

Combined Financial Statements and Report of
Independent Certified Public Accountants

Archdiocese of Philadelphia
Office of Catholic Cemeteries

June 30, 2017 and 2016

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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, 2017 and 2016, 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 combined 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 combined financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

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

Opinion

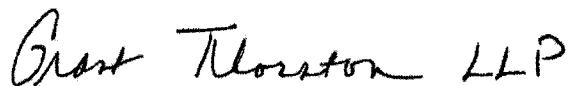
In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Archdiocese of Philadelphia Office of Catholic Cemeteries as of June 30, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of matters

We draw attention to Note A to the combined financial statements, which describes the legal structure of the Cemeteries Office within the Archdiocese of Philadelphia, and Note C.13, which details the Cemeteries Office's adoption of new accounting guidance related to the classification of restricted cash in the combined statements of cash flows. Our opinion is not modified with respect to these matters.

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, 2017 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 as a whole.

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

Philadelphia, Pennsylvania

December 13, 2017

COMBINED STATEMENTS OF FINANCIAL POSITION

June 30,

	<u>2017</u>	<u>2016</u>
Assets		
Cash and cash equivalents	\$ 431,584	\$ 532,375
Restricted cash	115,057	114,715
Assets held for sale:		
Land	257,193	257,193
Assets whose use is contractually committed to permanent maintenance:		
Cash and investments in perpetual care trust fund	42,277,672	36,625,783
Inventories:		
Land held for burial privileges	10,794,349	10,963,997
Mausolea and columbaria	1,632,822	2,005,906
Land held pending conferral of burial privileges	643,128	643,128
Property and equipment, net	1,298,504	1,490,575
Notes receivable from Archdiocesan entities	<u>430,000</u>	<u>3,264,444</u>
 Total assets	 <u>\$ 57,880,309</u>	 <u>\$ 55,898,116</u>
Liabilities		
Accrued expenses and accounts payable	\$ 30,950	\$ 55,467
Due to Archdiocesan entities	-	36,000
Deferred lease revenue	<u>46,718,450</u>	<u>48,171,775</u>
 Total liabilities	 <u>46,749,400</u>	 <u>48,263,242</u>
Net assets (deficit)		
Unrestricted:		
Designated for operations	(31,110,587)	(28,988,909)
Contractually committed to permanent maintenance	<u>41,952,302</u>	<u>36,363,959</u>
Total unrestricted	10,841,715	7,375,050
Temporarily restricted	274,844	245,474
Permanently restricted	<u>14,350</u>	<u>14,350</u>
 Total net assets	 <u>11,130,909</u>	 <u>7,634,874</u>
 Total liabilities and net assets	 <u>\$ 57,880,309</u>	 <u>\$ 55,898,116</u>

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

COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2017

	Unrestricted - designated for operations	Unrestricted - contractually committed to permanent maintenance	Temporarily restricted	Permanently restricted	Total
Revenues and gains					
Long-term lease revenue	\$ 1,453,325	\$ -	\$ -	\$ -	\$ 1,453,325
Contributions to Permanent Care Fund	-	-	1,220	-	1,220
	<u>1,453,325</u>	<u>-</u>	<u>1,220</u>	<u>-</u>	<u>1,454,545</u>
Investment income	-	531,483	3,798	-	535,281
Net realized gains on investments	-	49,565	355	-	49,920
Net unrealized gains on investments	-	5,033,724	35,966	-	5,069,690
Net assets released from restriction	-	11,969	(11,969)	-	-
Other income, net	<u>44,174</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>44,174</u>
Total revenues and gains	<u>1,497,499</u>	<u>5,626,741</u>	<u>29,370</u>	<u>-</u>	<u>7,153,610</u>
Expenses					
Administration expense	18,000	16,970	-	-	34,970
Cost of crypts and lots sold	542,732	-	-	-	542,732
Professional fees	98,515	21,428	-	-	119,943
Depreciation expense	<u>148,521</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>148,521</u>
Total expenses	<u>807,768</u>	<u>38,398</u>	<u>-</u>	<u>-</u>	<u>846,166</u>
Change in net assets before other items	689,731	5,588,343	29,370	-	6,307,444
Other items					
Non-recurring contribution to pension plans	2,767,859	-	-	-	2,767,859
Loss on disposition of assets	<u>43,550</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,550</u>
Change in net assets	(2,121,678)	5,588,343	29,370	-	3,496,035
Net assets (deficit)					
Beginning of year	<u>(28,988,909)</u>	<u>36,363,959</u>	<u>245,474</u>	<u>14,350</u>	<u>7,634,874</u>
End of year	<u>\$ (31,110,587)</u>	<u>\$ 41,952,302</u>	<u>\$ 274,844</u>	<u>\$ 14,350</u>	<u>\$ 11,130,909</u>

