax expense in the statement of activities consists of the following for the year ended December 31, 2019:

Current	\$ 221,578
Deferred	<u>481,007</u>
	<u><u>\$ 702,585</u></u>

The Ralph M. Parsons Foundation
Notes to Financial Statements
December 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxes (continued)

The Foundation follows the authoritative guidance on accounting for and disclosure of uncertainty in tax positions which requires a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken in an organization's tax return. The Foundation believes that it has appropriate support for the excise tax positions taken and, as such, does not have any uncertain tax positions that result in a material impact on the Foundation's financial statements.

The Foundation accrues interest and penalties associated with its tax positions as part of general and administrative expenses. No such interest or penalties have been accrued as the Foundation does not have any uncertain tax positions that result in a material impact on the Foundation's financial statements.

The Foundation files tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, the Foundation is subject to examination by federal and state jurisdictions. As of December 31, 2019, the Foundation's Federal and California tax returns for the tax years beginning 2016 and 2015, respectively, remain subject to examination by these tax jurisdictions under the statute of limitations.

Functional allocation of expenses

The costs of providing the Foundation's program and other activities have been presented in the statement of functional expenses. During the year, such costs 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.

Comparative information

The financial statements include certain prior-year summarized comparative information. Such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2018, from which the summarized comparative information was derived.

New accounting pronouncements

In June 2018, the Financial Accounting Standards Board ("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. For the Foundation, the ASU will be effective for the year ending December 31, 2020.

The Ralph M. Parsons Foundation
Notes to Financial Statements
December 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New accounting pronouncements (continued)

In February 2016, FASB issued ASU No. 2016-02, *Leases*, which is intended to improve financial reporting about leasing transactions. The new standard will require organizations that lease assets with terms of more than 12 months to recognize on the statement of financial position the assets and liabilities for the rights and obligations created by those leases. The ASU also will require disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements and provide additional information about the amounts recorded in the financial statements. For the Foundation, the ASU will be effective for the year ending December 31, 2022.

Subsequent events

The Foundation 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 September 16, 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 below.

The Foundation's operations may be adversely affected by health epidemics including the recent coronavirus outbreak. In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to a number of other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, several states in the U.S., including California, where the Foundation is headquartered, have declared a state of emergency.

Potential impacts to the Foundation's operations include disruptions or restrictions on the Foundation's employees' ability to work. The Foundation's work may be delayed or cancelled and travel restrictions imposed by governments. COVID-19 could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could affect the Foundation investments and impact the Foundation's operating results. Any of the foregoing could harm the Foundation's operations and the Foundation cannot anticipate all of the ways in which health epidemics such as COVID-19 could adversely impact the Foundation's operations. Although the Foundation continues to monitor and assess the effects of the COVID-19 pandemic on the Foundation's operations, the ultimate impact of the COVID-19 outbreak or a similar health epidemic is highly uncertain and subject to change.

3. INVESTMENTS

The Foundation 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.

The Ralph M. Parsons Foundation
Notes to Financial Statements
December 31, 2019

3. INVESTMENTS (continued)

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 sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of December 31, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Net Asset Value</u>	<u>Fair Value</u>
U.S. Equities	\$ 35,540,430	\$ -	\$ -	\$ 54,096,868	\$ 89,637,298
U.S. Fixed Income	19,514,297	16,610,974	-	10,507,763	46,633,034
Non-U.S. Equities	-	-	-	63,494,893	63,494,893
Direct Hedge Funds	-	-	-	53,747,287	53,747,287
Emerging Markets					
Equity Funds	-	-	-	35,973,607	35,973,607
Real Assets	19,631,634	-	-	17,220,703	36,852,337
Private Equity	-	2,756,563	-	45,484,358	48,240,921
	<u>\$ 74,686,361</u>	<u>\$ 19,367,537</u>	<u>\$ -</u>	<u>\$ 280,525,479</u>	<u>\$ 374,579,377</u>

The Foundation recognizes transfers at the beginning of each reporting period. Transfers between Level 1 and 2 investments generally relate to whether a market becomes active or inactive. Transfers between Level 2 and 3 investments relate to whether significant relevant observable inputs are available for the fair value measurement in their entirety and when redemption rules become more or less restrictive. There were no transfers between levels for the year ended December 31, 2019.

