

**ASSOCIATED CATHOLIC CEMETERIES**

FINANCIAL REPORT

JUNE 30, 2019

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**INDEPENDENT AUDITORS' REPORT**

Most Reverend Paul. D. Etienne  
Roman Catholic Archbishop of Seattle  
and the Board of Directors  
Associated Catholic Cemeteries  
Seattle, Washington

We have audited the accompanying financial statements of the Associated Catholic Cemeteries, a division of the Corporation of the Catholic Archbishop of Seattle, which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Associated Catholic Cemeteries as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

*Peterson Sullivan LLP*

October 10, 2019

## ASSOCIATED CATHOLIC CEMETERIES

### STATEMENT OF FINANCIAL POSITION

June 30, 2019

| ASSETS                                    | Operating     | Endowment     | Total         |
|---|---------------|---------------|---------------|
| Current Assets                            |               |               |               |
| Cash                                      | \$ 3,232,451  | \$ -          | \$ 3,232,451  |
| Investments                               | 7,035,671     |               | 7,035,671     |
| Accounts receivable                       | 3,698,290     |               | 3,698,290     |
| Inventories                               | 1,866,148     |               | 1,866,148     |
| Total current assets                      | 15,832,560    |               | 15,832,560    |
| Restricted cash equivalents               | 225,226       |               | 225,226       |
| Pre-need fund investments                 | 16,587,224    |               | 16,587,224    |
| Endowment care fund investments           |               | 34,306,991    | 34,306,991    |
| Accounts receivable, less current portion | 4,603,759     |               | 4,603,759     |
| Care fund receivables                     |               | 918,847       | 918,847       |
| Inventories, less current portion         | 2,451,199     |               | 2,451,199     |
| Prepaid commissions                       | 4,535,648     |               | 4,535,648     |
| Property and equipment, net               | 2,902,350     |               | 2,902,350     |
| Leased rental properties                  |               | 3,000,000     | 3,000,000     |
| Total assets                              | \$ 47,137,966 | \$ 38,225,838 | \$ 85,363,804 |
| LIABILITIES AND NET ASSETS                |               |               |               |
| Current Liabilities                       |               |               |               |
| Accounts payable and accrued expenses     | \$ 1,257,408  | \$ -          | \$ 1,257,408  |
| Deferred revenue, current portion         | 4,595,000     |               | 4,595,000     |
| Total current liabilities                 | 5,852,408     |               | 5,852,408     |
| Deferred revenue, less current portion    | 38,101,117    |               | 38,101,117    |
| Underwater contracts liability            | 439,120       |               | 439,120       |
| Total liabilities                         | 44,392,645    |               | 44,392,645    |
| Net Assets                                |               |               |               |
| Without donor restrictions                |               |               |               |
| Undesignated                              | 2,745,321     |               | 2,745,321     |
| Designated - care fund                    |               | 38,225,838    | 38,225,838    |
| Total net assets                          | 2,745,321     | 38,225,838    | 40,971,159    |
| Total liabilities and net assets          | \$ 47,137,966 | \$ 38,225,838 | \$ 85,363,804 |

See Notes to Financial Statements

## ASSOCIATED CATHOLIC CEMETERIES

### STATEMENT OF ACTIVITIES For the Year Ended June 30, 2019

|  | Operating      | Endowment        | Total            |
|--|----------------|------------------|------------------|
| Revenue  |                |                  |                  |
| Burial rights and other cemetery sales,<br>less surrenders and discounts | \$ 5,124,434   | \$ 672,158       | \$ 5,796,592     |
| Cost of burial rights and cemetery sales                                 | (1,968,593)    |                  | (1,968,593)      |
| Total burial rights and cemetery sales, net                              | 3,155,841      | 672,158          | 3,827,999        |
| Interest and dividends   | 629,930        | 145,735          | 775,665          |
| Rental income and other  | 98,664         | 261,519          | 360,183          |
|  | 3,884,435      | 1,079,412        | 4,963,847        |
| Expenses   |                |                  |                  |
| Sales and services   | 2,172,093      |                  | 2,172,093        |
| Cemetery maintenance   | 814,971        | 797,000          | 1,611,971        |
| Administration   | 603,781        |                  | 603,781          |
| Total expenses   | 3,590,845      | 797,000          | 4,387,845        |
| Change in net assets before<br>unrealized gains on investments           | 293,590        | 282,412          | 576,002          |
| Realized and Unrealized Gains on Investments                             |                | 1,528,061        | 1,528,061        |
| <b>Total change in net assets</b>  | <b>293,590</b> | <b>1,810,473</b> | <b>2,104,063</b> |
| Net Assets, beginning of year  | 2,451,731      | 36,415,365       | 38,867,096       |
| Net Assets, end of year  | \$ 2,745,321   | \$ 38,225,838    | \$ 40,971,159    |