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

COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2016

	Unrestricted - designated for operations	Unrestricted - contractually committed to permanent maintenance	Temporarily restricted	Permanently restricted	Total
Revenues and gains					
Long-term lease revenue	\$ 1,453,326	\$ -	\$ -	\$ -	\$ 1,453,326
Contributions to Permanent Care Fund	-	4,171	247,120	14,350	265,641
	<u>1,453,326</u>	<u>4,171</u>	<u>247,120</u>	<u>14,350</u>	<u>1,718,967</u>
Investment income	-	425,745	1,013	-	426,758
Net realized losses on investments	-	(15,253)	(40)	-	(15,293)
Net unrealized losses on investments	-	(1,101,074)	(2,619)	-	(1,103,693)
Other income, net	<u>113,923</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>113,923</u>
Total revenues and gains (losses)	<u>1,567,249</u>	<u>(686,411)</u>	<u>245,474</u>	<u>14,350</u>	<u>1,140,662</u>
Expenses					
Administration expense	91,861	2,000	-	-	93,861
Cost of crypts and lots sold	290,293	-	-	-	290,293
Professional fees	166,247	-	-	-	166,247
Depreciation expense	<u>189,648</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>189,648</u>
Total expenses	<u>738,049</u>	<u>2,000</u>	<u>-</u>	<u>-</u>	<u>740,049</u>
Change in net assets	829,200	(688,411)	245,474	14,350	400,613
Net assets (deficit)					
Beginning of year	<u>(29,818,109)</u>	<u>37,052,370</u>	<u>-</u>	<u>-</u>	<u>7,234,261</u>
End of year	<u>\$ (28,988,909)</u>	<u>\$ 36,363,959</u>	<u>\$ 245,474</u>	<u>\$ 14,350</u>	<u>\$ 7,634,874</u>

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

COMBINED STATEMENTS OF CASH FLOWS

Year ended June 30,

	<u>2017</u>	<u>2016</u> <i>as adjusted</i>
Cash flows from operating activities		
Change in net assets	\$ 3,496,035	\$ 400,613
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Net realized and unrealized (gains) losses on investments	(5,119,610)	1,118,986
Contributions restricted for long-term purposes	(1,220)	(265,641)
Loss on disposition of assets	43,550	-
Depreciation expense	148,521	189,648
Changes in assets and liabilities		
Due (to) from Archdiocesan entities	(36,000)	36,000
Mausolea and columbaria	373,084	246,559
Land held for burial	169,648	43,734
Accrued expenses and accounts payable	(24,517)	159
Deferred lease revenue	<u>(1,453,325)</u>	<u>(1,453,325)</u>
Net cash (used in) provided by operating activities	<u>(2,403,834)</u>	<u>316,733</u>
Cash flows from investing activities		
Net increase in cash and investments in perpetual care trust fund	(532,279)	(692,399)
Collection of note receivable from Archdiocesan entities	<u>2,834,444</u>	<u>123,572</u>
Net cash provided by (used in) investing activities	<u>2,302,165</u>	<u>(568,827)</u>
Cash flows from financing activities		
Contributions restricted for long-term purposes	<u>1,220</u>	<u>265,641</u>
Net cash provided by financing activities	<u>1,220</u>	<u>265,641</u>
Net (decrease) increase in cash and cash equivalents and restricted cash	(100,449)	13,547
Cash and cash equivalents and restricted cash		
Beginning of year	<u>647,090</u>	<u>633,543</u>
End of year	<u>\$ 546,641</u>	<u>\$ 647,090</u>

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

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2017 and 2016

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 13 diocesan cemeteries throughout five counties in Pennsylvania.

