

**THE ROSE HILLS FOUNDATION**

FINANCIAL STATEMENTS

YEARS ENDED  
DECEMBER 31, 2017 AND 2016

# **THE ROSE HILLS FOUNDATION**

## **FINANCIAL STATEMENTS**

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DECEMBER 31, 2017 AND 2016**

### **CONTENTS**

	<b>Page</b>
Independent Auditor's Report .....	1
Statements of Financial Position.....	2
Statements of Activities .....	3
Statements of Cash Flows.....	4
Notes to Financial Statements .....	5

## 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, 2017 and 2016, 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 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 Foundation as of December 31, 2017 and 2016, 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*

July 30, 2018  
Los Angeles, California

**THE ROSE HILLS FOUNDATION**  
**STATEMENTS OF FINANCIAL POSITION**

	December 31	
	2017	2016
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 7,076,802	\$ 12,762,696
Investments	492,144,937	443,056,857
Investment Sales Receivable	4,686,869	6,832,521
Other Assets	94,852	141,402
	<b>\$ 504,003,460</b>	<b>\$ 462,793,476</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES:</b>		
Accounts Payable	\$ 99,099	\$ 75,000
Investment and Custody Fees Payable	121,910	179,423
Deferred Compensation Payable	35,108	6,582
Other Liabilities	32,448	28,424
	<b>288,565</b>	<b>289,429</b>
<b>NET ASSETS:</b>		
Unrestricted	503,714,895	462,504,047
	<b>\$ 504,003,460</b>	<b>\$ 462,793,476</b>

The Accompanying Notes are an Integral Part of These Financial Statements

# THE ROSE HILLS FOUNDATION

## STATEMENTS OF ACTIVITIES

	Years Ended December 31	
	2017	2016
<b>REVENUES AND GAINS:</b>		
Interest and Dividends	\$ 3,972,181	\$ 3,610,412
Net Realized and Unrealized Gains on Investments	69,425,071	42,366,868
Other Investment Income	20,272	12
<b><i>TOTAL REVENUES AND GAINS</i></b>	<b>73,417,524</b>	<b>45,977,292</b>
<b>EXPENSES:</b>		
Grants	22,290,550	21,976,866
Investment Management Fees	7,589,402	6,920,976
General and Administrative Expenses	1,980,361	1,865,753
Custody Fees and Income Taxes on		
Investments	196,363	191,720
Directors' Fees	150,000	155,838
<b><i>TOTAL EXPENSES</i></b>	<b>32,206,676</b>	<b>31,111,153</b>
<b><i>CHANGE IN UNRESTRICTED NET ASSETS</i></b>	<b>41,210,848</b>	<b>14,866,139</b>
Unrestricted Net Assets - Beginning of Year	462,504,047	447,637,908
<b><i>UNRESTRICTED NET ASSETS - END OF YEAR</i></b>	<b>\$ 503,714,895</b>	<b>\$ 462,504,047</b>

The Accompanying Notes are an Integral Part of These Financial Statements

# THE ROSE HILLS FOUNDATION

## STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in Unrestricted Net Assets	\$ 41,210,848	\$ 14,866,139
Adjustments to Reconcile Change in Unrestricted Net Assets to Net Cash Used in Operating Activities:		
Net Realized and Unrealized Gains on Investments	(69,425,071)	(42,366,868)
Reinvested Net Investment Income	(2,815,099)	(3,017,426)
Decrease in Other Assets	46,550	23,504
Increase (Decrease) in:		
Accounts Payable	24,099	856
Investment and Custody Fees Payable	(57,513)	(185,178)
Deferred Compensation Payable	28,526	(194,716)
Other Liabilities	4,024	4,827
Grants Payable	-	(2,360)
	(30,983,636)	(30,871,222)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from Sale of Investments	90,715,907	124,760,101
Purchases of Investments	(65,418,165)	(87,437,339)
	25,297,742	37,322,762
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>		
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(5,685,894)	6,451,540
Cash and Cash Equivalents - Beginning of Year	12,762,696	6,311,156
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 7,076,802	\$ 12,762,696