See Notes to Financial Statements

**ASSOCIATED CATHOLIC CEMETERIES**

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2019

|                         | Program             |                      |                   | Total               |
|-------------------------|---------------------|----------------------|-------------------|---------------------|
|                         | Sales and Services  | Cemetery Maintenance | Administration    |                     |
| Personnel costs         | \$ 1,319,142        | \$ 854,263           | \$ 383,481        | \$ 2,556,886        |
| Depreciation            | 59,648              | 215,540              | 2,945             | 278,133             |
| Grounds supplies        |                     | 242,805              |                   | 242,805             |
| Taxes and licenses      | 204,369             |                      |                   | 204,369             |
| Advertising             | 194,705             |                      |                   | 194,705             |
| Bank fees               | 186,277             |                      | 3,701             | 189,978             |
| Utilities               | 54,734              | 104,238              |                   | 158,972             |
| Professional fees       |                     |                      | 105,884           | 105,884             |
| Insurance               | 29,721              | 56,028               | 18,991            | 104,740             |
| Repairs and maintenance |                     | 80,544               |                   | 80,544              |
| Computer equipment      | 21,926              |                      | 54,110            | 76,036              |
| Office expenses         | 74,004              |                      |                   | 74,004              |
| Dues and travel         | 15,031              |                      | 32,694            | 47,725              |
| Telephone               | 40,019              |                      | 1,975             | 41,994              |
| Miscellaneous           | 5,556               | 31,297               |                   | 36,853              |
| Liturgical expenses     | 35,151              |                      |                   | 35,151              |
| Fuel                    |                     | 27,256               |                   | 27,256              |
| Bad debt recoveries     | (68,190)            |                      |                   | (68,190)            |
| <b>Total expenses</b>   | <b>\$ 2,172,093</b> | <b>\$ 1,611,971</b>  | <b>\$ 603,781</b> | <b>\$ 4,387,845</b> |

See Notes to Financial Statements

## ASSOCIATED CATHOLIC CEMETERIES

### STATEMENT OF CASH FLOWS For the Year Ended June 30, 2019

|  | Operating    | Endowment    | Total        |
|--|--------------|--------------|--------------|
| Cash Flows from Operating Activities   |              |              |              |
| Reconciliation of change in net assets to net cash flows from operating activities         |              |              |              |
| Change in net assets   | \$ 293,590   | \$ 1,810,473 | \$ 2,104,063 |
| Adjustments to reconcile change in net assets to net cash flows from operating activities  |              |              |              |
| Depreciation (including \$49,281 reported as cost of burial rights and cemetery sales)     | 327,414      |              | 327,414      |
| Gain on sale of property and equipment   | (6,500)      |              | (6,500)      |
| Unrealized gains on investments  |              | (1,528,061)  | (1,528,061)  |
| Change in operating assets and liabilities:  |              |              |              |
| Accounts receivable  | (796,987)    | 69,941       | (727,046)    |
| Inventories  | 165,223      |              | 165,223      |
| Prepaid commissions  | (691,756)    |              | (691,756)    |
| Accounts payable and accrued expenses  | (12,665)     |              | (12,665)     |
| Deferred revenue   | 3,319,506    |              | 3,319,506    |
| Underwater contracts   | (117,873)    |              | (117,873)    |
| Net cash flows from operating activities   | 2,479,952    | 352,353      | 2,832,305    |
| Cash Flows from Investing Activities   |              |              |              |
| Net purchases of investments   | (893,142)    | (352,353)    | (1,245,495)  |
| Proceeds from sale of property and equipment   | 6,500        |              | 6,500        |
| Purchase of property and equipment   | (1,092,893)  |              | (1,092,893)  |
| Net cash flows from investing activities   | (1,979,535)  | (352,353)    | (2,331,888)  |
| Net change in cash and cash equivalents  | 500,417      |              | 500,417      |
| Cash and Cash Equivalents, beginning of year   | 2,957,260    |              | 2,957,260    |
| Cash and Cash Equivalents, end of year   | \$ 3,457,677 | \$ -         | \$ 3,457,677 |
| Cash and cash equivalents are presented on the statement of financial position as follows: |              |              |              |
| Cash   |              |              | \$ 3,232,451 |
| Restricted cash equivalents  |              |              | 225,226      |
|  |              |              | \$ 3,457,677 |
| Noncash Investing Activity   |              |              |              |
| Property and equipment purchases included in accounts payable                              |              |              | \$ 512,849   |