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 (“PCC”), a Delaware limited liability company. PCC is what is known as a “sole purpose entity” - the sole purpose being to hold title to 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 of 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 combined financial statements include PCC. All intercompany transactions have been eliminated.

The accompanying combined 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, 2017 and 2016

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 combined 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 net assets 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 designated 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 were 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.

Temporarily restricted net assets - include gifts, trusts, income and appreciation, for which donor imposed restrictions have not been met. Such restrictions include purpose restrictions where donors have specified the purpose for which the net assets are to be spent, and/or time restrictions imposed by donors or implied by the nature of the gift.

Permanently restricted net assets - include assets with the income to be used for maintenance and care of sites throughout the organization.

(Continued)

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

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, 2017 and 2016, 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

SEI, a provider of institutional asset management services, 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 SEI Private Trust Company to act as custodian (the “Custodian”) of the investments, which consist of certain cash and securities and are more fully described in Notes F and G. 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 combined 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 of 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 combined 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 COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

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. Contributions

During the years ended June 30, 2017 and 2016, PNC Bank transferred assets to the Archdiocese that were previously held in trusts for the benefit of certain cemeteries for which PNC Bank was acting as trustee. The Archdiocese invested these funds with SEI and manages the accounts consistent with the intent of the original trust documents. For the years ended June 30, 2017 and 2016, the amount received by the Archdiocese totaled \$1,220 and \$261,470, respectively.

9. 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 combined financial statements include any material uncertain tax positions. The tax years ended June 30, 2014, 2015 and 2016 are still open to audit for both federal and state purposes.

(Continued)

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

10. Use of Estimates

The preparation of combined 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 combined financial statements and the reported amounts of revenue and expenses during the reporting period. These estimates include fair value of investments, cost of crypts and lots sold, 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. 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 combined statements of financial position.

12. Assets Held for Sale

The Cemeteries Office has certain land which is being marketed for sale as of June 30, 2017 and 2016. The carrying value of assets held for sale previously classified under land held for burial privileges and road and improvements consists of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
All Saints Cemetery	\$ 177,190	\$ 177,190
Resurrection Cemetery	80,000	80,000
St. John Neumann Cemetery	<u>3</u>	<u>3</u>
	<u>\$ 257,193</u>	<u>\$ 257,193</u>

(Continued)

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

13. Recently Adopted Accounting Pronouncement

Restricted Cash

During the year ended June 30, 2017, the Cemeteries Office adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2016-18, *Statement of Cash Flows*. This accounting pronouncement requires the statement of cash flows include restricted cash in the amount reflected as cash and cash equivalents. The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the combined statements of financial position that total to the amounts reflected in the combined statements of cash flows.

	Year ended June 30,	
	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 431,584	\$ 532,375
Restricted cash	<u>115,057</u>	<u>114,715</u>
Total cash, cash equivalents and restricted cash reflected in the combined statements of cash flows	<u>\$ 546,641</u>	<u>\$ 647,090</u>

14. Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, to improve financial reporting by creating common revenue recognition guidance. The core principle of this guidance is that an entity should recognize revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for these goods and services at the date the performance obligation has occurred. ASU 2014-09 is effective for periods beginning after December 15, 2017. An entity will apply this update using either a full retrospective application, which applies the standard to each prior period presented, or under the modified retrospective application, in which an entity recognizes the cumulative effect of initially applying the new standard as an adjustment to the opening statement of financial position at the date of initial application. The Cemeteries Office has not determined the impact of ASU 2014-09 at this time.

In August 2016, the FASB issued a new standard related to the presentation of financial statements of not-for-profit entities. This standard intends to make certain improvements to the current reporting requirements for not-for-profit entities including: (1) the presentation for two classes of net assets at the end of the period, rather than the currently required three classes, as well as the annual change in each of the two classes; (2) the removal of the requirement to present or disclose the indirect method (reconciliation) when using the direct method for the statement of cash flows; and (3) the requirement to provide various enhanced disclosures relating to various not-for-profit specific topics. The new standard is effective for annual financial statements beginning after December 15, 2017. The Cemeteries Office has not determined the impact of the new standard at this time.