The Accompanying Notes are an Integral Part of These Financial Statements

# **THE ROSE HILLS FOUNDATION**

## **NOTES TO FINANCIAL STATEMENTS**

December 31, 2017 and 2016

### **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, 2017 and 2016 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, 2017 and 2016

### **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, 2017 and 2016.



# THE ROSE HILLS FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (i) NEW ACCOUNTING PRONOUNCEMENTS

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 providing additional information about the amounts recorded in the financial statements. For the Foundation, the ASU will be effective for the year ending December 31, 2020.

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, 2017, for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through July 30, 2018, 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.

### 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, 2017 and 2016

### 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, 2017 and 2016, 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)	
<b>2017:</b>					
Equities	\$ 216,815,279	\$ 36,734,465	\$ -	\$ -	\$ 180,080,814
Fixed Income	55,583,945	31,195,026	14,044,530	-	10,344,389
Absolute Return	54,034,107	-	-	-	54,034,107
Long/Short	19,522,961	-	-	-	19,522,961
Private Equity	31,884,252	-	-	-	31,884,252
Venture Capital	32,094,827	-	-	-	32,094,827
Real Assets	82,209,566	40,703,898	-	-	41,505,668
<b>TOTAL</b>	<b>\$ 492,144,937</b>	<b>\$ 108,633,389</b>	<b>\$ 14,044,530</b>	<b>\$ -</b>	<b>\$ 369,467,018</b>
<b>2016:</b>					
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
<b>TOTAL</b>	<b>\$ 443,056,857</b>	<b>\$ 104,355,205</b>	<b>\$ 9,611,090</b>	<b>\$ -</b>	<b>\$ 329,090,562</b>

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, 2017 and 2016.

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, 2017 and 2016

### 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, 2017.

Unfunded commitments at December 31, 2017 amounted to approximately \$72,569,000.

### NOTE 4 - GRANTS

Unconditional grants authorized but unpaid at December 31, if any, are reported as liabilities. Grant activity during the years ended December 31 is summarized as follows:

	2017	2016
Grants Approved in Prior Years		
Pending Payment	\$ -	\$ 2,360
Grants Approved in Current Year	22,290,550	21,976,866
<b>TOTAL UNCONDITIONAL GRANTS APPROVED</b>	22,290,550	21,979,226
Less: Grants to be Paid in Subsequent Years	-	-
<b>GRANTS PAID IN CURRENT YEAR</b>	<b>\$ 22,290,550</b>	<b>\$ 21,979,226</b>

As of December 31, 2017 and 2016, the Foundation had approved conditional grants totaling approximately \$13,768,000 and \$22,178,000, 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, 2017 and 2016

### NOTE 5 - DEFERRED COMPENSATION PAYABLE

The Foundation has two deferred compensation agreements with its 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:

	2017	2016
IRC Section 457(b)	\$ 27,552	\$ -
IRC Section 457(f)	7,556	6,582
<b>TOTAL</b>	<b>\$ 35,108</b>	<b>\$ 6,582</b>

### 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, 2017 and 2016. The prime rate at December 31, 2017 was 4.50%. Subsequent to year-end, the line of credit was extended to mature in October 2018.

**THE ROSE HILLS FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017 and 2016**

**NOTE 7 - OPERATING LEASE**

The Foundation leases office space under a non-cancelable operating lease that expires in August 2024. Minimum future rental expense on this non-cancelable lease at December 31, 2017 is as follows:

<b>Years Ending December 31</b>	
2018	\$ 104,228
2019	169,643
2020	174,876
2021	180,109
2022	185,343
Thereafter	<u>319,661</u>
<b>TOTAL</b>	<u>\$ 1,133,860</u>

Rent expense for the years ended December 31, 2017 and 2016 was \$136,882 and \$131,134 respectively.

**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 \$156,045 and \$170,954 for the years ended December 31, 2017 and 2016, 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.