

**THE ROSE HILLS FOUNDATION**

FINANCIAL STATEMENTS

YEARS ENDED  
DECEMBER 31, 2018 AND 2017

# **THE ROSE HILLS FOUNDATION**

## **FINANCIAL STATEMENTS**

**YEARS ENDED  
DECEMBER 31, 2018 AND 2017**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
The Rose Hills Foundation

### **Report on the Financial Statements**

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, 2018 and 2017, and the related statements of activities, functional expenses, 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, 2018 and 2017, 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, 2019  
Los Angeles, California

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

	December 31	
	2018	2017
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 11,241,432	\$ 7,076,802
Investments	439,423,087	492,144,937
Investment Sales Receivable	10,699,133	4,686,869
Other Assets	74,448	94,852
	<b><i>TOTAL ASSETS</i></b>	<b><i>TOTAL ASSETS</i></b>
	<b>\$ 461,438,100</b>	<b>\$ 504,003,460</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES:</b>		
Accounts Payable	\$ 101,919	\$ 99,099
Investment and Custody Fees Payable	84,835	121,910
Deferred Compensation Payable	53,608	35,108
Other Liabilities	30,823	32,448
	<b><i>TOTAL LIABILITIES</i></b>	<b><i>TOTAL LIABILITIES</i></b>
	271,185	288,565
<b>NET ASSETS:</b>		
Without Donor Restrictions	461,166,915	503,714,895
	<b><i>TOTAL LIABILITIES AND NET ASSETS</i></b>	<b><i>TOTAL LIABILITIES AND NET ASSETS</i></b>
	<b>\$ 461,438,100</b>	<b>\$ 504,003,460</b>

The Accompanying Notes are an Integral Part of These Financial Statements

# THE ROSE HILLS FOUNDATION

## STATEMENTS OF ACTIVITIES

	Years Ended December 31	
	2018	2017
<b>REVENUE AND GAINS (LOSSES)</b>		
Investment Return (Net)	\$ (17,375,893)	\$ 65,632,207
<b>EXPENSES:</b>		
Program Services	24,126,014	23,345,266
Management and General	1,046,073	1,076,093
<b>TOTAL EXPENSES</b>	<b>25,172,087</b>	<b>24,421,359</b>
<b>CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	<b>(42,547,980)</b>	<b>41,210,848</b>
Net Assets Without Donor Restrictions - Beginning of Year	503,714,895	462,504,047
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS - END OF YEAR</b>	<b>\$ 461,166,915</b>	<b>\$ 503,714,895</b>

The Accompanying Notes are an Integral Part of These Financial Statements

## ROSE HILLS FOUNDATION

### STATEMENT OF FUNCTIONAL EXPENSES

	2018			2017 Total
	Program Services	Management and General	Total	
Salaries	\$ 625,454	\$ 441,109	\$ 1,066,563	\$ 1,069,683
Employee Benefits	89,308	72,210	161,518	168,005
Payroll Taxes	36,423	25,690	62,113	60,377
<b>TOTAL PERSONNEL COSTS</b>	751,185	539,009	1,290,194	1,298,065
Grants	23,096,533	-	23,096,533	22,290,550
Occupancy and Office Expenses	109,809	102,907	212,716	228,302
Professional Services	55,099	292,502	347,601	365,781
Insurance	81,733	111,655	193,388	191,280
Grants Administration	31,655	-	31,655	47,381
<b>TOTAL FUNCTIONAL EXPENSES</b>	\$ 24,126,014	\$ 1,046,073	\$ 25,172,087	\$ 24,421,359

The Accompanying Notes are an Integral Part of These Financial Statements

# THE ROSE HILLS FOUNDATION

## STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in Net Assets Without Donor Restrictions	\$ (42,547,980)	\$ 41,210,848
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	19,113,954	(69,425,071)
Reinvested Net Investment Income	(3,633,137)	(2,815,099)
Decrease in Other Assets	20,404	46,550
Increase (Decrease) in:		
Accounts Payable	2,820	24,099
Investment and Custody Fees Payable	(37,075)	(57,513)
Deferred Compensation Payable	18,500	28,526
Other Liabilities	(1,625)	4,024
	(27,064,139)	(30,983,636)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from Sale of Investments	124,036,560	90,715,907
Purchases of Investments	(92,807,791)	(65,418,165)
	31,228,769	25,297,742
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>		
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	4,164,630	(5,685,894)
Cash and Cash Equivalents - Beginning of Year	7,076,802	12,762,696
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 11,241,432	\$ 7,076,802

The Accompanying Notes are an Integral Part of These Financial Statements

# THE ROSE HILLS FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

### 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) NET ASSETS

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

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

None of the Foundation's assets were subject to donor-imposed restrictions at December 31, 2018.

#### (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, 2018 and 2017 approximates its fair value.



# THE ROSE HILLS FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

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

#### (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.

#### (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 the 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

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, 2018 and 2017.

