

Financial Statements and Report of
Independent Certified Public
Accountants

Philadelphia Catholic Cemeteries, LLC

June 30, 2020 and 2019

Contents

	Page
Report of Independent Certified Public Accountants	3
Financial Statements	
Statements of financial position	5
Statements of activities and changes in net assets	6
Statements of cash flows	7
Notes to financial statements	8

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Philadelphia Catholic Cemeteries, LLC
Philadelphia, Pennsylvania

We have audited the accompanying financial statements of the Philadelphia Catholic Cemeteries, LLC ("PCC"), which comprise the statements of financial position as of June 30, 2020 and 2019, 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 the Philadelphia Catholic Cemeteries, LLC as of June 30, 2020 and 2019, 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.



Philadelphia, Pennsylvania
November 24, 2020

Philadelphia Catholic Cemeteries, LLC
STATEMENTS OF FINANCIAL POSITION

June 30,

	2020	2019
ASSETS		
Assets held for sale:		
Land	\$ 257,193	\$ 257,193
Inventories:		
Land held for burial privileges	10,587,110	10,658,559
Mausolea and columbaria	1,128,580	1,302,412
Land held pending conferral of burial privileges	643,128	643,128
Property and equipment, net	1,024,767	1,097,785
Total assets	\$ 13,640,778	\$ 13,959,077
LIABILITIES		
Accrued expenses and accounts payable	\$ 24,436	\$ 7,692
Due to Archdiocesan entities	610,423	500,070
Total liabilities	634,859	507,762
Net assets without donor restrictions	13,005,919	13,451,315
Total liabilities and net assets	\$ 13,640,778	\$ 13,959,077

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

Philadelphia Catholic Cemeteries, LLC

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Years ended June 30,

	<u>2020</u>	<u>2019</u>
Revenues and gains		
Rental farm income	\$ 10,001	\$ 12,798
Total revenues and gains	<u>10,001</u>	<u>12,798</u>
Expenses		
Costs of crypts and lots sold	245,282	211,581
Professional fees	119,097	136,658
Depreciation expense	73,018	93,848
Administration expense	18,000	18,000
Total expenses	<u>455,397</u>	<u>460,087</u>
Change in net assets	(445,396)	(447,289)
Net assets without donor restrictions, beginning of year	<u>13,451,315</u>	<u>13,898,604</u>
Net assets without donor restrictions, end of the year	<u>\$ 13,005,919</u>	<u>\$ 13,451,315</u>

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

Philadelphia Catholic Cemeteries, LLC

STATEMENTS OF CASH FLOWS

Years ended June 30,

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ (445,396)	\$ (447,289)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation expense	73,018	93,848
Changes in assets and liabilities		
Land held for burial privileges	71,449	64,100
Mausolea and columbaria	173,832	147,482
Accrued expenses and accounts payable	16,744	6,586
Due to Archdiocesan entities	110,353	135,273
Net cash used in operating activities	-	-
 NET DECREASE IN CASH AND CASH EQUIVALENTS	 -	 -
 Cash and cash equivalents, beginning of year	 	
 Cash and cash equivalents, end of year	 \$ -	 \$ -

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

Philadelphia Catholic Cemeteries, LLC

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

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.

Risks and Uncertainties

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (“COVID-19”) as a pandemic, which continues to spread throughout the United States. The spread of COVID-19 has caused significant volatility in U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies and, as such, PCC is unable to determine if it will have a material impact to its operations.

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.

Philadelphia Catholic Cemeteries, LLC

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 reported according to two classes of net assets based on the existence or absence of donor-imposed restrictions as follows: net assets without donor restrictions and net assets with donor restrictions. As of June 30, 2020, PCC had no net assets that are subject to donor-imposed restrictions.

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 and columbaria are amortized over available lots and crypts as burial and entombment privileges are sold by StoneMor.

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 net assets without donor restrictions. 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

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 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.

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.