The Foundation uses net asset value (NAV) per share, or its equivalent, to determine the fair value of all the underlying investments which (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.

U.S. Equities

Investments in U.S. equities include an actively traded U.S. common stocks portfolio and an investment fund that holds long/short positions in equity securities that are within and outside of the S&P 500 Index. The fair value of the actively traded stock portfolio is based on the ticker prices of the underlying stocks listed on the stock exchange whereas the fair value of the investment fund is valued based on the net asset value of the Foundation's ownership interest in the partners' capital. Redemptions can be made daily to quarterly with redemption notice periods ranging from 1 to 60 days. There is no unfunded commitment at December 31, 2019.

The Ralph M. Parsons Foundation
Notes to Financial Statements
December 31, 2019

3. INVESTMENTS (continued)

U.S. Fixed Income

Investments in U.S. fixed income include government bonds, corporate bonds, government and non-government backed securities, and funds that invest in debt securities. The fair values of these securities are based on the prices listed in the stock exchange, broker dealer markets or as reported by the fund managers. Redemptions can be made daily to quarterly with redemption notice periods ranging from 1 to 60 days. There is no unfunded commitment at December 31, 2019.

Non-U.S. Equities

Investments in non-U.S. equities include funds that invest in non-U.S. issuers and securities whose principal markets are outside of the U.S. Investments are valued using the NAV per share provided by the fund managers. Redemptions can be made on a weekly or monthly basis with redemption notice periods ranging from 3 to 30 business days. There is no unfunded commitment at December 31, 2019.

Direct Hedge Funds

Investments in direct hedge funds are invested in strategies including, but not limited to, equity long/short, arbitrage and event driven, directional trading, fixed income, and currency trading. Investments are valued using the NAV per share provided by the fund managers. One equity long/short manager has a quarterly gate of which effectively takes two years to fully redeem from the manager. Redemptions can be made from a monthly or quarterly basis with redemption notice periods ranging from 10 to 90 days. There is no unfunded commitment at December 31, 2019.

Emerging Markets Equity Funds

Investments in emerging market equity funds include an index fund listed on the New York Stock Exchange, and several funds that are invested in long securities in emerging markets. The fair value of the index fund is based on its ticker price and the other funds are valued based on the NAV per share provided by the fund managers. Redemptions can be made on a monthly basis with redemption notice periods ranging from 15 to 120 days. There is no unfunded commitment at December 31, 2019.

Real Assets

Investments in real assets are invested in a natural resource equity fund focused on global common stocks, the fair value of which is based on the ticker price listed on the New York Stock Exchange, and a master limited partnership strategy focused on midstream pipelines and energy infrastructure companies seeking to maximize risk-adjusted returns and long-term capital appreciation. Redemptions can be made from a daily to a monthly basis with redemption notice periods ranging from 1 to 30 days. There is no unfunded commitment at December 31, 2019.

The Ralph M. Parsons Foundation
Notes to Financial Statements
December 31, 2019

3. INVESTMENTS (continued)

Private Equity

The private equity investment is comprised of over 30 private equity funds that invest in distressed securities, venture capital, leveraged buyout and other private equity assets, as well as portfolios of operating companies. The fair value of the funds is based on the net asset value of the Foundation's ownership interest in the partners' capital, except for one investment in the form of a debt security which is valued at its principal plus accrued and paid-in-kind interest. These investments cannot be redeemed. The funds have ten- and twelve-year lives. Two funds are subject to four one-year extensions. One fund is subject to three one-year extensions. One fund is subject to two one-year extensions. The expected termination dates of these investments range from December 31, 2020 to March 31, 2023, subject to extensions by the investment managers. It is probable that the investments will be sold at an amount different than their fair value at December 31, 2019. The amount of unfunded commitments at December 31, 2019 is -\$91,753,177.

