

Financial Statements and Report of  
Independent Certified Public Accountants

**Archdiocese of Philadelphia**  
**Office of Catholic Cemeteries**

June 30, 2015 and 2014

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## Report of Independent Certified Public Accountants

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### **Report on the financial statements**

We have audited the accompanying combined financial statements of the Archdiocese of Philadelphia Office of Catholic Cemeteries (the “Cemeteries Office”), which comprise the combined statements of financial position as of June 30, 2015 and 2014, and the related combined statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the combined financial statements.

### **Management’s responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 audit to obtain reasonable assurance about whether the combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of the Archdiocese of Philadelphia Office of Catholic Cemeteries as of June 30, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of matter**

We draw attention to Note A to the financial statements, which describes the legal structure of the Cemeteries Office within the Archdiocese of Philadelphia. Our opinion is not modified with respect to this matter.

**Other matter**

Our audits were conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The supplementary information contained in the accompanying combining statement of financial position as of June 30, 2015 and the related combining statement of activities and changes in net assets for the year then ended are presented for purposes of additional analysis rather than to present the financial position and results of operations of the individual entities and are not a required part of the combined financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the combined financial statements, or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

*Grant Thornton LLP*

Philadelphia, Pennsylvania

January 28, 2016

**COMBINED STATEMENTS OF FINANCIAL POSITION**

June 30,

	<u>2015</u>	<u>2014</u>
Assets		
Cash and cash equivalents	\$ 507,850	\$ 976,000
Assets whose use is contractually committed to permanent maintenance:		
Cash and investments in perpetual care	37,052,370	36,000,000
Inventories:		
Land held for burial privileges	11,264,924	10,175,399
Mausolea and columbaria	2,252,465	2,499,025
Land held pending conferral of burial privileges	643,128	1,775,746
Property and equipment, net	1,680,223	1,916,918
Restricted cash	125,693	125,322
Notes receivable from Archdiocesan entities	<u>3,388,016</u>	<u>3,509,264</u>
Total assets	<u>\$ 56,914,669</u>	<u>\$ 56,977,674</u>
Liabilities and deferred revenue		
Accrued expenses and accounts payable	\$ 55,308	\$ 134,678
Deferred lease revenue	<u>49,625,100</u>	<u>51,078,426</u>
Total liabilities and deferred revenue	<u>49,680,408</u>	<u>51,213,104</u>
Net assets (deficit)		
Unrestricted:		
Designated for operations	(29,818,109)	(30,235,430)
Contractually committed to permanent maintenance	<u>37,052,370</u>	<u>36,000,000</u>
Total net assets	<u>7,234,261</u>	<u>5,764,570</u>
Total liabilities and net assets	<u>\$ 56,914,669</u>	<u>\$ 56,977,674</u>

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

**COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

Year ended June 30, 2015

	Unrestricted - designated for operations	Unrestricted - contractually committed to permanent maintenance	Total
Revenues and gains			
Long-term lease revenue	\$ 1,453,326	\$ -	\$ 1,453,326
Transfer into perpetual care fund	(619,226)	619,226	-
Gain on sale of assets	57,300	-	57,300
	<u>891,400</u>	<u>619,226</u>	<u>1,510,626</u>
Investment income	-	558,491	558,491
Net realized gains on investments	-	339,242	339,242
Net unrealized losses on investments	-	(464,589)	(464,589)
Other income, net	135,298	-	135,298
	<u>1,026,698</u>	<u>1,052,370</u>	<u>2,079,068</u>
Total revenues and gains			
Expenses			
Administration expense	25,829	-	25,829
Cost of crypts and lots sold	287,411	-	287,411
Professional fees	59,442	-	59,442
Depreciation expense	236,695	-	236,695
	<u>609,377</u>	<u>-</u>	<u>609,377</u>
Total expenses			
Change in net assets	417,321	1,052,370	1,469,691
Net assets (deficit)			
Beginning of year	<u>(30,235,430)</u>	<u>36,000,000</u>	<u>5,764,570</u>
End of year	<u>\$ (29,818,109)</u>	<u>\$ 37,052,370</u>	<u>\$ 7,234,261</u>

The accompanying notes are an integral part of this financial statement.

**COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

Year ended June 30, 2014

	Unrestricted - designated for operations	Unrestricted - contractually committed to permanent maintenance	Total
Revenues and gains			
Burial privileges assigned at need	\$ 1,100,150	\$ -	\$ 1,100,150
Burial privileges assigned pre-need	1,572,575	-	1,572,575
Crypt sales	739,043	-	739,043
Grave openings	7,851,337	-	7,851,337
Jobbing orders	930,414	-	930,414
Entombments	198,103	-	198,103
Transfer into perpetual care fund	(3,656,830)	3,656,830	-
Additions to perpetual care fund	-	656,466	656,466
Income from perpetual care fund	-	436,538	436,538
Net assets reclassified	<u>436,538</u>	<u>(436,538)</u>	<u>-</u>
	9,171,330	4,313,296	13,484,626
Investment income	5,409	-	5,409
Net realized and unrealized gains on investments	-	1,225,788	1,225,788
Other income, net	<u>909,427</u>	<u>-</u>	<u>909,427</u>
Total revenues and gains	<u>10,086,166</u>	<u>5,539,084</u>	<u>15,625,250</u>
Expenses			
Salaries	6,333,996	-	6,333,996
Employees' benefits	3,454,138	-	3,454,138
Insurance	194,437	-	194,437
Administration expense	877,568	-	877,568
Cost of crypts and lots sold	287,411	-	287,411
Professional fees	121,099	-	121,099
Taxes - real estate	150,210	-	150,210
Utilities	126,706	-	126,706
Repairs, maintenance and operation of equipment	487,820	-	487,820
Maintenance of buildings and grounds	598,716	-	598,716
Depreciation expense	276,499	-	276,499
Interment and jobbing supplies	<u>181,457</u>	<u>-</u>	<u>181,457</u>
Total expenses	13,090,057	-	13,090,057
Loss on forgiveness of loan with related party	9,200,000	-	9,200,000
Contributions to related parties	<u>53,287,337</u>	<u>-</u>	<u>53,287,337</u>
Total expenses, loss on loan forgiveness and contributions	<u>75,577,394</u>	<u>-</u>	<u>75,577,394</u>
Change in net assets	(65,491,228)	5,539,084	(59,952,144)
Net assets (deficit)			
Beginning of year	<u>35,255,798</u>	<u>30,460,916</u>	<u>65,716,714</u>
End of year	<u>\$ (30,235,430)</u>	<u>\$ 36,000,000</u>	<u>\$ 5,764,570</u>

The accompanying notes are an integral part of this financial statement.

**COMBINED STATEMENTS OF CASH FLOWS**

Year ended June 30,

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Change in net assets	\$ 1,469,691	\$ (59,952,144)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Loss on loan forgiveness	-	9,200,000
Net realized and unrealized losses (gains) on investments	125,347	(1,225,788)
Gain on sale of assets	(57,300)	-
Depreciation expense	236,695	276,499
Changes in assets and liabilities		
Accounts receivable	-	1,782,130
Interest and dividends receivable	-	85,851
Prepaid expenses	-	215,616
Mausolea	246,560	246,560
Land held for burial	149,202	(31,161)
Land held pending conferral of burial privileges	-	(27,342)
Accrued expenses and accounts payable	(128,179)	(795,240)
Additions to perpetual care fund	-	(656,466)
Deferred revenue	<u>(1,453,326)</u>	<u>51,078,426</u>
Net cash provided by operating activities	<u>588,690</u>	<u>196,941</u>
Cash flows from investing activities		
Purchase of equipment, furniture and fixtures	-	(11,327)
Restricted cash	(371)	177,326
Purchase, sale and maturity of investments, net	-	10,600,073
Net increase in cash and investments in perpetual care trust fund, net	(1,177,717)	(35,915,206)
Net deletions/additions to deposits with Office for Financial Services	-	24,897,433
Collection of note receivable from Archdiocesan entities	<u>121,248</u>	<u>132,766</u>
Net cash used in investing activities	<u>(1,056,840)</u>	<u>(118,935)</u>
Cash flows from financing activities		
Additions to perpetual care fund	<u>-</u>	<u>656,466</u>
Net cash provided by financing activities	<u>-</u>	<u>656,466</u>
Net (decrease) increase in cash and cash equivalents	(468,150)	734,472
Cash and cash equivalents		
Beginning of year	<u>976,000</u>	<u>241,528</u>
End of year	<u>\$ 507,850</u>	<u>\$ 976,000</u>