# THE ROSE HILLS FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

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

#### (i) FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the Foundation's programs 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.

#### (j) RECLASSIFICATIONS

Certain reclassifications have been made to the 2017 summarized comparative information to conform to the 2018 financial statement presentation. These reclassifications had no effect on the previously reported change in net assets.

#### (k) NEW ACCOUNTING PRONOUNCEMENTS

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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. The Foundation implemented the ASU during the year ended December 31, 2018. As permitted by the ASU, the Foundation has elected to omit the analysis of expenses by both natural and functional classification and the disclosures about liquidity and availability of financial resources for the year ended December 31, 2017.

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 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 June 2018, FASB issued 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.

#### (l) SUBSEQUENT EVENTS

The Foundation has evaluated events and transactions occurring subsequent to the statement of financial position date of December 31, 2018, for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through July 30, 2019, the date these financial statements were available to be issued. No such material events or transactions were noted to have occurred.

# THE ROSE HILLS FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

### 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 following table presents information about the Foundation's assets that are measured at fair value on a recurring basis at December 31, 2018 and 2017, 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>2018:</b>					
Equities	\$ 172,857,077	\$ 19,745,499	\$ -	\$ -	\$ 153,111,578
Fixed Income	54,929,397	32,183,371	11,981,443	-	10,764,583
Absolute Return	52,068,110	-	-	-	52,068,110
Long/Short	14,620,171	-	-	-	14,620,171
Private Equity	34,535,807	-	-	-	34,535,807
Venture Capital	38,855,974	-	-	-	38,855,974
Real Assets	71,556,551	25,474,973	-	-	46,081,578
<b>TOTAL</b>	<b>\$ 439,423,087</b>	<b>\$ 77,403,843</b>	<b>\$ 11,981,443</b>	<b>\$ -</b>	<b>\$ 350,037,801</b>
<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>

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 relate to whether significant relevant observable inputs are available for the fair value measurement in their entirety. There were no transfers between levels during the years ended December 31, 2018 and 2017.

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.

# THE ROSE HILLS FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

### NOTE 3 - INVESTMENTS (continued)

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.

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 periodically upon advanced 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, 2018.

The following table summarizes the redemption frequency and notice period for the Foundation's investments using NAV as practical expedient as of December 31, 2018:

	Fair Value	Redemption Frequency	Redemption Notice Period
Equities	\$ 153,111,578	Monthly to Quarterly	Up to 90 day notice With 60 day notice
Fixed Income	10,764,583	Quarterly	Daily to Up to 90 day notice
Absolute Return	52,068,110	Illiquid	Up to 45 day notice
Long/Short	14,620,171	Monthly to Annually	Up to 45 day notice
Private Equity	34,535,807	Illiquid	N/A
Venture Capital	38,855,974	Illiquid	N/A
Real Assets	46,081,578	Illiquid	N/A
<b><i>TOTAL OTHER</i></b>	<b>\$ 350,037,801</b>		

Unfunded commitments at December 31, 2018 amounted to approximately \$98,374,000.

### NOTE 4 - CONDITIONAL GRANTS

As of December 31, 2018 and 2017, the Foundation had approved conditional grants totaling approximately \$13,032,000 and \$13,768,000, 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, 2018 and 2017

### 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 is 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:

	2018	2017
IRC Section 457(b)	\$ 46,052	\$ 27,552
IRC Section 457(f)	7,556	7,556
<b>TOTAL</b>	<b>\$ 53,608</b>	<b>\$ 35,108</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 November 2019. There was no outstanding balance on the line of credit at December 31, 2018 and 2017. The prime rate at December 31, 2018 was 5.50%.

### 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, 2018 is as follows:

<b>Years Ending December 31</b>	
2019	\$ 169,643
2020	174,876
2021	180,109
2022	185,343
2023	190,576
Thereafter	129,086
<b>TOTAL</b>	<b>\$ 1,029,633</b>

Rent expense for the years ended December 31, 2018 and 2017 was \$117,018 and \$136,882 respectively.

# THE ROSE HILLS FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

### 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 \$149,508 and \$156,045 for the years ended December 31, 2018 and 2017, 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.

### NOTE 10 - LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

The total financial assets held by the Foundation at December 31, 2018 and the amounts of those financial assets that could be made available for general expenditures within one year of the date of the statement of financial position are summarized in the following table:

Financial Assets at December 31, 2018	
Cash and Cash Equivalents	\$ 11,241,432
Investments	439,423,087
Investment Sales Receivable	<u>10,699,133</u>
<b>TOTAL FINANCIAL ASSETS</b>	
<b>AT DECEMBER 31, 2018</b>	<b>461,363,652</b>
Less Amounts Not Available to Be Used within One Year,	
Due to:	
Illiquid Investments	<u>(129,583,791)</u>
<b>FINANCIAL ASSETS AVAILABLE TO MEET</b>	
<b>GENERAL EXPENDITURES WITHIN ONE YEAR</b>	<b>\$ 331,779,861</b>

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.