Financial Statements and Report of
Independent Certified Public Accountants

Philadelphia Catholic Cemeteries, LLC

June 30, 2015

Contents

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Report of Independent Certified Public Accountants

Philadelphia Catholic Cemeteries, LLC
Philadelphia, Pennsylvania

Report on the financial statements

We have audited the accompanying financial statements of Philadelphia Catholic Cemeteries, LLC ("PCC"), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities and changes in net assets and cash flows for the year 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 audit. We conducted our audit 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 Philadelphia Catholic Cemeteries, LLC as of June 30, 2015, and the results of its operations and its cash flows for the year 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 PCC. Our opinion is not modified with respect to this matter.

Grant Thornton LLP

Philadelphia, Pennsylvania

January 28, 2016

Philadelphia Catholic Cemeteries, LLC

STATEMENT OF FINANCIAL POSITION

June 30, 2015

Assets		
Cash and cash equivalents	$	108,350
Inventories:		
Land held for burial privileges		11,264,924
Mausolea and columbaria		2,232,395
Land held pending conferral of burial privileges		643,128
Property and equipment, net		1,636,729
Total assets	$	15,885,526
Liabilities and deferred revenue		
Accrued expenses and accounts payable	$	48,808
Total liabilities and deferred revenue		48,808
Net assets		15,836,718
Total liabilities and net assets	$	15,885,526

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

Philadelphia Catholic Cemeteries, LLC

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2015

Revenues and gains	
Gain on sale of assets	$ 57,300
Total revenues and gains	57,300
Expenses	
Costs of crypts and lots sold	287,411
Depreciation expense	202,755
Professional fees	6,500
Total expenses	496,666
Change in net assets before other item	(439,366)
Transfer from the Archdiocese of Philadelphia Office of Catholic Cemeteries	16,276,084
Change in net assets	15,836,718
Net assets, beginning of year	-
Net assets, end of the year	$ 15,836,718

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

Philadelphia Catholic Cemeteries, LLC

STATEMENT OF CASH FLOWS

Year ended June 30, 2015

Cash flows from operating activities	
Change in net assets	$ 15,836,718
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Transfer from the Archdiocese of Philadelphia Office of Catholic Cemeteries	(16,276,084)
Gain on sale of assets	(57,300)
Depreciation expense	202,755
Changes in assets and liabilities	
Land held for burial privileges	106,893
Mausolea and columbaria	246,560
Accrued expenses and accounts payable	48,808
Net cash provided by operating activities	108,350
Net increase in cash and cash equivalents	108,350
Cash and cash equivalents	
Beginning of year	-
End of year	$ 108,350

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

NOTE A - NATURE OF OPERATIONS

On September 26, 2013, the Archdiocese of Philadelphia ("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, 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. All intercompany transactions have been eliminated.

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, PCC 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

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 PCC and 49% to StoneMor. PCC 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 operation and management of the 13 cemeteries will return to the control of PCC or 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 Archdiocese 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. As of June 30, 2015, PCC 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

PCC 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, cash equivalents consisted principally of money market funds. The carrying amount of these funds approximates fair value.

3. 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 are capitalized. Once land is released for burials, these costs are transferred to land held for burial privileges within the statement of financial position.

The cost of land held for burials and cost of the mausolea are amortized over available lots and crypts as burial and entombment privileges are sold by StoneMor.

4. 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:

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

5. Revenue

Revenue consists of sale of undeveloped land by StoneMor.

(Continued)

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

6. Income Tax Status

PCC is exempt from federal income tax because it is a disregarded entity for federal income tax purposes and therefore adopts the tax status of its sole economic member, the Archdiocese, which is exempt from federal income tax as an organization described 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, PCC qualifies for the charitable contribution deduction.

PCC does not believe its financial statements include any material uncertain tax positions. The tax year ended June 30, 2014 is still open to audit for both federal and state purposes.

7. 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.

8. Risks and Uncertainties

PCC'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 statement of financial position.

NOTE D - INVENTORIES

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

	Land held for burial privileges	Mausolea and columbaria	Land held pending conferral of burial privileges
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	-	-	643,128
	$ 11,264,924	$ 2,232,395	$ 643,128

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2015 consisted of:

Equipment, furniture and fixtures	$ 3,145,751
Buildings, roads and improvements	8,301,343
	11,447,094
Less: accumulated depreciation	(9,810,365)
	$ 1,636,729

NOTE F - RELATED PARTY TRANSACTIONS

On June 29, 2015, the Archdiocese sold 1.18 acres of land at the Holy Sepulchre Cemetery for $108,350. At June 30, 2015, PCC recorded revenue of $57,300 on this sale and a payable to StoneMor of $48,808.

NOTE G - SUBSEQUENT EVENTS

Financial Accounting Standards Board Accounting Standards Codification 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. PCC evaluated events subsequent to June 30, 2015 and through January 28, 2016, the date the financial statements were available to be issued.