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



**NOTES TO COMBINED FINANCIAL STATEMENTS**

June 30, 2015 and 2014

**NOTE A - NATURE OF OPERATIONS**

The Archdiocese of Philadelphia Office of Catholic Cemeteries (the “Cemeteries Office”) is a department of the Archdiocese of Philadelphia (“Archdiocese”) used to provide for the burial of the faithful according to the rites and disciplines of the Catholic Church, and for the care and maintenance of their resting places. The origin of the Cemeteries Office dates back to the founding of Cathedral Cemetery in 1849 in West Philadelphia. The Cemeteries Office provides care to 11 diocesan cemeteries throughout five counties in Pennsylvania. Two of the cemeteries are for future use. Additionally, two parish cemeteries are also under the care of the Cemeteries Office.

On September 26, 2013, the Archdiocese entered into a management agreement and a lease agreement (collectively, the “Agreements”) with affiliates of StoneMor Partners, L.P. of Levittown, Pennsylvania. Under the terms of the agreements, StoneMor Partners, L.P. guarantees all of the obligations of the affiliates who will operate and/or manage the 13 Archdiocesan cemeteries for a term of 60 years. (StoneMor Partners, L.P. and the aforementioned affiliates are hereinafter referred to as “StoneMor”.) In connection with the transaction, the Archdiocese created Philadelphia Catholic Cemeteries, LLC, a Delaware limited liability company (“PCC”). PCC is what is known as a “sole purpose entity” - the sole purpose being to hold title to the eight cemeteries that are subject to the lease agreement. Contemporaneously with the commencement of the Agreements on May 28, 2014, the Archdiocese on May 28, 2014 filed deeds transferring title to the aforementioned eight cemeteries to PCC. PCC entered into an arrangement with the Office of Catholic Cemeteries division of the Archdiocese of Philadelphia, pursuant to which the Office of Catholic Cemeteries provides administrative and management support services for PCC. The accompanying financial statements include PCC. All intercompany transactions have been eliminated.

The accompanying financial statements include the Archdiocese of Philadelphia Cemetery Permanent Lot Care Fund Irrevocable Trust (the “Permanent Care Fund”), which operates under the auspices of the Cemeteries Office. The Permanent Care Fund is an irrevocable trust which has been organized to hold certain funds which will be used to address the perpetual care obligations upon conclusion of the lease agreement with StoneMor Operating LLC (Note B), upon which the Cemeteries Office resumes responsibility for ongoing and future perpetual care obligations of the cemeteries.

**NOTE B - LEASE AGREEMENTS**

In connection with the Agreements, StoneMor leases the land and improvements and is conveyed a license to sell the burial rights of the cemeteries. During the term of the Agreements, StoneMor will establish and maintain an Endowment Care Trust Fund and Merchandise Trust Fund from a percentage of the proceeds of the sale of burial rights and delivery and performance of goods, merchandise and services in accordance with state law. The amounts remaining in the Endowment Care Trust Fund will revert to the Archdiocese at the end of the term of the agreement. In addition, existing Archdiocesan cemetery employees became StoneMor employees.

