

Financial Statements and Report of
Independent Certified Public Accountants

**Archdiocese of Philadelphia Office
of Catholic Cemeteries**

June 30, 2013 and 2012

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Report of Independent Certified Public Accountants

Archdiocese of Philadelphia
Office of Catholic Cemeteries
Philadelphia, Pennsylvania

Report on the financial statements

We have audited the accompanying financial statements of the Archdiocese of Philadelphia Office of Catholic Cemeteries (the "Cemeteries Office"), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and changes in net assets 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Archdiocese of Philadelphia Office of Catholic Cemeteries as of June 30, 2013 and 2012, 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.

A handwritten signature in black ink that reads "Grant Thornton LLP". The signature is written in a cursive, flowing style.

Philadelphia, Pennsylvania

November 4, 2013

STATEMENTS OF FINANCIAL POSITION

June 30,

	2013	2012
Assets		
Cash and cash equivalents	\$ 241,528	\$ 1,924,611
Accounts receivable	1,782,130	1,706,708
Interest and dividends receivable	85,851	120,002
Prepaid expenses	215,616	218,785
Investments (Note E)	3,895,598	2,973,420
Assets whose use is contractually committed to permanent maintenance:		
Cash - perpetual care	84,794	40,323
Investments (Note E)	5,478,687	5,497,757
Funds held on deposit with the Office for Financial Services (Note G)	24,897,433	24,328,088
Inventories:		
Land held for burial privileges (Note C)	10,144,238	10,007,772
Mausolea and columbaria (Note C)	2,745,585	2,934,455
Land held pending conferral of burial privileges (Note C)	1,748,404	1,732,914
Property and equipment, net (Note D)	2,182,090	2,379,122
Restricted cash (Note H)	302,648	301,527
Notes receivable from Archdiocesan entities	12,842,030	12,945,678
Total assets	\$ 66,646,632	\$ 67,111,162
Liabilities		
Accrued expenses and accounts payable	\$ 929,918	\$ 498,026
Total liabilities	929,918	498,026
Net assets		
Unrestricted:		
Designated for operations	35,255,798	36,746,968
Contractually committed to permanent maintenance	30,460,916	29,866,168
Total net assets	65,716,714	66,613,136
Total liabilities and net assets	\$ 66,646,632	\$ 67,111,162

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

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2013

	Unrestricted - designated for operations	Unrestricted - contractually committed to permanent maintenance	Total
Revenues and gains			
Burial privileges assigned at need	\$ 967,545	\$ -	\$ 967,545
Burial privileges assigned pre-need	1,235,565	-	1,235,565
Crypt sales	564,200	-	564,200
Grave openings	8,918,679	-	8,918,679
Jobbing orders	1,051,120	-	1,051,120
Entombments	221,755	-	221,755
Additions to perpetual care fund	-	594,748	594,748
Income from perpetual care fund	-	450,520	450,520
Net assets reclassified	450,520	(450,520)	-
	<u>13,409,384</u>	<u>594,748</u>	<u>14,004,132</u>
Investment income	4,932	-	4,932
Net realized gains on investments	190,972	-	190,972
Net appreciation in the fair value of investments	720,028	-	720,028
Other income	400,229	-	400,229
	<u>14,725,545</u>	<u>594,748</u>	<u>15,320,293</u>
Total revenues and gains			
Expenses			
Salaries	7,711,482	-	7,711,482
Employees' benefits	3,919,878	-	3,919,878
Insurance	252,167	-	252,167
Administration expense	353,063	-	353,063
Cost of crypts and lots sold	215,791	-	215,791
Professional fees	121,584	-	121,584
Taxes - real estate	163,033	-	163,033
Utilities	122,950	-	122,950
Repairs, maintenance and operation of equipment	492,601	-	492,601
Maintenance of buildings and grounds	455,393	-	455,393
Depreciation expense	226,323	-	226,323
Interment and jobbing supplies	182,450	-	182,450
	<u>14,216,715</u>	<u>-</u>	<u>14,216,715</u>
Total expenses			
Assessment from Office for Financial Services	2,000,000	-	2,000,000
	<u>16,216,715</u>	<u>-</u>	<u>16,216,715</u>
Total expenses and assessments			
Change in net assets	(1,491,170)	594,748	(896,422)
Net assets			
Beginning of year	36,746,968	29,866,168	66,613,136
End of year	<u>\$ 35,255,798</u>	<u>\$ 30,460,916</u>	<u>\$ 65,716,714</u>