See Notes to Financial Statements

## NOTES TO FINANCIAL STATEMENTS

### **Note 1. Organization and Significant Accounting Policies**

#### **Organization**

The Associated Catholic Cemeteries ("ACC"), a division within the Corporation of the Catholic Archbishop of Seattle ("CCAS") operates four cemeteries: Calvary, established in 1889; Holyhood, established in 1953; Gethsemane, established in 1975; and St. Patrick's, transferred to ACC in 1989.

On July 2, 2019, ACC was separately incorporated as a Washington nonprofit corporation whose sole member is the Archbishop of Seattle.

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

#### **Financial Statement Presentation**

ACC reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. As of June 30, 2019, ACC has no net assets with donor restrictions so this class of net assets is not presented in the financial statements. Certain net assets without donor restrictions are designated for the care fund as a quasi-endowment. See Note 6.

#### **Functional Allocation of Expenses**

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, utilities, insurance, and personnel costs. Personnel costs are allocated based on management's estimates of time and effort spent on each function. Insurance is allocated based on the allocations of personnel costs. Expenses related to the property and utilities are based on usage. Depreciation is allocated based on the specified use of assets. Professional fees are 100% allocated to administration as these costs include audit and legal fees, as well as payroll and personnel benefit administration costs, which benefit the organization as a whole but are not attributable to any one program service.

#### **Fair Value Measurements**

Fair value is a market-based measurement determined based on assumptions that market participants would use in pricing an asset or liability. There are three levels that prioritize the inputs used in measuring fair value as follows:

- Level 1: Observable market inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Observable market inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3: Unobservable inputs where there is little or no market data, which require the reporting entity to develop its own assumptions.



## **Cash and Cash Equivalents**

For purposes of the statement of cash flows, ACC considers cash in checking, savings, and certain money market accounts to be cash. Other money market accounts and short-term, highly liquid investments are classified as investments in the statement of financial position.

Restricted cash equivalents consist of an assignment of funds in lieu of performance bonds related to capital improvements.

ACC maintains a significant portion of its cash and investments in accounts that are not insured.

## **Investments**

Investments and pre-need fund investments are maintained in an Archdiocesan Revolving Fund ("ARF") deposit account operated by CCAS and are reported at cost plus accrued interest.

Endowment care fund investments are held with Christian Brothers Investment Services, Inc. and are reported at net asset value per unit ("NAV"). The NAV is determined each business day by the administrator of the fund based on the fair value of the underlying investments. There are no unfunded commitments, and the investments can be redeemed on a daily basis.

NAV is a practical expedient to determine fair value. The practical expedient would not be used if it is determined to be probable that the investment would sell for an amount different from the reported NAV.

## **Accounts Receivable**

Accounts receivable are stated at the amount management expects to collect from outstanding contract balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts.

Pre-need sales contracts allow the customer some rights to cancellation with a partial refund. ACC establishes a reserve for cancellations for cemetery property sales based on historical cancellations and recent write-off activity. This reserve is recorded as bad debt expense.

Contracts for burial rights, cemetery services, and related merchandise provide for payments over an extended period of time with below-market interest rates. As a result, collection periods for accounts receivable range up to 60 months. Management measures accounts receivable at present value, which considers the promised cash flows and a market-based discount rate. At June 30, 2019, accounts receivable were discounted to their present values using a discount rate of 4.25%.

## **Prepaid Commissions**

ACC defers certain costs (e.g., commissions) that are incremental to obtaining pre-need cemetery contracts. ACC calculates the deferred commissions asset by dividing total commissions expense by total deferrable revenues and multiplying such percentage by the periodic change in gross deferred revenues. Such costs are recognized when the associated performance obligation is fulfilled based upon the net change in deferred revenues. ACC has elected the practical expedient of not recognizing incremental costs to obtain contracts that are fulfilled within the fiscal year. Prepaid commissions are classified as long-term on the statement of financial position, as ACC does not control the timing of the delivery of the merchandise or performance of the services since they are generally provided at the time of need.

