

THE ROSE HILLS FOUNDATION

FINANCIAL STATEMENTS

YEARS ENDED
DECEMBER 31, 2016 AND 2015

THE ROSE HILLS FOUNDATION

FINANCIAL STATEMENTS

**YEARS ENDED
DECEMBER 31, 2016 AND 2015**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Rose Hills Foundation

We have audited the accompanying financial statements of The Rose Hills Foundation (the Foundation), which comprise the statements of financial position as of December 31, 2016 and 2015, 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 of 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 auditors consider 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 Foundation as of December 31, 2016 and 2015, 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.

Green Hasson & Janks LLP

August 10, 2017
Los Angeles, California

THE ROSE HILLS FOUNDATION
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2016	2015
ASSETS		
Cash and Cash Equivalents	\$ 12,762,696	\$ 6,311,156
Investments	443,056,857	436,696,690
Investment Sales Receivable	6,832,521	5,131,156
Other Assets	141,402	164,906
	TOTAL ASSETS	\$ 448,303,908
	\$ 462,793,476	\$ 448,303,908
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts Payable	\$ 75,000	\$ 74,144
Investment and Custody Fees Payable	179,423	364,601
Grants Payable	-	2,360
Deferred Compensation Payable	6,582	201,298
Other Liabilities	28,424	23,597
	TOTAL LIABILITIES	666,000
	289,429	666,000
NET ASSETS:		
Unrestricted	462,504,047	447,637,908
	TOTAL LIABILITIES AND NET ASSETS	\$ 448,303,908
	\$ 462,793,476	\$ 448,303,908

The Accompanying Notes are an Integral Part of These Financial Statements

THE ROSE HILLS FOUNDATION

STATEMENTS OF ACTIVITIES

	Years Ended December 31	
	2016	2015
REVENUES AND GAINS (LOSSES):		
Interest and Dividends	\$ 3,610,412	\$ 3,414,308
Net Realized and Unrealized Gains (Losses) on Investments	42,366,868	(9,381,563)
Other Investment Income	12	10
<i>TOTAL REVENUES AND GAINS (LOSSES)</i>	45,977,292	(5,967,245)
EXPENSES:		
Grants	21,976,866	23,128,460
Investment Management Fees	6,920,976	6,764,183
General and Administrative Expenses	1,865,753	1,741,780
Custody Fees and Income Taxes on Investments	191,720	184,079
Directors' Fees	155,838	182,087
<i>TOTAL EXPENSES</i>	31,111,153	32,000,589
<i>CHANGE IN UNRESTRICTED NET ASSETS</i>	14,866,139	(37,967,834)
Unrestricted Net Assets - Beginning of Year	447,637,908	485,605,742
<i>UNRESTRICTED NET ASSETS - END OF YEAR</i>	\$ 462,504,047	\$ 447,637,908

The Accompanying Notes are an Integral Part of These Financial Statements

THE ROSE HILLS FOUNDATION

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Unrestricted Net Assets	\$ 14,866,139	\$ (37,967,834)
Adjustments to Reconcile Change in Unrestricted Net Assets to Net Cash Used in Operating Activities:		
Net Realized and Unrealized (Gains) Losses on Investments	(42,366,868)	9,381,563
Reinvested Net Investment Income	(3,017,426)	(2,330,226)
Decrease in Other Assets	23,504	29,290
Increase (Decrease) in:		
Accounts Payable	856	(4,082)
Investment and Custody Fees Payable	(185,178)	226,316
Grants Payable	(2,360)	2,360
Deferred Compensation Payable	(194,716)	12,202
Other Liabilities	4,827	8,801
	(30,871,222)	(30,641,610)
NET CASH USED IN OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Sale of Investments	124,760,101	102,695,187
Purchases of Investments	(87,437,339)	(79,133,941)
	37,322,762	23,561,246
NET CASH PROVIDED BY INVESTING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,451,540	(7,080,364)
Cash and Cash Equivalents - Beginning of Year	6,311,156	13,391,520
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 12,762,696	\$ 6,311,156

The Accompanying Notes are an Integral Part of These Financial Statements

THE ROSE HILLS FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 1 - ORGANIZATION

The Rose Hills Foundation (the Foundation) is a 501(c)(4) social welfare benefit organization established in November 1996 upon the sale of The Rose Hills Memorial Park cemetery property in Whittier, California. The Foundation is a tax-exempt, nonprofit corporation pursuant to the Corporation Code of the State of California.

The Foundation does not conduct or administer its own charitable programs, but makes grants to qualified tax-exempt charitable organizations for the benefit of the people in Southern California. This includes but is not limited to art and culture, civic and community services, education, health care, science, youth activities, and the advancement of knowledge which the Foundation believes will likely benefit mankind.