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

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2012

	Unrestricted - designated for operations	Unrestricted - contractually committed to permanent maintenance	Total
Revenues and gains			
Burial privileges assigned at need	\$ 879,560	\$ -	\$ 879,560
Burial privileges assigned pre-need	1,175,907	-	1,175,907
Crypt sales	607,370	-	607,370
Grave openings	8,368,523	-	8,368,523
Jobbing orders	954,734	-	954,734
Entombments	203,680	-	203,680
Additions to perpetual care fund	-	661,283	661,283
Income from perpetual care fund	-	613,701	613,701
Net assets reclassified	613,701	(613,701)	-
	<u>12,803,475</u>	<u>661,283</u>	<u>13,464,758</u>
Investment income	11,857	-	11,857
Net realized gains on investments	662,346	-	662,346
Net depreciation in the fair value of investments	(947,101)	-	(947,101)
Other income	279,750	-	279,750
	<u>12,810,327</u>	<u>661,283</u>	<u>13,471,610</u>
Total revenues and gains			
Expenses			
Salaries	8,380,433	-	8,380,433
Employees' benefits	4,053,811	-	4,053,811
Insurance	236,179	-	236,179
Administration expense	452,622	-	452,622
Cost of crypts and lots sold	247,244	-	247,244
Professional fees	130,741	-	130,741
Taxes - real estate	190,474	-	190,474
Utilities	120,969	-	120,969
Repairs, maintenance and operation of equipment	596,928	-	596,928
Maintenance of buildings and grounds	515,888	-	515,888
Depreciation expense	420,778	-	420,778
Interment and jobbing supplies	258,146	-	258,146
	<u>15,604,213</u>	<u>-</u>	<u>15,604,213</u>
Total expenses			
Assessment from Office for Financial Services	2,000,000	-	2,000,000
Retirement and disposal of equipment	258,958	-	258,958
	<u>17,863,171</u>	<u>-</u>	<u>17,863,171</u>
Total expenses, assessments and retirements			
Change in net assets	(5,052,844)	661,283	(4,391,561)
Net assets			
Beginning of year	<u>41,799,812</u>	<u>29,204,885</u>	<u>71,004,697</u>
End of year	<u>\$ 36,746,968</u>	<u>\$ 29,866,168</u>	<u>\$ 66,613,136</u>

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

STATEMENTS OF CASH FLOWS

Year ended June 30,

	2013	2012
Cash flows from operating activities		
Change in net assets	\$ (896,422)	\$ (4,391,561)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Loss on the disposal of equipment		260,220
Net realized gains on investments	(190,972)	(662,346)
Net (appreciation) depreciation in the fair value of investments	(720,028)	947,101
Depreciation expense	228,403	420,778
Changes in assets and liabilities		
Accounts receivable	(75,422)	(87,525)
Interest and dividends receivable	34,151	(78,009)
Prepaid expenses	3,169	(7,827)
Mausolea	188,870	179,697
Land held for burial	(136,466)	(133,593)
Land held pending conferral of burial privileges	(15,490)	(16,310)
Accrued expenses and accounts payable	431,892	37,842
Additions to perpetual care fund	(594,748)	(661,283)
Restricted cash - perpetual care	(44,471)	(11,558)
Net cash used in operating activities	<u>(1,787,534)</u>	<u>(4,204,374)</u>
Cash flows from investing activities		
Purchase of equipment, furniture and fixtures	(31,371)	(133,774)
Restricted cash	(1,121)	(12,715)
Sale of investments	7,892	9,013,832
Net additions to deposits with Office for Financial Services	(569,345)	(676,831)
Loan to Archdiocesan entity - Office of Catholic Education	-	(3,000,000)
Collection of note receivable from Archdiocesan entities	103,648	128,594
Net cash (used in) provided by investing activities	<u>(490,297)</u>	<u>5,319,106</u>
Cash flows from financing activities		
Additions to perpetual care fund	594,748	661,283
Net cash provided by financing activities	<u>594,748</u>	<u>661,283</u>
Net (decrease) increase in cash and cash equivalents	(1,683,083)	1,776,015
Cash and cash equivalents		
Beginning of year	1,924,611	148,596
End of year	<u>\$ 241,528</u>	<u>\$ 1,924,611</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

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.