Upon closing on May 28, 2014, the Archdiocese received an upfront lease payment of \$53,000,000. In addition to the upfront lease payment, the Archdiocese will receive annual lease payments beginning in year 6 of the agreement as follows:

- Years 6 through 20: annual lease payments of \$1,000,000
- Years 21 through 25: annual lease payments of \$1,200,000
- Years 26 through 35: annual lease payments of \$1,500,000

(Continued)

**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

NOTE B - LEASE AGREEMENTS - Continued

The lease payments for lease years 6 - 11 may be deferred until year 12. Net proceeds from any future land sales to third parties and certain unrelated income will be shared 51% to the Archdiocese and 49% to StoneMor. The Archdiocese has the option to terminate the agreement without cause in year 11. If elected, the upfront lease payment would be paid back to StoneMor. After the term of the agreements expire, the management of the cemeteries will return to the control of the Archdiocese and the Archdiocese will retain its existing perpetual care funds and all future earnings from this fund.

As a real estate lease, the Cemeteries Office has deferred the lease rental payments received to date and is recognizing these payments, net of working capital transferred to StoneMor of approximately \$1,800,000 into income on a straight-line basis over the life of the lease.

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") using the accrual basis of accounting.

Net assets and their revenues, expenses, gains and losses are classified between unrestricted, temporarily restricted and permanently restricted based upon the existence or absence of donor-imposed restrictions. The Cemeteries Office reports all of its net assets as unrestricted, including assets that are contractually committed to permanent maintenance. The two classifications of unrestricted net assets are defined as follows:

Unrestricted - designated for operations - includes all unrestricted resources of the Cemeteries Office and includes the net assets invested in land, mausolea, and property and equipment.

Unrestricted - contractually committed to permanent maintenance - through May 28, 2014 for each lot and crypt sold and collected, the Cemeteries Office designates a flat fee of \$150 per grave and a percentage of the fee per crypt to provide for the future maintenance and preservation of the cemeteries and mausolea. These funds are not contributions; therefore, they are not permanently restricted under US GAAP. Further, the State of Pennsylvania only regulates permanent maintenance funds when they are held by entities other than religious corporations, requiring that such funds be treated as trust funds, prudently invested with the intent of preserving capital and producing a reasonable income. Although the Cemeteries Office is exempt from State regulations, it recognizes a written commitment to invest the principal of the perpetual care fund and to use the income to fund the care of the community mausolea, surroundings and the general maintenance and improvements of the cemeteries.

As of June 30, 2015 and 2014, the Cemeteries Office had no net assets that are subject to donor-imposed restrictions and, accordingly, does not classify any of its net assets as either temporarily or permanently restricted assets.

(Continued)

**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

2. Cash and Cash Equivalents

The Cemeteries Office considers all unrestricted highly liquid investments with an original maturity of three months or less, and that are not held as components of its respective investment portfolio, to be cash equivalents. At June 30, 2015 and 2014, cash equivalents consisted principally of money market funds. The carrying amount of these funds approximates fair value.

3. Restricted Cash

The Cemeteries Office has certain funds that are placed in escrow accounts as required by certain towns whenever a cemetery or a section thereof is developed. The cash is restricted until such time it is released to the Cemeteries Office by the municipality where the cemetery is located.

4. Investments

On April 30, 2015, various funds previously held in a mutual fund bank account were liquidated and re-invested with SEI, a provider of institutional asset management services. SEI created two publicly traded Catholic Values mutual funds: the Catholic Values Equity Fund and the Catholic Values Fixed Income Fund (“Catholic Values Funds”), which provide Catholic institutions with high quality investment products that align with their core values, without sacrificing diversification or return potential. Specifically, the Catholic Values Funds align with the investment directives set forth by the United States Conference of Catholic Bishops (“USCCB”). The Archdiocese appointed the SEI Private Trust Company to act as custodian (the “Custodian”) of the investments, which consist of certain cash and securities and which are more fully described in Note F. Investment allocation decisions are the responsibility of the applicable Archdiocesan entity’s board or finance council.

Investments are reported at fair value. Realized gains and losses are reported to the participating entities monthly. Gains and losses realized by the participating entities as a result of sales are recorded in their specific accounts. Unrealized gains and losses are included in the statements of activities and changes in net assets as net appreciation or depreciation in the fair value of investments.