Philadelphia Catholic Cemeteries, LLC

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Assets Held for Sale

PCC has certain land which is being marketed for sale as of June 30, 2020 and 2019. 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:

	<u>2020</u>	<u>2019</u>
All Saints Cemetery	\$ 177,190	\$ 177,190
Resurrection Cemetery	80,000	80,000
St. John Neumann Cemetery	3	3
	<u>\$ 257,193</u>	<u>\$ 257,193</u>

New Accounting Pronouncement

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, 2019. 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 is evaluating the impact of ASU 2014-09 at this time.

NOTE D - INVENTORIES

The following summary represents the various inventories at each cemetery as of June 30, 2020 and 2019:

<u>2020</u>	<u>Land held for burial privileges</u>	<u>Mausolea and columbaria</u>	<u>Land held pending conferral of burial privileges</u>
Holy Sepulchre Cemetery	\$ 390,987	\$ 99,874	\$ -
SS. Peter & Paul Cemetery	560,108	1,028,706	-
Resurrection Cemetery	281,262	-	-
St. John Neumann Cemetery	2,469,271	-	-
All Saints Cemetery	951,478	-	-
All Souls Cemetery	5,934,004	-	-
Holy Savior Cemetery	-	-	643,128
	<u>\$ 10,587,110</u>	<u>\$ 1,128,580</u>	<u>\$ 643,128</u>

Philadelphia Catholic Cemeteries, LLC

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

<u>2019</u>	<u>Land held for burial privileges</u>	<u>Mausolea and columbaria</u>	<u>Land held pending conferral of burial privileges</u>
Holy Sepulchre Cemetery	\$ 390,987	\$ 113,706	\$ -
SS. Peter & Paul Cemetery	587,222	1,188,706	-
Resurrection Cemetery	287,187	-	-
St. John Neumann Cemetery	2,482,902	-	-
All Saints Cemetery	951,591	-	-
All Souls Cemetery	5,958,670	-	-
Holy Savior Cemetery	-	-	643,128
	<u>\$ 10,658,559</u>	<u>\$ 1,302,412</u>	<u>\$ 643,128</u>

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment at June 30 consisted of:

	<u>2020</u>	<u>2019</u>
Equipment, furniture and fixtures	\$ 2,605,201	\$ 2,605,201
Buildings, roads and improvements	8,301,343	8,301,343
	<u>10,906,544</u>	<u>10,906,544</u>
Less: accumulated depreciation	<u>(9,881,777)</u>	<u>(9,808,759)</u>
	<u>\$ 1,024,767</u>	<u>\$ 1,097,785</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 each of the years ended June 30, 2020 and 2019 in relation to these services were \$18,000.

Due to Archdiocesan entities consists of the following at June 30:

	<u>2020</u>	<u>2019</u>
Due to Archdiocese of Philadelphia - Office of Catholic Cemeteries	\$ 610,423	\$ 500,070
	<u>\$ 610,423</u>	<u>\$ 500,070</u>

Philadelphia Catholic Cemeteries, LLC

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE G - FUNCTIONAL EXPENSES

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

	2020	2019
Program expenses		
Cost of crypts and lots sold	\$ 245,282	\$ 211,581
Depreciation expense	73,018	93,848
Supporting expenses		
Administrative expense	18,000	18,000
Professional fees	119,097	136,658
	<u>\$ 455,397</u>	<u>\$ 460,087</u>

NOTE H - LIQUIDITY

PCC is a "sole purpose entity" - the sole purpose being to hold title to eight cemeteries that were subject to the lease agreement and, therefore, has no liquid financial assets. Expenses incurred are paid by the Office of Catholic Cemeteries through a charge to the related party account. This liability will be paid when annual lease payments are received from StoneMor.

NOTE I - SUBSEQUENT EVENTS

FASB ASC 855, *Subsequent Events*, establishes the principles and requirements for evaluating and reporting subsequent events, including the period subject to evaluation for subsequent events, the circumstances requiring recognition of subsequent events in the financial statements, and the required disclosures. The Cemeteries Office has evaluated subsequent events through November 24, 2020, the date on which the financial statements were available for distribution, noting no items requiring accrual or disclosure in the financial statements.