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) ACCOUNTING

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of the Foundation are maintained in accordance with the principles of net assets accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. All net assets of the Foundation are unrestricted.

(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 Foundation considers cash on hand, deposits in banks, money market accounts and certificates of deposit with an original maturity of three months or less to be cash and cash equivalents. The carrying value of cash and cash equivalents at December 31, 2016 and 2015 approximates its fair value.

(e) 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.

THE ROSE HILLS FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) 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 hedge funds, private equity, venture capital and certain real assets 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 statements 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.

(g) GRANTS PAYABLE

Unconditional 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.

(h) TAXES

The Foundation qualifies as a tax-exempt organization under Section 501(c)(4) of the Internal Revenue Code and Section 23701(f) of the California Revenue and Taxation Code. Accordingly, the Foundation is exempt from federal and state income taxes. However, the Foundation holds certain investment assets that are, from time to time, subject to unrelated business income tax and foreign taxes, which were insignificant for the years ended December 31, 2016 and 2015.

THE ROSE HILLS FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) NEW ACCOUNTING PRONOUNCEMENTS

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*, which is effective for fiscal years beginning after December 15, 2016 for entities other than public business entities. The ASU eliminates the requirement to categorize investments in the fair value hierarchy if the fair value is measured at net asset value (NAV) per share (or its equivalent) using the practical expedient in the FASB's fair value measurement guidance. As permitted by ASU No. 2015-07, the Foundation early adopted this pronouncement and investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy.

In August 2016, FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, which is intended to reduce complexity in financial reporting. The ASU focuses on improving the current net asset classification requirements and information presented in financial statements that is useful in assessing a nonprofit's liquidity, financial performance, and cash flows. For the Foundation, the ASU will be effective for the year ending December 31, 2018.

(j) SUBSEQUENT EVENTS

The Foundation has evaluated events and transactions occurring subsequent to the statement of financial position date of December 31, 2016, for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through August 10, 2017, 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 7.

NOTE 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.

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 ROSE HILLS FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 3 - INVESTMENTS (continued)

The following table presents information about the Foundation's assets that are measured at fair value on a recurring basis at December 31, 2016 and 2015, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	Total	Fair Value Measurements Using:			Net Asset Value Per Share or its Equivalent (NAV)
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
2016:					
Equities	\$ 190,433,384	\$ 36,535,099	\$ -	\$ -	\$ 153,898,285
Fixed Income	47,761,410	25,752,503	9,611,090	-	12,397,817
Absolute Return	37,834,948	-	-	-	37,834,948
Long/Short	27,602,372	-	-	-	27,602,372
Private Equity	32,252,358	-	-	-	32,252,358
Venture Capital	28,189,024	-	-	-	28,189,024
Real Assets	78,983,361	42,067,603	-	-	36,915,758
TOTAL	\$ 443,056,857	\$ 104,355,205	\$ 9,611,090	\$ -	\$ 329,090,562
2015:					
Equities	\$ 195,067,499	\$ 37,785,040	\$ -	\$ -	\$ 157,282,459
Fixed Income	44,101,232	26,375,470	-	-	17,725,762
Absolute Return	36,982,202	-	-	-	36,982,202
Long/Short	40,662,485	-	-	-	40,662,485
Private Equity	31,618,647	-	-	-	31,618,647
Venture Capital	26,230,801	-	-	-	26,230,801
Real Assets	62,033,824	32,044,152	-	-	29,989,672
TOTAL	\$ 436,696,690	\$ 96,204,662	\$ -	\$ -	\$ 340,492,028

The Foundation recognizes transfers at the beginning of each reporting period. Transfers between level 1 and 2 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. There were no transfers during the years ended December 31, 2016 and 2015. Investments that were previously classified as Level 2 and Level 3 are now classified as NAV or its equivalent as a result of adopting ASU No. 2015-07.

The fair value of the marketable securities within Level 1 was obtained based on quoted market prices at the closing of the last business day of the fiscal year.

Fixed income investments within Level 2 include municipal/provincial bonds and corporate bonds. Their fair value is determined using recently executed transactions or market price quotations where observable. When observable price quotations are not available, fair value is determined based on market price quotations that are not observable or market price quotations for securities with similar characteristics.

THE ROSE HILLS FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 3 - INVESTMENTS (continued)

Certain equity, fixed income, absolute return and long/short hedge fund investments are valued using the NAV provided by the fund managers. Some are subject to lock-up periods. Redemptions can be made annually, semi-annually, quarterly or monthly in some instances, upon ninety days' notice.