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

NOTE D - INVENTORIES

The following summary represents the various inventories at each cemetery as of June 30, 2017 and 2016:

<u>2017</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	149,681	-
SS. Peter & Paul	622,912	1,461,206	-
Resurrection	301,499	1,865	-
St. John Neumann	2,531,133	-	-
All Saints	952,149	-	-
All Souls	5,995,670	-	-
Holy Savior	<u>-</u>	<u>-</u>	<u>643,128</u>
	<u>\$ 10,794,349</u>	<u>\$ 1,632,822</u>	<u>\$ 643,128</u>
<u>2016</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	179,391	-
SS. Peter & Paul	702,845	1,712,615	-
Resurrection	327,836	93,830	-
St. John Neumann	2,604,535	-	-
All Saints	952,546	-	-
All Souls	5,985,249	-	-
Holy Savior	<u>-</u>	<u>-</u>	<u>643,128</u>
	<u>\$ 10,963,997</u>	<u>\$ 2,005,906</u>	<u>\$ 643,128</u>

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2017 and 2016 consisted of:

	<u>2017</u>	<u>2016</u>
Equipment, furniture and fixtures	\$ 3,451,826	\$ 4,157,095
Buildings, roads and improvements	<u>8,738,729</u>	<u>8,738,729</u>
	12,190,555	12,895,824
Less: accumulated depreciation	<u>(10,892,051)</u>	<u>(11,405,249)</u>
	<u>\$ 1,298,504</u>	<u>\$ 1,490,575</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 invests in short-duration U.S. government bonds.

At June 30, 2017, the Cemeteries Office's investments are summarized and classified as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Catholic Values Equity Fund	\$ 30,004,485	\$ 194,870	\$ 10,254	\$ 30,209,609
Catholic Values Fixed Income Fund	<u>11,983,993</u>	<u>79,974</u>	<u>4,096</u>	<u>12,068,063</u>
Investment in SEI Catholic Values Funds	<u>\$ 41,988,478</u>	<u>\$ 274,844</u>	<u>\$ 14,350</u>	<u>\$ 42,277,672</u>

At June 30, 2016, the Cemeteries Office's investments are summarized and classified as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Catholic Values Equity Fund	\$ 25,544,261	\$ 172,427	\$ 10,080	\$ 25,726,768
Catholic Values Fixed Income Fund	<u>10,821,698</u>	<u>73,047</u>	<u>4,270</u>	<u>10,899,015</u>
Investment in SEI Catholic Values Funds	<u>\$ 36,365,959</u>	<u>\$ 245,474</u>	<u>\$ 14,350</u>	<u>\$ 36,625,783</u>

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

NOTE G - FAIR VALUE MEASUREMENTS

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.

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, 2017:

	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>42,277,672</u>	\$ <u> -</u>	\$ <u> -</u>	\$ <u>42,277,672</u>
Total assets at June 30, 2017	\$ <u>42,277,672</u>	\$ <u> -</u>	\$ <u> -</u>	\$ <u>42,277,672</u>

(Continued)

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

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, 2016:

	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>36,625,783</u>	\$ <u> -</u>	\$ <u> -</u>	\$ <u>36,625,783</u>
Total assets at June 30, 2016	\$ <u><u>36,625,783</u></u>	\$ <u><u> -</u></u>	\$ <u><u> -</u></u>	\$ <u><u>36,625,783</u></u>

NOTE H - RESTRICTED CASH

Restricted cash at June 30, 2017 and 2016 is summarized as follows:

	<u>2017</u>	<u>2016</u>
Escrow account for the development of a section of SS. Peter & Paul Cemetery	\$ <u><u>115,057</u></u>	\$ <u><u>114,715</u></u>

NOTE I - RELATED PARTY TRANSACTIONS

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 2017 and 2016, 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, 2017 and 2016

