

Financial Statements and Report of
Independent Certified Public Accountants

**Archdiocese of Philadelphia Cemetery
Permanent Lot Care Fund Irrevocable Trust**

June 30, 2018 and 2017

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Report of Independent Certified Public Accountants

Archdiocese of Philadelphia Cemetery Permanent Lot Care Fund Irrevocable Trust
Philadelphia, Pennsylvania

Report on the financial statements

We have audited the accompanying financial statements of the Archdiocese of Philadelphia Cemetery Permanent Lot Care Fund Irrevocable Trust (the “Permanent Care Fund”), which comprise the statements of financial position as of June 30, 2018 and 2017, 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 the Permanent Care Fund. 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 the Archdiocese of Philadelphia Cemetery Permanent Lot Care Fund Irrevocable Trust as of June 30, 2018 and 2017, 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

October 2, 2018

STATEMENTS OF FINANCIAL POSITION

June 30,

	<u>2018</u>	<u>2017</u>
Assets		
Assets whose use is contractually committed to permanent maintenance:		
Investments	\$ 46,308,702	\$ 42,277,672
Total assets	<u>\$ 46,308,702</u>	<u>\$ 42,277,672</u>
Liabilities		
Accrued expenses	\$ 6,427	\$ 7,375
Due to Archdiocesan entities	<u>71,034</u>	<u>28,801</u>
Total liabilities	<u>77,461</u>	<u>36,176</u>
Net assets		
Unrestricted:		
Contractually committed to permanent maintenance	45,914,456	41,952,302
Temporarily restricted	302,435	274,844
Permanently restricted	<u>14,350</u>	<u>14,350</u>
Total net assets	<u>46,231,241</u>	<u>42,241,496</u>
Total liabilities and net assets	<u>\$ 46,308,702</u>	<u>\$ 42,277,672</u>

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

Archdiocese of Philadelphia Cemetery Permanent Lot Care Fund Irrevocable Trust

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2018

	Unrestricted - contractually committed to permanent maintenance	Temporarily restricted	Permanently restricted	Total
Revenues and gains				
Contributions to Permanent Care Fund	\$ 1,672	\$ -	\$ -	\$ 1,672
Investment income	530,307	3,655	-	533,962
Net realized gains on investments	146,413	1,009	-	147,422
Net unrealized gains on investments	<u>3,325,837</u>	<u>22,927</u>	<u>-</u>	<u>3,348,764</u>
Total revenues and gains	<u>4,004,229</u>	<u>27,591</u>	<u>-</u>	<u>4,031,820</u>
Expenses				
Administration expenses	2,000	-	-	2,000
Professional fees	<u>40,075</u>	<u>-</u>	<u>-</u>	<u>40,075</u>
Total expenses	<u>42,075</u>	<u>-</u>	<u>-</u>	<u>42,075</u>
Change in net assets	3,962,154	27,591	-	3,989,745
Net assets				
Beginning of year	<u>41,952,302</u>	<u>274,844</u>	<u>14,350</u>	<u>42,241,496</u>
End of year	<u>\$ 45,914,456</u>	<u>\$ 302,435</u>	<u>\$ 14,350</u>	<u>\$ 46,231,241</u>

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

Archdiocese of Philadelphia Cemetery Permanent Lot Care Fund Irrevocable Trust

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2017

	Unrestricted - contractually committed to permanent maintenance	Temporarily restricted	Permanently restricted	Total
Revenues and gains				
Contributions to Permanent Care Fund	\$ -	\$ 1,220	\$ -	\$ 1,220
Investment income	531,483	3,798	-	535,281
Net realized gains on investments	49,565	355	-	49,920
Net assets released from restriction	11,969	(11,969)	-	-
Net unrealized gains on investments	<u>5,033,724</u>	<u>35,966</u>	<u>-</u>	<u>5,069,690</u>
 Total revenues and gains	 <u>5,626,741</u>	 <u>29,370</u>	 <u>-</u>	 <u>5,656,111</u>
Expenses				
Administration expenses	16,970	-	-	16,970
Professional fees	<u>21,428</u>	<u>-</u>	<u>-</u>	<u>21,428</u>
 Total expenses	 <u>38,398</u>	 <u>-</u>	 <u>-</u>	 <u>38,398</u>
 Change in net assets	 5,588,343	 29,370	 -	 5,617,713
Net assets				
Beginning of year	<u>36,363,959</u>	<u>245,474</u>	<u>14,350</u>	<u>36,623,783</u>
End of year	<u>\$ 41,952,302</u>	<u>\$ 274,844</u>	<u>\$ 14,350</u>	<u>\$ 42,241,496</u>