## **Revenue Recognition**

ACC enters into contracts with customers providing burial and property rights, cemetery services, related merchandise, and care of purchased property on an at-need, pre-need, and post-need basis. Contracts specifically identify prices related to each performance obligation, disaggregated below for the year ended June 30, 2019:

|  |                     |
|--|---------------------|
| Burial and property rights revenue                                       | \$ 3,181,493        |
| Service and merchandise revenue  | 2,866,900           |
| Care fund income   | <u>672,158</u>      |
| Revenue from contracts with customers                                    | 6,720,551           |
| Surrenders   | (556,213)           |
| Discounts  | <u>(367,746)</u>    |
| Burial rights and other cemetery sales,<br>less surrenders and discounts | <u>\$ 5,796,592</u> |

ACC sells pre-need cemetery service and merchandise under contracts that provide for delivery of the merchandise and services at the time of need. Pre-need burial and property rights revenue is deferred until the license to the burial right has been transferred to the customer, which occurs when the contract is paid in full. Pre-need cemetery service and merchandise sales are recorded as cemetery revenue in the period the merchandise is delivered or the service is performed. Prior to that time, such sales are deferred. Cemetery service and merchandise sold at the time of need and post-need are recorded as cemetery revenue in the period the service is performed or the merchandise is delivered. ACC presents all taxes assessed by governmental authorities on its revenue-producing transactions (e.g., sales taxes), as well as the recoveries from its customers from these taxes, on a net basis in these financial statements.

Amounts collected from pre-need service and merchandise sales are required to be deposited into a pre-need liability fund (deferred revenue). When pre-need services and goods are delivered, amounts equal to the original deposits, along with any interest earned, are withdrawn from the pre-need liability fund and transferred to the operating fund.

Pursuant to ACC's contracts, a percentage of the price of the cemetery property is deposited into a care fund (the endowment care fund). This portion of the contract is recognized as revenue at the time the license to the burial right is transferred to the customer and deposited into the care fund, which uses investment income to pay for the future maintenance of ACC.

Deferred revenue related to pre-need contracts, disaggregated by performance obligation, consists of the following at June 30, 2019:

|   |                      |
|---|----------------------|
| Deferred burial and property rights revenue | \$ 9,553,404         |
| Deferred service and merchandise revenue    | 31,273,248           |
| Deferred care fund income                   | <u>1,869,465</u>     |
|   | <u>\$ 42,696,117</u> |

Deferred revenue is classified on the statement of financial position as follows:

|  |                      |
|--|----------------------|
| Deferred revenue, current portion      | \$ 4,595,000         |
| Deferred revenue, less current portion | <u>38,101,117</u>    |
|  | <u>\$ 42,696,117</u> |

Classification of deferred revenue as current or noncurrent is based on management's estimates of when performance obligations will be fulfilled. Financed contract terms range between 48 to 60 months; therefore, management uses an average contract term of 4.5 years to determine the current portion of deferred burial rights, property, and care revenue, as the performance obligations for these items are considered fulfilled upon transfer of rights to the customer (i.e., upon full receipt of payment). The current portion of deferred service and merchandise revenue is estimated based on a historical average of 15 years between pre-need contract initiation and performance of service or delivery of merchandise.

### **Cemetery Land and Cost of Burial Rights Sold**

Except for Calvary Cemetery, the cost of developed cemetery land sold is charged to operations on the basis of the number of square feet sold at the average cost of the total unsold square footage of the cemetery. The cost of cemetery land at Calvary Cemetery was fully charged to operations as burial rights sold in prior years. Additional land for burial rights was developed by the removal of roadways by cemetery employees in the regular course of caring for the cemetery, and no identifiable costs were determined for the additional land developed. The cost of the cemetery land for St. Patrick's Cemetery was determined by an independent appraisal during fiscal year 1990. The appraised value in 1990 for the undeveloped portion was \$14,550. Developments since 1990 have been recognized at cost. The costs of entombment rights sold are charged to operations on the basis of the number of units sold at the average developed cost per unit.

### **Loss Contract Impairment Analysis**

ACC performs an analysis to determine whether pre-need contracts are in a loss position, which would necessitate a charge to earnings. For this analysis, ACC compares the historical sales price that has been deferred with the estimated cost to deliver those contracts, which consist primarily of cemetery merchandise costs and salaries, supplies, and equipment related to the delivery of a pre-need contract. At June 30, 2019, ACC estimated that costs exceeded original sales prices on certain undelivered contracts and recorded an underwater contracts liability in the statement of financial position of \$439,120.