5. Inventories

Land held pending conferral of burial privileges represents the cost of land acquired for future cemetery sites. Costs for maintaining the land prior to use as a cemetery, net of revenue received, are capitalized. Once land is released for burials, these costs are transferred to land held for burial privileges within the statements of financial position. The cost of land held for burials and cost of the mausoleum are amortized over available lots and crypts as burial and entombment privileges are sold.

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**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

6. Property and Equipment

Property and equipment are capitalized at cost at date of acquisition. Equipment, furniture and fixtures are written off when they are disposed of, as a charge to unrestricted net assets. Repair and maintenance expenditures are expensed as incurred. Depreciation is calculated using the straight-line method based on the estimated useful lives of the assets as follows:

	<u>Life (in years)</u>
Equipment, furniture and fixtures	7 to 20 years
Buildings, roads and improvements	5 to 40 years

7. Cemetery Revenue

Burial privileges assigned at need are recorded as cemetery revenue in the period the contract is signed. Pre-need revenues and costs of burial rights on cemetery lots and crypts are also recorded in the period the contract is signed. Revenues and related costs attributable to cemetery burial site openings and closings are recorded at the time of sale. Subsequent to May 28, 2014 (Note B), proceeds from any sales of burial rights by StoneMor are conveyed as part of the lease and operating agreement.

A contractually committed restricted perpetual care fund has been established by collecting an amount on each lot and crypt sale in order to provide for the future maintenance and preservation of the cemeteries and mausolea. The amount is recorded as an addition to the unrestricted net assets - contractually committed to permanent maintenance. The investment income from these funds is recorded as unrestricted revenue.

8. Income Tax Status

As part of the Archdiocese, the Cemeteries Office is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code through the Archdiocese's inclusion in the USCCB group ruling and listing in the Official Catholic Directory. Accordingly, the Cemeteries Office qualifies for the charitable contribution deduction. The Cemeteries Office follows the accounting guidance for uncertainties in income tax positions which requires that a tax position be recognized or not recognized based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. The Cemeteries Office does not believe its financial statements include any material uncertain tax positions. The tax years ended June 30, 2012, 2013 and 2014 are still open to audit for both federal and state purposes.

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**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

9. Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. These estimates include fair value of investments, allowance for doubtful accounts, and useful lives of property and equipment. Actual results could differ from those estimates.

10. Risks and Uncertainties

The Cemeteries Office's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and investments. Cash and cash equivalents are held in high-quality financial institutions and may exceed the Federal Deposit Insurance Corporation coverage limit. Due to the level of risk associated with cash and investments, it is at least reasonably possible that changes in the values of cash and investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

NOTE D - INVENTORIES

The following summary represents the various inventories by location as of June 30, 2015 and 2014:

<u>2015</u>	<u>Land held for burial privileges</u>	<u>Mausolea and columbaria</u>	<u>Land held pending conferral of burial privileges</u>
Holy Cross Columbarium	\$ -	\$ 20,070	\$ -
Holy Sepulchre	390,986	208,670	-
SS. Peter & Paul	703,854	1,914,160	-
Resurrection	409,069	109,565	-
St. John Neumann	2,612,908	-	-
All Saints	1,132,618	-	-
All Souls	6,015,489	-	-
Holy Savior	<u>-</u>	<u>-</u>	<u>643,128</u>
	<u>\$ 11,264,924</u>	<u>\$ 2,252,465</u>	<u>\$ 643,128</u>

(Continued)

**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

NOTE D - INVENTORIES - Continued

<u>2014</u>	<u>Land held for burial privileges</u>	<u>Mausolea and columbaria</u>	<u>Land held pending conferral of burial privileges</u>
Holy Cross Columbarium	\$ -	\$ 20,070	\$ -
Holy Sepulchre	393,228	237,949	-
SS. Peter & Paul	704,863	2,115,705	-
Resurrection	410,302	125,301	-
St. John Neumann	2,621,277	-	-
All Saints	-	-	1,132,618
All Souls	6,045,729	-	-
Holy Savior	<u>-</u>	<u>-</u>	<u>643,128</u>
	<u>\$ 10,175,399</u>	<u>\$ 2,499,025</u>	<u>\$ 1,775,746</u>

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2015 and 2014 consisted of:

	<u>2015</u>	<u>2014</u>
Equipment, furniture and fixtures	\$ 4,157,095	\$ 4,157,095
Buildings, roads and improvements	<u>8,738,729</u>	<u>8,738,729</u>
	12,895,824	12,895,824
Less: accumulated depreciation	<u>(11,215,601)</u>	<u>(10,978,906)</u>
	<u>\$ 1,680,223</u>	<u>\$ 1,916,918</u>

NOTE F - INVESTMENTS

Investments held at SEI are reported at fair value and consist of the following:

*Catholic Values Equity Fund (or "equity fund")* - Invests in common stocks and is managed by SEI. The equity fund is valued at the closing price of the traded fund.

*Catholic Values Fixed Income Fund (or "fixed income fund")* - Invests in mutual funds, corporate obligations, United States Treasury obligations and municipal obligations and is managed by SEI. The fixed income fund is valued at the closing price of the traded fund.

*Cash Plus (or "fund")* - Investments are liquid in nature and invested in short-duration U.S. government bonds.

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**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

NOTE F - INVESTMENTS - Continued

At June 30, 2015, the Cemeteries Office’s investments are summarized and classified as follows:

	<u>Equity Fund</u>	<u>Fixed Income Fund</u>	<u>Total</u>
Catholic Values Equity Fund	\$ 25,949,353	\$ -	\$ 25,949,353
Catholic Values Fixed Income Fund	<u>-</u>	<u>11,103,017</u>	<u>11,103,017</u>
Investment in SEI Catholic Values Funds	<u>\$ 25,949,353</u>	<u>\$ 11,103,017</u>	<u>\$ 37,052,370</u>

NOTE G - FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 820, *Fair Value Measurements and Disclosures*, establishes a single authoritative definition of fair value, sets a framework for measuring fair value, and requires additional disclosures about fair value measurements. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described as follows:

- Level 1 Quoted prices in active markets for identical assets or liabilities as of the measurement date.
- Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Fair value calculations may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Cemeteries Office believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

(Continued)

**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

NOTE G - FAIR VALUE MEASUREMENTS - Continued

The following table presents the fair values of the investments held by the Cemeteries Office by level within the fair value hierarchy, as of June 30, 2015:

	Quoted prices in active markets <u>(Level 1)</u>	Significant other observable inputs <u>(Level 2)</u>	Significant inputs supported by little or no market activity <u>(Level 3)</u>	Total fair value <u>                    </u>
Assets				
Investments				
Investment in SEI Catholic Values Funds	\$ <u>37,052,370</u>	\$ <u>          -</u>	\$ <u>          -</u>	\$ <u>37,052,370</u>
 Total assets at June 30, 2015	 \$ <u><u>37,052,370</u></u>	 \$ <u><u>          -</u></u>	 \$ <u><u>          -</u></u>	 \$ <u><u>37,052,370</u></u>

In June 2014, investments totaling \$10,083,159 along with funds on deposit in the Trust and Loan Fund totaling \$25,916,841 were liquidated and moved into the Permanent Care Fund. At June 30, 2014, these funds, totaling \$36,000,000, were invested in a money market. On April 30, 2015, these funds were liquidated and re-invested with SEI (see Note C.4).

NOTE H - RESTRICTED CASH

Restricted cash at June 30, 2015 and 2014 is summarized as follows:

	<u>2015</u>	<u>2014</u>
Escrow account for the development of a section of SS. Peter & Paul Cemetery	\$ 114,428	\$ 114,057
Escrow account for the development of a section of Calvary Cemetery	<u>11,265</u>	<u>11,265</u>
	<u>\$ 125,693</u>	<u>\$ 125,322</u>



**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

NOTE I - PENSION PLAN

Through June 30, 2014, the eligible lay employees of the Cemeteries Office were covered under the Archdiocese of Philadelphia Lay Employees' Retirement Plan (the "Plan"), which covered substantially all lay employees, once age and service requirements were met, of the Archdiocese, its related ecclesiastical entities, institutions and parishes. For financial reporting purposes within these financial statements, the Plan is accounted for as a multiemployer plan. On June 30, 2014, the Archdiocese froze the Plan. All active employees as of the freeze date retained benefits they have earned through June 30, 2014. After the date of the freeze, accrued pension benefits will not increase for additional service or increases in pay. The Plan is administered by the trustees of the Plan.