NOTE B - 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 - 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, 2013 and 2012, 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.

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, 2013 and 2012, cash equivalents consisted principally of money market funds. The carrying amount approximates fair value.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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. Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are comprised of contract receivables from lot and crypt sales, burial orders and monument sales. Management believes that contract receivables are rarely subject to bad debt risk as the right of interment is not transferred to the contract holder until a lot or crypt is paid in full. Management reviews the receivables balance on an annual basis and believes that an allowance for doubtful accounts is not needed.

Accounts receivable, which are noninterest bearing, are recorded at the time of pre-need lot and crypt sale and collected over a 3-4 year basis. Management believes that the impact of a present value calculation to account for contracts receivable with extended payment terms that bear no interest would be minimal.

5. Investments

Investments are reported at fair value. The investments held by the Cemeteries Office in the Non-Pension Assets Portfolio ("NPAP") do not have a readily determinable fair value, and as such, the Cemeteries Office has elected to use the net asset value (the "NAV") per share as calculated on the reporting entity's measurement date as the fair value of the investment, based on the NAV of the investment as a practical expedient.

Realized gains and losses at the manager level are spread to the plan accounts monthly. Gains and losses created at the plan level due to unit sales are recorded in the specific plan accounts. Unrealized gains and losses are included in the statements of activities and changes in net assets as net appreciation (depreciation) in the fair value of investments.

6. 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.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

7. 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
Building, roads and improvements	5 to 40 years

8. 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.

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.

9. Income Tax Status

As part of the Archdiocese of Philadelphia, 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 United States Conference of Catholic Bishops ("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, 2010, 2011 and 2012 are still open to audit for both federal and state purposes.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

10. 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.

11. 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. Investments are either pooled with the Archdiocese of Philadelphia's NPAP or deposited with the Archdiocese of Philadelphia Office for Financial Services. 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 C - INVENTORIES

The following summary represents the various inventories by location as of June 30, 2013 and 2012:

	Land held for burial privileges	Mausolea and columbaria	Land held pending conferral of burial privileges
<u>2013</u>			
Holy Cross Columbarium	\$ -	\$ 20,070	\$ -
Holy Sepulchre	393,228	267,227	-
SS. Peter & Paul	633,859	2,317,252	-
Resurrection	411,535	141,036	-
St. John Neumann	2,629,647	-	-
All Saints	-	-	1,113,678
All Souls	6,075,969	-	-
Holy Savior	-	-	634,726
	<u>\$ 10,144,238</u>	<u>\$ 2,745,585</u>	<u>\$ 1,748,404</u>

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE C - INVENTORIES - Continued

<u>2012</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	291,276	-
SS. Peter & Paul	471,268	2,469,251	-
Resurrection	412,512	153,858	-
St. John Neumann	2,634,383	-	-
All Saints	-	-	1,098,865
All Souls	6,096,381	-	-
Holy Savior	-	-	634,049
	<u>\$ 10,007,772</u>	<u>\$ 2,934,455</u>	<u>\$ 1,732,914</u>

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2013 and 2012 consisted of:

	<u>2013</u>	<u>2012</u>
Equipment, furniture and fixtures	\$ 4,154,341	\$ 4,138,161
Buildings, roads and improvements	<u>8,738,729</u>	<u>8,723,538</u>
	12,893,070	12,861,699
Less: accumulated depreciation	<u>(10,710,980)</u>	<u>(10,482,577)</u>
	<u>\$ 2,182,090</u>	<u>\$ 2,379,122</u>

NOTE E - INVESTMENTS

At June 30, 2013 and 2012, the Cemeteries Office's investments are summarized and classified as follows:

<u>2013</u>	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Archdiocese of Philadelphia NPAP	<u>\$ 9,374,285</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,374,285</u>
<u>2012</u>				
Archdiocese of Philadelphia NPAP	<u>\$ 8,471,177</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,471,177</u>

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE E - INVESTMENTS - Continued

Non-Pension Assets Portfolio

For administrative and other needs, the Archdiocese of Philadelphia formed the NPAP to pool together certain investments in order to more efficiently manage the investments of various entities and related organizations within the Archdiocese. The investments in the NPAP are held by a custodian and are managed based on sub-accounts as follows:

Equity Sub-Account (or "fund") - Invests in common stocks and is managed by multiple investment managers.