All private equity and venture capital investments and certain real asset investments classified as NAV are comprised of various partnerships and limited liability companies that invest in U.S. and international companies in real estate, energy, healthcare and various other industries. The fair value of the investments is based on the net asset value of the Foundation's ownership interest in the partners' capital. The funds provide distributions only upon liquidation of the underlying assets. The fund managers estimate the underlying assets of the funds will be liquidated over one to ten years. It is probable that the investments will be sold at an amount different from their fair value at December 31, 2016.

Unfunded commitments at December 31, 2016 amounted to approximately \$76,246,000.

NOTE 4 - GRANTS PAYABLE

Unconditional grants authorized but unpaid at December 31 are reported as liabilities. All grants payable at December 31, 2015 were paid during the year ended December 31, 2016.

Grant activity during the years ended December 31 is summarized as follows:

	2016	2015
Grants Approved in Prior Years		
Pending Payment	\$ 2,360	\$ -
Grants Approved in Current Year	21,976,866	23,128,460
TOTAL UNCONDITIONAL GRANTS APPROVED	21,979,226	23,128,460
Less: Grants to be Paid in Subsequent Years	-	(2,360)
GRANTS PAID IN CURRENT YEAR	\$ 21,979,226	\$ 23,126,100

As of December 31, 2016 and 2015, the Foundation had approved conditional grants totaling approximately \$22,178,000 and \$22,953,000, respectively. These grants will be recorded as an expense in the period when they become unconditional.

THE ROSE HILLS FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 5 - DEFERRED COMPENSATION PAYABLE

The Foundation has two deferred compensation agreements with the President. The agreements established unfunded deferred compensation plans under Internal Revenue Code (IRC) Section 457(b) and Section 457(f).

The Section 457(b) deferred compensation plan provides for the reduction of the President's compensation by the deferral of an amount subject to annual limits under the IRC.

The Section 457(f) deferred compensation plan provides for the deferral of all or part of the President's compensation (after the reduction for the Section 457(b) deferral). The value of the plan was subject to a risk of forfeiture until July 6, 2016. The President became fully vested in the plan on July 6, 2016 and the plan was replaced with a new Section 457(f) deferred compensation plan with identical terms, except the value of the plan is now subject to a risk of forfeiture until June 30, 2021. The President will acquire a vested interest in the plan provided the President has been employed by the Foundation until the vesting date.

Both plans provide that the accounts' funds shall be deemed to be invested in investment funds in which the Foundation has invested its general assets. The income, gains, losses and investment results of such deemed investment shall be credited to, or debited from, the accounts as of the end of each calendar year.

At December 31, deferred compensation payable consisted of:

	2016	2015
IRC Section 457(b)	\$ -	\$ 174,275
IRC Section 457(f)	6,582	27,023
TOTAL	\$ 6,582	\$ 201,298

NOTE 6 - LINE OF CREDIT

The Foundation has a revolving line of credit with a bank providing for maximum borrowings of up to \$10,000,000. The line is unsecured, bears interest at the prime rate and matures in February 2018. There was no outstanding balance on the line of credit at December 31, 2016 and 2015. The prime rate at December 31, 2016 was 3.75%.

THE ROSE HILLS FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 7 - OPERATING LEASE

The Foundation leases office space under a non-cancelable operating lease that expires in August 2018. Minimum future rental expense on this non-cancelable lease at December 31, 2016 is as follows:

Years Ending December 31

2017	\$	120,364
2018		<u>70,212</u>
TOTAL	\$	<u>190,576</u>

Rent expense for the years ended December 31, 2016 and 2015 was \$131,134 and \$125,807, respectively.

In August 2017, the Foundation renewed its current lease agreement through August 2024.

NOTE 8 - RETIREMENT PLAN

The Foundation sponsors a 401(k) defined contribution plan covering substantially all employees. Employees can contribute up to 19 percent of their compensation subject to annual limits under the IRC. The Foundation is obligated to make a base contribution in the amount of 19 percent of the employees' compensation. The Foundation contributed \$170,954 and \$128,123 for the years ended December 31, 2016 and 2015, respectively.

NOTE 9 - CONFLICT OF INTEREST

The Foundation's Board of Directors has adopted a conflict of interest policy and re-affirms 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 organizations who are or may become grant recipients. The conflict of interest policy is intended to assure grantees of the Foundation that decisions of the Foundation are made objectively with full knowledge of the involvement, if any, of the Board and staff and their immediate family members with grant-seeking agencies. Board members with an affiliation with the grantees were not involved in the grant making decision process.