The contributions of the Cemeteries Office for the year ended June 30, 2014 totaled \$738,543. Separate accounts for vested benefits and pension fund assets are not maintained for each institution.

NOTE J - RELATED PARTY TRANSACTIONS

The Cemeteries Office reimburses the Archdiocese of Philadelphia - Office for Financial Services ("OFS") for certain salaries and expenses incurred on behalf of its employees. For the fiscal year ended June 30, 2014, these expenses totaled \$2,327,570, of which \$0- was included in accrued expenses at June 30, 2014.

During the year ended June 30, 2014, in connection with the receipt of the funds from the lease agreement (Note B), the Cemeteries Office contributed the cash received from this transaction to certain related entities as follows:

Office for Financial Services Trust and Loan Fund	\$ 30,000,000
Office for Financial Services Risk Insurance Trust	11,643,668
Priest Pension Plan Fund	<u>11,643,669</u>
	<u>\$ 53,287,337</u>

On June 30, 2003, the Cemeteries Office entered into a loan agreement with OFS. The loan receivable balance was \$9,200,000 as of June 30, 2013. The loan receivable charged a fixed rate of 1.75%. During the year ended June 30, 2014, the loan was forgiven.

In fiscal 2009, the Cemeteries Office recorded the effect of land sale agreements with two related parties of the Archdiocese, St. Peter's Parish (the "Parish") and Pope John Paul II Regional Elementary School (the "School"), for \$592,000 and \$340,000, respectively. As part of the land sale agreements, the Parish and School agreed to pay the Cemeteries Office over a specified period of time as agreed to in a Memo of Understanding with the Parish and the School. During each of the fiscal years 2015 and 2014, the Cemeteries Office received principal payments of \$30,000 from the Parish and \$34,000 from the School.

(Continued)

**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2015 and 2014

NOTE J - RELATED PARTY TRANSACTIONS - Continued

The following table includes the payments expected to be received from the Parish and the School:

2016	\$ 64,000
2017	64,000
2018	64,000
2019	64,000
2020	64,000
Thereafter	<u>238,000</u>
	<u>\$ 558,000</u>

In fiscal 2012, the Cemeteries Office entered into a loan agreement with the Archdiocese of Philadelphia, Office of Catholic Education (“OCE”). The loan receivable is at a fixed interest rate of 4%. During fiscal 2015 and 2014, the Cemeteries Office received principal payments of \$57,248 and \$68,767, respectively, from OCE. During the year ended June 30, 2015, the agreement was amended to extend payment terms until 2042. The following table includes the payments expected to be received from OCE:

2016	\$ 59,572
2017	61,991
2018	64,508
2019	67,127
2020	69,853
Thereafter	<u>2,506,965</u>
	<u>\$ 2,830,016</u>

NOTE K - FUNCTIONAL EXPENSES

The following table summarizes program and supporting expenses for the years ended June 30:

	<u>2015</u>	<u>2014</u>
Program expenses	\$ 524,106	\$ 11,569,650
Supporting expenses	<u>85,271</u>	<u>1,520,407</u>
	<u>\$ 609,377</u>	<u>\$ 13,090,057</u>

NOTE L - SUBSEQUENT EVENTS

The Cemeteries Office evaluated its June 30, 2015 financial statements for subsequent events through January 28, 2016, the date the financial statements were available to be issued. The Cemeteries Office is not aware of any subsequent event which would require recognition or disclosure in the financial statements.