## **Inventories**

Merchandise inventories, including boxes, vault crypts, foundations, and vases, are stated at lower of cost or net realizable value under the first-in, first-out method. Inventories of cemetery land and mausoleums available for sale are stated at the cost of developing the sites. Inventories consist of the following at June 30, 2019:

|  |    |                         |
|--|----|-------------------------|
| Merchandise inventories                                | \$ | 61,484                  |
| Cemetery land  |    | 1,040,993               |
| Mausoleums and niches                                  |    | <u>763,671</u>          |
| Inventories, current                                   |    | 1,866,148               |
| Undeveloped land and lot development costs, noncurrent |    | <u>2,451,199</u>        |
|  | \$ | <u><u>4,317,347</u></u> |

## **Property and Equipment**

Property and equipment are recorded at cost when purchased and at fair value when contributed. ACC's policy is to capitalize assets with a cost greater than \$10,000. Depreciation is computed by the straight-line method over the estimated useful lives of the assets, ranging from 3 to 45 years. Donated property and equipment are considered unrestricted property unless specifically restricted by the donor. Restricted donated property and equipment are reclassified to net assets without donor restrictions when the restrictions are met.

## **Advertising**

Advertising costs are expensed as incurred.

## **Income Taxes**

ACC is a nonprofit organization and is exempt from federal income taxes.

## **Subsequent Events**

Management of the Archdiocese has evaluated subsequent events through the date these financial statements were available to be issued, which was October 10, 2019.

## **Note 2. Liquidity and Availability of Resources**

ACC strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. Financial assets in excess of daily cash requirements are invested in the operating fund in the ARF.

The following table reflects ACC's financial assets as of June 30, 2019:

|  |                             |
|--|-----------------------------|
| Cash and cash equivalents  | \$ 3,232,451                |
| Accounts receivable and care fund receivables  | 9,220,896                   |
| Investments  | <u>57,929,886</u>           |
| Total financial assets   | 70,383,233                  |
| Less: designated net assets  | (38,225,838)                |
| Less: noncurrent accounts receivable and care fund receivables                         | <u>(4,603,759)</u>          |
| Financial assets available to meet cash needs for general expenditures within one year | <u><u>\$ 27,553,636</u></u> |

### Note 3. Investments

Investments at June 30, 2019, consist of the following:

|   |                             |
|---|-----------------------------|
| Deposits in Archdiocesan Revolving Fund | \$ 23,622,895               |
| Money market mutual fund                | 468,063                     |
| Value equity mutual fund                | 10,953,763                  |
| Growth mutual funds                     | 14,302,984                  |
| International equity mutual funds       | 5,425,592                   |
| Small cap equity mutual fund            | <u>3,156,589</u>            |
|   | <u><u>\$ 57,929,886</u></u> |

These investments are presented on the statement of financial position as follows at June 30, 2019:

|                                 |                             |
|---------------------------------|-----------------------------|
| Investments                     | \$ 7,035,671                |
| Pre-need fund investments       | 16,587,224                  |
| Endowment care fund investments | <u>34,306,991</u>           |
|                                 | <u><u>\$ 57,929,886</u></u> |

### Note 4. Accounts Receivable

Accounts receivable are as follows at June 30, 2019:

|  |                            |
|--|----------------------------|
| Accounts receivable - current portion          | \$ 3,698,290               |
| Accounts receivable - due in one to five years | <u>6,284,348</u>           |
|  | 9,982,638                  |
| Allowance for doubtful accounts                | (110,360)                  |
| Unamortized discount                           | <u>(651,382)</u>           |
|  | <u><u>\$ 9,220,896</u></u> |

Receivables are presented on the statements of financial position as follows:

|                                |              |
|--------------------------------|--------------|
| Current accounts receivable    | \$ 3,698,290 |
| Accounts receivable, long-term | 4,603,759    |
| Care fund receivables          | 918,847      |
|                                | <hr/>        |
|                                | \$ 9,220,896 |
|                                | <hr/> <hr/>  |

#### **Note 5. Property and Equipment**

Property and equipment are as follows at June 30, 2019:

|                                 |                   |
|---------------------------------|-------------------|
| Land improvements and buildings | \$ 5,207,219      |
| Maintenance equipment           | 920,605           |
| Vehicles                        | 85,770            |
| Computer and office equipment   | 117,492           |
|                                 | <hr/>             |
|                                 | 6,331,086         |
| Less: accumulated depreciation  | <hr/> (3,428,736) |
|                                 | <hr/>             |
|                                 | \$ 2,902,350      |
|                                 | <hr/> <hr/>       |

#### **Note 6. Endowment Care Fund**

The ACC's endowment care fund consists of a designated fund established for cemetery maintenance. The endowment is made up of net assets without donor restrictions that were received under contracts with customers with the intent to hold the corpus balance while using the investment proceeds for maintenance of the cemeteries.