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

STATEMENTS OF CASH FLOWS

Year ended June 30,

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Change in net assets	\$ 3,989,745	\$ 5,617,713
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Net realized and unrealized gains on investments	(3,496,186)	(5,119,610)
Contributions restricted for long-term purposes	(1,672)	(1,220)
Changes in assets and liabilities		
Accrued expenses and due to Archdiocesan entities	<u>41,285</u>	<u>34,176</u>
Net cash provided by operating activities	533,172	531,059
Cash flows from investing activities		
Purchase of investments	(1,501,414)	(1,627,229)
Proceeds from sale of investments	<u>966,570</u>	<u>1,094,950</u>
Net decrease in investments in Permanent Care Fund	<u>(534,844)</u>	<u>(532,279)</u>
Net cash used in investing activities	<u>(534,844)</u>	<u>(532,279)</u>
Cash flows from financing activities		
Contributions restricted for long-term purposes	<u>1,672</u>	<u>1,220</u>
Net cash provided by financing activities	<u>1,672</u>	<u>1,220</u>
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents		
Beginning of year	<u>-</u>	<u>-</u>
End of year	<u>\$ -</u>	<u>\$ -</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

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 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 June 2014, the Cemeteries Office’s perpetual care fund totaled \$36,000,000 in cash and investments. These assets were liquidated and moved into 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, upon which the Cemeteries Office resumes responsibility for ongoing and future perpetual care obligations of the cemeteries.

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.

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.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018 and 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

2. 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 C and D. Investment allocation decisions are the responsibility of the applicable Archdiocesan entity’s board or finance council.

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

3. Contributions

During the years ended June 30, 2018 and 2017, PNC Bank transferred assets to the Permanent Care Fund that were previously held in trusts for the benefit of certain cemeteries for which PNC Bank was acting as trustee. The Permanent Care Fund invested these funds with SEI and manages the accounts consistent with the intent of the original trust documents. For the years ended June 30, 2018 and 2017, the amount received by the Permanent Care Fund totaled \$-0- and \$1,220, respectively.

4. Income Tax Status

The Permanent Care Fund 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 USCCB group ruling and listing in the Official Catholic Directory. Accordingly, the Permanent Care Fund qualifies for the charitable contribution deduction.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018 and 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The Permanent Care Fund 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 Permanent Care Fund does not believe its financial statements include any material uncertain tax positions. The tax years ended June 30, 2015, 2016 and 2017 are still open to audit for both federal and state purposes.

5. 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. Actual results could differ from those estimates.

6. Risks and Uncertainties

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

7. 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, 2018. 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 Permanent Care Fund is evaluating 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 Permanent Care Fund is evaluating the impact of the new standard at this time.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018 and 2017

NOTE C - 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, 2018, the Permanent Care Fund'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	\$ 33,114,180	\$ 217,753	\$ 10,332	\$ 33,342,265
Catholic Values Fixed Income Fund	<u>12,877,737</u>	<u>84,682</u>	<u>4,018</u>	<u>12,966,437</u>
Investment in SEI Catholic Values Funds	<u>\$ 45,991,917</u>	<u>\$ 302,435</u>	<u>\$ 14,350</u>	<u>\$ 46,308,702</u>

At June 30, 2017, the Permanent Care Fund'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>

NOTE D - 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.

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018 and 2017

NOTE D - FAIR VALUE MEASUREMENTS - Continued

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 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 Permanent Care Fund 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 Permanent Care Fund by level within the fair value hierarchy, as of June 30, 2018:

	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
Assets				
Investments				
Investment in SEI Catholic Values Funds	\$ <u>46,308,702</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>46,308,702</u>
Total assets at June 30, 2018	\$ <u>46,308,702</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>46,308,702</u>

(Continued)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018 and 2017

NOTE D - FAIR VALUE MEASUREMENTS - Continued

The following table presents the fair values of the investments held by the Permanent Care Fund 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>

NOTE E - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Accumulated earnings for perpetual care of the cemeteries	\$ <u>302,435</u>	\$ <u>274,844</u>
	\$ <u>302,435</u>	\$ <u>274,844</u>

Permanently restricted net assets at June 30, 2018 and 2017 are restricted to:

	<u>2018</u>	<u>2017</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>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018 and 2017

NOTE F - NET ASSETS RELEASED FROM RESTRICTION

During the years ended June 30, 2018 and 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 \$-0- and \$11,969, respectively.

NOTE G - RELATED PARTY TRANSACTIONS

Due to related parties consists of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Due to Archdiocese of Philadelphia - Office of Catholic Cemeteries	\$ <u>71,034</u>	\$ <u>28,801</u>
	\$ <u><u>71,034</u></u>	\$ <u><u>28,801</u></u>

NOTE H - FUNCTIONAL EXPENSES

The following table summarizes program and supporting expenses for the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Program expenses	\$ -	\$ -
Supporting expenses	<u>42,075</u>	<u>38,398</u>
	\$ <u><u>42,075</u></u>	\$ <u><u>38,398</u></u>

NOTE I - SUBSEQUENT EVENTS

The Permanent Care Fund has evaluated its June 30, 2018 financial statements for subsequent events through October 2, 2018, the date the financial statements were available to be issued. The Permanent Care Fund is not aware of any subsequent event which would require recognition or disclosure in the financial statements.