SUPPLEMENTAL INFORMATION

**COMBINING STATEMENT OF FINANCIAL POSITION**

June 30, 2015

	Archdiocese of Philadelphia Catholic Cemeteries	Philadelphia Catholic Cemeteries, LLC	Archdiocese of Philadelphia Permanent Lot Care Fund Irrevocable Trust	Combined Archdiocese of Philadelphia Office of Catholic Cemeteries
<b>Assets</b>				
Cash and cash equivalents	\$ 399,500	\$ 108,350	\$ -	\$ 507,850
Assets whose use is contractually committed to permanent maintenance:				
Cash and investments in perpetual care	-	-	37,052,370	37,052,370
Inventories:				
Land held for burial privileges	-	11,264,924	-	11,264,924
Mausolea and columbaria	20,070	2,232,395	-	2,252,465
Land held pending conferral of burial privileges	-	643,128	-	643,128
Property and equipment, net	43,494	1,636,729	-	1,680,223
Restricted cash	125,693	-	-	125,693
Notes receivable from Archdiocesan entities	<u>3,388,016</u>	<u>-</u>	<u>-</u>	<u>3,388,016</u>
 Total assets	 <u>\$ 3,976,773</u>	 <u>\$ 15,885,526</u>	 <u>\$ 37,052,370</u>	 <u>\$ 56,914,669</u>
<b>Liabilities and deferred revenue</b>				
Accrued expenses and accounts payable	\$ 6,500	\$ 48,808	\$ -	\$ 55,308
Deferred lease revenue	<u>49,625,100</u>	<u>-</u>	<u>-</u>	<u>49,625,100</u>
 Total liabilities and deferred revenue	 <u>49,631,600</u>	 <u>48,808</u>	 <u>-</u>	 <u>49,680,408</u>
<b>Net assets (deficit)</b>				
Unrestricted:				
Designated for operations	(45,654,827)	15,836,718	-	(29,818,109)
Contractually committed to permanent maintenance	<u>-</u>	<u>-</u>	<u>37,052,370</u>	<u>37,052,370</u>
 Total net assets (deficit)	 <u>(45,654,827)</u>	 <u>15,836,718</u>	 <u>37,052,370</u>	 <u>7,234,261</u>
 Total liabilities and net assets (deficit)	 <u>\$ 3,976,773</u>	 <u>\$ 15,885,526</u>	 <u>\$ 37,052,370</u>	 <u>\$ 56,914,669</u>

**COMBINING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

Year ended June 30, 2015

	Archdiocese of Philadelphia Catholic Cemeteries	Philadelphia Catholic Cemeteries, LLC	Archdiocese of Philadelphia Permanent Lot Care Fund Irrevocable Trust	Combined Archdiocese of Philadelphia Office of Catholic Cemeteries
Revenues and gains				
Long-term lease revenue	\$ 1,453,326	\$ -	\$ -	\$ 1,453,326
Transfers into perpetual care fund	-	-	-	-
Gain on sale of assets	-	57,300	-	57,300
	<u>1,453,326</u>	<u>57,300</u>	<u>-</u>	<u>1,510,626</u>
Investment income	-	-	558,491	558,491
Net realized gains on investments	-	-	339,242	339,242
Net unrealized losses on investments	-	-	(464,589)	(464,589)
Other income, net	135,298	-	-	135,298
	<u>1,588,624</u>	<u>57,300</u>	<u>433,144</u>	<u>2,079,068</u>
Expenses				
Administrative expenses	25,829	-	-	25,829
Cost of crypts and lots sold	-	287,411	-	287,411
Professional fees	52,942	6,500	-	59,442
Depreciation expense	33,940	202,755	-	236,695
	<u>112,711</u>	<u>496,666</u>	<u>-</u>	<u>609,377</u>
Change in net assets before other item	1,475,913	(439,366)	433,144	1,469,691
Transfer from Office of Catholic Cemeteries	<u>(16,895,310)</u>	<u>16,276,084</u>	<u>619,226</u>	<u>-</u>
Change in net assets	(15,419,397)	15,836,718	1,052,370	1,469,691
Net assets (deficit)				
Beginning of year	<u>(30,235,430)</u>	<u>-</u>	<u>36,000,000</u>	<u>5,764,570</u>
End of year	<u>\$ (45,654,827)</u>	<u>\$ 15,836,718</u>	<u>\$ 37,052,370</u>	<u>\$ 7,234,261</u>