

Financial Statements and Report of
Independent Certified Public Accountants

Philadelphia Catholic Cemeteries, LLC

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 financial statements of Philadelphia Catholic Cemeteries, LLC (“PCC”), which comprise the statements of financial position as of June 30, 2017 and 2016, 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.

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.

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, 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.

Grant Thornton LLP

Philadelphia, Pennsylvania

December 13, 2017

Philadelphia Catholic Cemeteries, LLC

STATEMENTS OF FINANCIAL POSITION

June 30,

	<u>2017</u>	<u>2016</u>
Assets		
Cash and cash equivalents	\$ -	\$ 108,350
Assets held for sale:		
Land	257,193	257,193
Inventories:		
Land held for burial privileges	10,794,349	10,963,997
Mausolea and columbaria	1,612,752	1,985,836
Land held pending conferral of burial privileges	643,128	643,128
Property and equipment, net	<u>1,295,639</u>	<u>1,458,816</u>
Total assets	<u>\$ 14,603,061</u>	<u>\$ 15,417,320</u>
Liabilities		
Accrued expenses and accounts payable	\$ 14,782	\$ 48,808
Due to Archdiocesan entities	<u>187,339</u>	<u>169,907</u>
Total liabilities	202,121	218,715
Net assets	<u>14,400,940</u>	<u>15,198,605</u>
Total liabilities and net assets	<u>\$ 14,603,061</u>	<u>\$ 15,417,320</u>

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

Philadelphia Catholic Cemeteries, LLC

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30,

	<u>2017</u>	<u>2016</u>
Revenues and gains		
Interest income	\$ 1,470	\$ -
Total revenues and gains	1,470	-
Expenses		
Costs of crypts and lots sold	542,732	290,293
Depreciation expense	141,628	177,913
Administration expense	16,000	36,000
Professional fees	<u>77,226</u>	<u>133,907</u>
Total expenses	<u>777,586</u>	<u>638,113</u>
Change in net assets before other item	(776,116)	(638,113)
Other item		
Loss on disposition of assets	<u>21,549</u>	<u>-</u>
Change in net assets	(797,665)	(638,113)
Net assets, beginning of year	<u>15,198,605</u>	<u>15,836,718</u>
Net assets, end of the year	<u>\$ 14,400,940</u>	<u>\$ 15,198,605</u>

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

Philadelphia Catholic Cemeteries, LLC

STATEMENTS OF CASH FLOWS

Year ended June 30,

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets	\$ (797,665)	\$ (638,113)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Loss on disposition of assets	21,549	-
Depreciation expense	141,628	177,913
Changes in assets and liabilities		
Land held for burial privileges	169,648	43,734
Mausolea and columbaria	373,084	246,559
Accrued expenses and accounts payable	(34,026)	-
Due to Archdiocesan entities	<u>17,432</u>	<u>169,907</u>
Net cash used in operating activities	<u>(108,350)</u>	<u>-</u>
Net decrease in cash and cash equivalents	(108,350)	-
Cash and cash equivalents		
Beginning of year	<u>108,350</u>	<u>108,350</u>
End of year	<u>\$ -</u>	<u>\$ 108,350</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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 (“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, 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.

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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

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, 2017, 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.

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 statements 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:

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

5. Revenues and Gains/(Losses)

PCC had vehicles taken out of service during fiscal year 2017. There was a loss of \$21,549 related to the disposition of these assets. There were no revenue and gains recorded during the year ended June 30, 2016.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

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 years ended June 30, 2016, 2015 and 2014 are 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, cost of crypts and lots sold, and useful lives of property and equipment. Actual results could differ from those estimates.

8. Assets Held for Sale

PCC 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 FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

9. New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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. PCC 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. PCC has not determined the impact of the new standard at this time.

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 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>\$ 1,612,752</u>	<u>\$ 643,128</u>

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

NOTE D - INVENTORIES - Continued

<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 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>\$ 1,985,836</u>	<u>\$ 643,128</u>

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	\$ 2,605,201	\$ 3,145,751
Buildings, roads and improvements	<u>8,301,343</u>	<u>8,301,343</u>
	10,906,544	11,447,094
Less: accumulated depreciation	<u>(9,610,905)</u>	<u>(9,988,278)</u>
	<u>\$ 1,295,639</u>	<u>\$ 1,458,816</u>

NOTE F - RELATED PARTY TRANSACTIONS

Pursuant to the May 28, 2014 management services agreement between the Archdiocese of Philadelphia - Office for Financial Services and PCC, the Archdiocese provided financial and administrative services to PCC. Amounts charged for the years ended June 30, 2017 and 2016 in relation to these services were \$16,000 and \$36,000, respectively.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

NOTE F - RELATED PARTY TRANSACTIONS - Continued

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 of Catholic Cemeteries	\$ 187,339	\$ 133,907
Due to Archdiocese of Philadelphia - Office for Financial Services	<u>-</u>	<u>36,000</u>
	<u>\$ 187,339</u>	<u>\$ 169,907</u>

NOTE G - FUNCTIONAL EXPENSES

The following table summarizes program and supporting expenses for the years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Program expenses	\$ 684,360	\$ 468,206
Supporting expenses	<u>93,226</u>	<u>169,907</u>
	<u>\$ 777,586</u>	<u>\$ 638,113</u>

NOTE H - SUBSEQUENT EVENTS

PCC has evaluated its June 30, 2017 financial statements for subsequent events through December 13, 2017, the date the financial statements were available to be issued. PCC is not aware of any subsequent event which would require recognition or disclosure in the financial statements.