Fixed Income Sub-Account (or "fund") - Invests in mutual funds, corporate obligations, United States Treasury obligations and municipal obligations and is managed by multiple investment managers.

Liquidity Sub-Account (or "fund") - Investments are liquid in nature and are used to buy and sell units of the Equity and Fixed Income funds.

The NPAP is unitized on a periodic basis to allow for the investment, at unit value, by entities in the NPAP. The Archdiocese's investment in the NPAP is stated at unit value.

The Investment Committee of the Archdiocese of Philadelphia has primary responsibility for determining the allocation of amounts to be invested among the funds. Management is responsible for ensuring that investment allocations among the funds are maintained as determined by the Investment Committee of the Archdiocese of Philadelphia.

NOTE F - 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.
- 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.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE F - FAIR VALUE MEASUREMENTS - Continued

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. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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.

The fair value of certain alternative investments is estimated using the NAV per share. These investments are classified as either Level 2, if the Cemeteries Office's investment can be redeemed at the reporting date or within the near term, or Level 3, if its investment is not redeemable at the NAV per share at or near the statement of financial position date.

Fair value measurements of investments in entities that calculate the NAV per share or its equivalent as of June 30, 2013 and 2012 are as follows:

	<u>2013</u> <u>Fair value</u>	<u>2012</u> <u>Fair value</u>	<u>Unfunded</u> <u>commitments</u>	<u>Redemption</u> <u>frequency</u>	<u>Redemption</u> <u>notice</u> <u>period</u>
Archdiocese of Philadelphia NPAP ^(a)	\$ 9,374,285	\$ 8,471,177	\$ -	daily	1 day

- ^(a) A pooled investment portfolio comprised of equity and fixed income securities. The primary objective of the NPAP is preservation of capital while reducing, to the greatest extent possible, the possibility of loss. The investment strategy and long-term asset allocation for the NPAP takes into consideration the specific spending requirements and the present and future needs of the Archdiocese of Philadelphia and its respective participating Ecclesiastical Organizations. Therefore, the desired minimum rate of return is equal to the Consumer Price Index ("CPI") plus three percent (3%) on an annualized basis. The fair values are estimated using the NAV per share of the investments.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE F - FAIR VALUE MEASUREMENTS - Continued

The following table presents the fair values of the investments held by Cemeteries Office by level within the fair value hierarchy, as of June 30, 2013 and 2012:

	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
<u>2013</u>				
Assets				
Archdiocese of Philadelphia NPAP	\$ -	\$ 9,374,285	\$ -	\$ 9,374,285
Total of assets at June 30, 2013	\$ -	\$ 9,374,285	\$ -	\$ 9,374,285
<u>2012</u>				
Assets				
Archdiocese of Philadelphia NPAP	\$ -	\$ 8,471,177	\$ -	\$ 8,471,177
Total of assets at June 30, 2012	\$ -	\$ 8,471,177	\$ -	\$ 8,471,177

NOTE G - FUNDS HELD ON DEPOSIT WITH THE OFFICE FOR FINANCIAL SERVICES

The Cemeteries Office holds certain unrestricted on-demand and contractually committed to permanent maintenance restricted endowed care funds with the Archdiocese of Philadelphia Office for Financial Services ("OFS") in which the funds earn a rate of interest of 1.25%. These funds are on deposit in the Trust and Loan Fund administered by OFS. For the years ended June 30, 2013 and 2012, the Cemeteries Office has recorded unrestricted income of \$307,735 and \$333,456, respectively.