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2019:

Leasehold improvements	\$ 612,669
Furniture and fixtures	567,045
Computer equipment	135,650
Website	<u>33,465</u>
	1,348,829
Less: Accumulated depreciation	<u>(701,708)</u>
	<u>\$ 647,121</u>

Depreciation and amortization expense for the year ended December 31, 2019 was \$121,999.

5. GRANTS PAYABLE

Grants authorized but unpaid at year end are reported as liabilities. The following is a summary of grants authorized and payable at December 31, 2019:

To be paid in less than one year	\$ 6,025,000
To be paid in one to five years	<u>3,700,000</u>
	9,725,000
Less: Present value discount (3%)	<u>(284,549)</u>
	<u>\$ 9,440,451</u>

The Ralph M. Parsons Foundation
Notes to Financial Statements
December 31, 2019

5. GRANTS PAYABLE (continued)

Grant activity during the year ended December 31, 2019 is summarized as follows:

Grants approved in prior years pending payment	\$ 7,653,861
Grants approved in current year	<u>20,451,450</u>
	28,105,311
Less: Grants to be paid in subsequent years	(9,440,451)
Add: Increase in present value discount	<u>(143,410)</u>
 Grants paid in current year	 <u>\$ 18,521,450</u>

The Foundation is required to distribute annually, to qualifying charitable organizations, an amount equal to 5% of the average fair market value of the Foundation's assets (the minimum distribution). If the Foundation does not distribute the required minimum distribution, a one-year grace period is granted to distribute the undistributed income. If undistributed income is not distributed by the close of the following tax year, a minimum 30% penalty under Internal Revenue Code (IRC) Section 4942(a) will apply. The Foundation met the IRC grant distribution requirement for the year ended December 31, 2019.

6. OPERATING LEASE

The Foundation leases office space under a long-term non-cancelable operating lease with an expiration date in January 2029. The lease contains provisions for a base rent, subject to fixed escalation, plus reimbursement for certain operating expenses.

The scheduled minimum lease payments under the lease terms are as follows:

<u>Year ending December 31,</u>	
2020	\$ 286,583
2021	296,474
2022	306,742
2023	317,395
2024	328,373
Thereafter	<u>1,462,900</u>
	 <u>\$ 2,998,467</u>

Rent expense for the year ended December 31, 2019 was \$304,945.

The Ralph M. Parsons Foundation
Notes to Financial Statements
December 31, 2019

7. RETIREMENT PLANS

The Foundation has a 403(b) Thrift Plan to provide benefits for all full-time regular employees. Contributions to the 403(b) Thrift Plan for the year ended December 31, 2019 were \$332,219.

The Foundation also sponsors a Section 457(b) Eligible Deferred Compensation plan covering a select group of management or highly compensated individuals. Contributions for the year ended December 31, 2019 were \$19,000.

8. CONFLICT OF INTEREST

The Foundation reaffirms its belief that its mission is fostered by having on the Board persons active in the community, including those who serve on the boards of nonprofit organizations who are or may become grant recipients. The Board of Directors has adopted a conflict of interest policy to protect the integrity of the Foundation's decision-making processes, and preserve the quality, fairness, and openness of the Foundation's grantmaking processes and other financial transactions. The policy states clear guidelines to be followed in identifying and resolving conflict of interest and self-dealing issues, establishes procedures by which the Foundation may make the determination as to whether a conflict of interest exists, and requires broad disclosure of affiliations and recusal. Board and staff members with affiliations with grantees were not involved in the grantmaking decision process.

9. LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

The total financial assets held by the Foundation 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:

Cash and cash equivalents	\$ 18,626,569
Interest and dividends receivable	285,967
Investments, at fair value	374,579,377
Investments sold receivable	<u>2,597,120</u>
Total financial assets at December 31, 2019	396,089,033
Less amounts not available to be used within one year due to:	
Illiquid investments	<u>(48,240,921)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 347,848,112</u>

The Foundation 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 Foundation'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.