#### **Interpretation of Relevant Law**

Management interpreted the State of Washington Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of sufficient funds to ensure long-term care and maintenance of the cemeteries. As a result of this interpretation, ACC designates all care fund income received from contracts with customers as well as earnings on care fund investments. In accordance with UPMIFA, ACC considers the following factors in making a determination to appropriate or accumulate designated funds:

- The duration and preservation of the endowment fund
- The purposes of the endowment fund
- General economic conditions
- The possible effect of inflation or deflation
- The expected total return from income and the appreciation of investments
- Other resources of ACC
- The investment policies of ACC

## **Return Objectives and Risk Parameters**

ACC has adopted investment and spending practices for endowment assets that attempt to provide a predictable stream of funding for cemetery maintenance while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets received under contracts with customers as well as earnings on invested funds. Under this policy, the endowment investment objectives will be for the asset value, exclusive of contributions or withdrawals, to grow over time and earn, through a combination of investment income and capital appreciation, a rate of return (time-weighted total return) in excess of inflation, as measured by the Consumer Price Index and defined benchmarks. Allocations of endowment investments will change over time as circumstances, investment performance, economic, and other conditions change.

## **Strategies Employed for Achieving Objectives**

To satisfy its long-term rate-of-return objectives, ACC relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). ACC targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

## **Spending Policy and How the Investment Objectives Relate to the Spending Policy**

There are currently no formal investment or spending policies. ACC typically budgets for distribution each year no more than 3% of its endowment fund's three-year average fair value. This is consistent with ACC's objective to maintain the purchasing power of the endowment assets held in perpetuity for a specified term as well as to provide additional real growth through new deposits and investment return. Investment returns depend on many factors, and there can be no assurance that the planned returns will be achieved.

## **Funds with Deficiencies**

From time to time, the fair value of designated endowment funds may fall below required levels. As of June 30, 2019, there were no funds with deficiencies.

Changes in endowment net assets are as follows for the year ended June 30, 2019:

|  |                             |
|--|-----------------------------|
| Endowment net assets, beginning of year                    | \$ 36,415,365               |
| Investment return  |                             |
| Investment income  | 145,735                     |
| Net rental income  | 261,519                     |
| Net appreciation (realized and unrealized)                 | <u>1,528,061</u>            |
| Total investment return                                    | 1,935,315                   |
| Portion of cemetery sales recognized as care fund proceeds | 672,158                     |
| Appropriation of endowment net assets for expenditure      | <u>(797,000)</u>            |
| Endowment net assets, end of year                          | <u><u>\$ 38,225,838</u></u> |

## **Note 7. Lease Agreement**

ACC receives lease rental payments on an owned office building under a 75-year lease agreement. The lease agreement expires on November 30, 2053. This rental property is an investment by the endowment care fund, and as such, the rental receipts are recognized as revenue and recorded as designated net assets. The net rental income for the year ended June 30, 2019, was \$261,519.

Future rental receipts under the above lease are approximately as follows for the years ending June 30:

|            |    |             |
|------------|----|-------------|
| 2020       | \$ | 274,000     |
| 2021       |    | 274,000     |
| 2022       |    | 274,000     |
| 2023       |    | 274,000     |
| 2024       |    | 290,000     |
| Thereafter |    | 14,107,000  |
|            |    | <hr/>       |
|            | \$ | 15,493,000  |
|            |    | <hr/> <hr/> |

## **Note 8. Related Party Transactions**

### **Investments**

Investments are held in the ARF as disclosed in Note 1. Total funds held by the ARF amounted to \$23,622,895 as of June 30, 2019.

### **Insurance**

Insurance for the cemeteries is provided through an Archdiocesan insurance program. Funds are remitted to the Archdiocese to pay for the losses incurred and the necessary administrative services. Insurance costs were \$104,740 for the year ended June 30, 2019.

### **Salaries, Wages, and Benefits**

All ACC employees are employed through the Archdiocese. ACC reimburses the Archdiocese for payroll, benefits, and related costs. These costs totaled \$2,556,885 for the year ended June 30, 2019.