NOTE H - RESTRICTED CASH

Restricted cash at June 30, 2013 and 2012 is summarized as follows:

	<u>2013</u>	<u>2012</u>
Escrow account for the development of a section of SS. Peter & Paul Cemetery	\$ 291,383	\$ 290,262
Escrow account for the development of a section of Calvary Cemetery	<u>11,265</u>	<u>11,265</u>
	<u>\$ 302,648</u>	<u>\$ 301,527</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE I - PENSION PLAN

The eligible lay employees of the Cemeteries Office are covered under the Archdiocese of Philadelphia Lay Employees' Retirement Plan (the "Plan"), which is a defined benefit pension plan that covers substantially all lay employees, once age and service requirements are met, of the Archdiocese, its institutions and parishes. The Plan is administered by the Trustees of the Lay Employees' Retirement Plan. The contributions of the Cemeteries Office for the years ended June 30, 2013 and 2012 totaled \$395,375 and \$389,577, respectively. Separate accounts for vested benefits and pension fund assets are not maintained for each institution.

NOTE J - RELATED PARTY TRANSACTIONS

For each of the fiscal years ended June 30, 2013 and 2012, OFS assessed the Cemeteries Office \$2,000,000.

The Cemeteries Office reimburses OFS for certain salaries and expenses incurred on behalf of its employees. For the fiscal years ended June 30, 2013 and 2012, these expenses totaled \$2,659,626 and \$2,813,365, respectively, of which \$27,100 and \$15,018 was included in accrued expenses at June 30, 2013 and 2012, respectively.

On June 30, 2003, the Cemeteries Office entered into a loan agreement with OFS. The loan receivable is at a fixed rate of 1.75%. The loan receivable balance is \$9,200,000 as of June 30, 2013 and 2012. The Cemeteries Office was scheduled to receive a balloon payment of \$9,450,000 during fiscal year 2010; however, in September 2010, amended its loan agreement with OFS. The loan receivable remains at a fixed rate of 1.75%. The amended loan agreement changed the principal loan payment on the remaining note receivable balance as indicated in the table below. During fiscal year 2013, the Cemeteries Office did not receive principal payments on the loan receivable from OFS.

2014	\$ 100,000
2015	100,000
2016	100,000
2017	100,000
2018	100,000
Thereafter	<u>8,700,000</u>
	<u>\$ 9,200,000</u>

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE J - RELATED PARTY TRANSACTIONS - Continued

In fiscal 2009, the Cemeteries Office recorded the effect of land sale agreements with two related parties of the Archdiocese of Philadelphia, 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 fiscal year 2013, the Cemeteries Office received principal payments of \$30,000 from the Parish and \$34,000 from the School. The following table includes the payments expected to be received from the Parish and the School:

2014	\$ 64,000
2015	64,000
2016	64,000
2017	64,000
2018	64,000
Thereafter	<u>366,000</u>
	<u>\$ 686,000</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 2013, the Cemeteries Office received principal payments of \$39,517 from OCE. The following table includes the payments expected to be received from OCE:

2014	\$ 54,738
2015	<u>2,901,292</u>
	<u>\$ 2,956,030</u>

NOTE K - FUNCTIONAL EXPENSES

The following table summarizes program and supporting expenses for the year ended June 30, 2013:

Program expenses	\$ 11,080,640
Supporting expenses	<u>3,136,075</u>
	<u>\$ 14,216,715</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

NOTE L - SUBSEQUENT EVENTS

FASB ASC 855, *Subsequent Events*, establishes the principles and requirements for evaluating and reporting subsequent events, including: the period subject to evaluation for subsequent events; the circumstances requiring recognition of subsequent events in the financial statements; and the required disclosures. The Cemeteries Office evaluated events subsequent to June 30, 2013 and through November 4, 2013, the date the financial statements were available to be issued.

On September 25, 2013, the Archdiocese entered into a management agreement and a lease agreement 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 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").

The Archdiocese will receive an upfront lease payment of \$53,000,000 upon closing. In addition to the upfront lease payment, the Archdiocese will receive annual lease payments beginning in year six 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

The lease payments for lease years 6 - 11 may be deferred until year 12. Net proceeds from any future land sales to third parties 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. The future perpetual care of the cemeteries will be provided for by StoneMor. In addition, existing Archdiocesan cemetery employees will become StoneMor employees.