NOTE I - RELATED PARTY TRANSACTIONS - Continued

The following table includes the payments expected to be received from the Parish and the School as of June 30, 2017:

2018	\$ 64,000
2019	64,000
2020	30,000
2021	30,000
2022	30,000
Thereafter	<u>212,000</u>
	<u>\$ 430,000</u>

During the year ended June 30, 2012, the Cemeteries Office entered into a term note agreement with the Archdiocese of Philadelphia, Office of Catholic Education (“OCE”). The term note carried a fixed interest rate of 4% per annum. In December 2016, OCE paid off the term note in full. The Cemeteries Office received principal payments of \$2,770,444 and \$59,572 for the years ended June 30, 2017 and 2016, respectively, from OCE.

For the years ended June 30, 2017 and 2016, the Cemeteries Office paid \$-0- and \$50,800, respectively, to the Archdiocese of Philadelphia - Office for Financial Services. These payments are recorded within administrative expense on the combined statements of activities and changes in net assets.

During the year ended June 30, 2017, the Cemeteries Office made a non-recurring contribution of \$2,767,859 to the Archdiocese of Philadelphia Lay Employees’ Retirement Plan (“LERP”) and the priests’ retirement plans, which are distinct and autonomous benefit plans separately administered by the Archdiocese in trust for each of the plans’ beneficiaries and are not part of these combined financial statements. In December 2016, non-recurring contributions of \$30,000,000 and \$14,000,000 were made to the LERP and priests’ retirement plans, respectively. The Cemeteries Office funded \$2,767,859 of these contributions.

The Archdiocese provides financial and administrative services to the Cemeteries Office. Amounts charged for the years ended June 30, 2017 and 2016 in relation to these services were \$20,000 and \$36,000, respectively.

Due to Archdiocesan entities consists of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Due to Archdiocese of Philadelphia - Office for Financial Services	\$ -	\$ 36,000
	<u>\$ -</u>	<u>\$ 36,000</u>

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

NOTE J - FUNCTIONAL EXPENSES

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

	<u>2017</u>	<u>2016</u>
Program expenses	\$ 691,253	\$ 479,941
Supporting expenses	<u>154,913</u>	<u>260,108</u>
	<u>\$ 846,166</u>	<u>\$ 740,049</u>

NOTE K - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Accumulated earnings for perpetual care of the cemeteries	\$ <u>274,844</u>	\$ <u>245,474</u>
	<u>\$ 274,844</u>	<u>\$ 245,474</u>

Permanently restricted net assets at June 30, 2017 and 2016 are restricted to:

	<u>2017</u>	<u>2016</u>
Investments to be held in perpetuity, the income from which is expendable to support perpetual care of the cemeteries	\$ <u>14,350</u>	\$ <u>14,350</u>
	<u>\$ 14,350</u>	<u>\$ 14,350</u>

NOTE L - NET ASSETS RELEASED FROM RESTRICTION

During the year ended June 30, 2017, net assets were released from donor restrictions by incurring expenses satisfying the specific restricted purpose related to the perpetual care of the cemeteries, in the amount of \$11,969.

NOTE M - SUBSEQUENT EVENTS

The Cemeteries Office evaluated its June 30, 2017 combined financial statements for subsequent events through December 13, 2017, the date the combined 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 combined financial statements.

SUPPLEMENTAL INFORMATION

COMBINING STATEMENT OF FINANCIAL POSITION

June 30, 2017

	Archdiocese of Philadelphia Catholic Cemeteries	Philadelphia Catholic Cemeteries, LLC	Archdiocese of Philadelphia Cemetery Permanent Lot Care Fund Irrevocable Trust	Combined Archdiocese of Philadelphia Office of Catholic Cemeteries
Assets				
Cash and cash equivalents	\$ 431,584	\$ -	\$ -	\$ 431,584
Restricted cash	115,057	-	-	115,057
Assets held for sale:				
Land	-	257,193	-	257,193
Assets whose use is contractually committed to permanent maintenance:				
Cash and investments in perpetual care trust fund	-	-	42,277,672	42,277,672
Inventories:				
Land held for burial privileges	-	10,794,349	-	10,794,349
Mausolea and columbaria	20,070	1,612,752	-	1,632,822
Land held pending conferral of burial privileges	-	643,128	-	643,128
Property and equipment, net	2,865	1,295,639	-	1,298,504
Notes receivable from Archdiocesan entities	430,000	-	-	430,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 999,576</u>	<u>\$ 14,603,061</u>	<u>\$ 42,277,672</u>	<u>\$ 57,880,309</u>
Liabilities				
Accrued expenses and accounts payable	\$ 8,793	\$ 14,782	\$ 7,375	\$ 30,950
Due (from) to Archdiocesan entities	(216,140)	187,339	28,801	-
Deferred lease revenue	46,718,450	-	-	46,718,450
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>46,511,103</u>	<u>202,121</u>	<u>36,176</u>	<u>46,749,400</u>
Net assets (deficit)				
Unrestricted:				
Designated for operations	(45,511,527)	14,400,940	-	(31,110,587)
Contractually committed to permanent maintenance	-	-	41,952,302	41,952,302
Total unrestricted	(45,511,527)	14,400,940	41,952,302	10,841,715
Temporarily restricted	-	-	274,844	274,844
Permanently restricted	-	-	14,350	14,350
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total net assets	<u>(45,511,527)</u>	<u>14,400,940</u>	<u>42,241,496</u>	<u>11,130,909</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and net assets	<u>\$ 999,576</u>	<u>\$ 14,603,061</u>	<u>\$ 42,277,672</u>	<u>\$ 57,880,309</u>

Archdiocese of Philadelphia Office of Catholic Cemeteries

COMBINING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2017

	Unrestricted				Temporarily restricted	Permanently restricted	Grand Total
	Archdiocese of Philadelphia Catholic Cemeteries	Philadelpha Catholic Cemeteries, LLC	Archdiocese of Philadelphia Cemetery Permanent Lot Care Fund Irrevocable Trust	Total	Archdiocese of Philadelphia Cemetery Permanent Lot Care Fund Irrevocable Trust	Archdiocese of Philadelphia Cemetery Permanent Lot Care Fund Irrevocable Trust	
Revenues and gains							
Long-term lease revenue	\$ 1,453,325	\$ -	\$ -	\$ 1,453,325	\$ -	\$ -	\$ 1,453,325
Contributions to Permanent Care Fund	-	-	-	-	1,220	-	1,220
	1,453,325	-	-	1,453,325	1,220	-	1,454,545
Investment income	-	-	531,483	531,483	3,798	-	535,281
Net realized gains on investments	-	-	49,565	49,565	355	-	49,920
Net unrealized gains on investments	-	-	5,033,724	5,033,724	35,966	-	5,069,690
Net assets released from restriction	-	-	11,969	11,969	(11,969)	-	-
Other income, net	42,704	1,470	-	44,174	-	-	44,174
Total revenues and gains	1,496,029	1,470	5,626,741	7,124,240	29,370	-	7,153,610
Expenses							
Administrative expense	2,000	16,000	16,970	34,970	-	-	34,970
Cost of crypts and lots sold	-	542,732	-	542,732	-	-	542,732
Professional fees	21,289	77,226	21,428	119,943	-	-	119,943
Depreciation expense	6,893	141,628	-	148,521	-	-	148,521
Total expenses	30,182	777,586	38,398	846,166	-	-	846,166
Change in net assets before other items	1,465,847	(776,116)	5,588,343	6,278,074	29,370	-	6,307,444
Non-recurring contribution to pension plans	2,767,859	-	-	2,767,859	-	-	2,767,859
Loss on disposition of assets	22,001	21,549	-	43,550	-	-	43,550
Change in net assets	(1,324,013)	(797,665)	5,588,343	3,466,665	29,370	-	3,496,035
Net assets (deficit)							
Beginning of year	(44,187,514)	15,198,605	36,363,959	7,375,050	245,474	14,350	7,634,874
End of year	\$ (45,511,527)	\$ 14,400,940	\$ 41,952,302	\$ 10,841,715	\$ 274,844	\$ 14,350	\$ 11,130,909