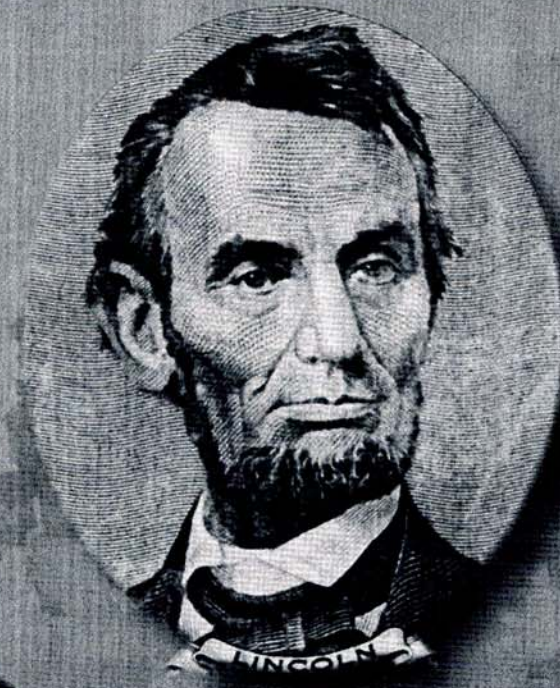


JANUARY 2004/\$5.95

American Cemetery®

The Independent Magazine of Cemetery Management

Annual Cemetery Financial Issue



Your Money ... Your Business

How to Read a Balance Sheet

BY LAWRENCE C. ANSPACH

Over the years, one of the more interesting things that keeps coming up is the fact that buyers and sellers and owners and even bankers do not understand how to read a balance sheet in this industry.

If you ask a perspective buyer or banker what he or she thinks of the property based on the balance sheet, typically their response might be, "The balance sheet looks great, this is a great deal!" They just committed

their first major mistake that may result in a false sense of security on the validity of the business transaction.

Ultimately, this poor decision may result in law suits being filed at a later date, failure to meet financial commitments with their lender, and owning something in which they thought they had, but did not.

In order to understand the "hidden" problems of a balance sheet, let us show you several examples of balance sheets and you decide which cemetery you think is the "best" deal. Try not to cheat and look at the answers!

So which cemetery would you buy?

The analysis of the Matrix Cemetery 1 is as follows: It is the policy of this cemetery not to write off bad and old accounts receivable, only \$100,000 is good out of the listed \$1,645,000.

The inventories shown of \$94,000 are at market value, the cost of the land is \$1,000 and the cost of the crypts and niches is \$4,300 for a total of \$5,300. Also, there is no remaining land left to develop. You can't determine this by the balance sheet, you need to see the cemetery.

The equipment includes a machine valued at \$100,000 after depreciation; this machine is not usable.

The intangible assets have no value. \$76,000 of the notes payable of \$200,000 is past due. Also, what is not shown are unrecorded liabilities of \$200,000 for undelivered memorials and vaults. This one item is probably the most overlooked item in performing due diligence.

The earned surplus of \$1,806,000 does not reflect the above \$1,545,000 in uncollectible accounts receivable, \$88,700 in inventories, \$100,000 in

MATRIX CEMETERY 1 BALANCE SHEET DECEMBER 31, 2003

ASSETS

CASH IN BANK		\$11,500
ACCOUNTS RECEIVABLE		1,645,000
INVENTORIES		
LAND	\$51,000	
CRYPTS AND NICHES	43,000	
TOTAL INVENTORIES		94,000
PREPAYMENTS		1,500
EQUIPMENT		
TOTAL	920,000	
LESS: RESERVE FOR DEPRECIATION	82,000	
NET EQUIPMENT		838,000
INTANGIBLE ASSETS		20,000
TOTAL ASSETS		\$2,610,000

LIABILITIES AND NET WORTH

LIABILITIES

NOTES PAYABLE		
(124,000 AFTER ONE YEAR)		\$200,000
ACCOUNTS PAYABLE		87,000
ACCRUED TAXES		17,000
TOTAL LIABILITIES		\$304,000

NET WORTH

CAPITAL STOCK ISSUED	\$300,000	
REVALUATION SURPLUS	200,000	
EARNED SURPLUS	1,806,000	
TOTAL NET WORTH		2,306,000
TOTAL LIABILITIES AND NET WORTH		\$2,610,000
ASKING PRICE		\$1,000,000

equipment, \$20,000 in intangible assets, and \$200,000 in unrecorded liabilities. This total is actually \$1,953,700 which reflects a net deficit of \$147,700. If you add the capital stock and revaluation surplus of \$500,000, the net as adjusted is only \$382,300.

Therefore, the asking price of \$1,000,000 is too high considering the net assets are only \$382,300.

Analysis of Matrix 2

The analysis of Matrix Cemetery 2 is as follows: Only \$12,000 of the accounts receivable is current, the balance of \$1,913,000 is old and has not been written off as uncollectible.

The inventories are all developed and carried at the market value of \$875,000 and should be reflected at the cost of \$8,000.

Due from subsidiary has no value because the subsidiary is in bankruptcy. The actual reconciliation shows a liability of \$100,000.

The notes payable are past due and the accounts payable are mostly past due. There is not enough cash to pay the notes and accounts payable.

Again, not shown as a liability are undelivered and unpaid memorials of \$200,000.

The net worth as shown is \$3,134,000. If you take into consideration the above facts of uncollectible receivables of \$1,913,000, inventories reduced by \$867,000, due from subsidiary of \$155,000 should actually be adjusted to a liability of \$255,000, and the undelivered memorials of \$200,000, the net as adjusted is a net deficit of \$1,000. If you add the capital stock of \$100,000, the net asset adjustment is \$99,000 compared to the asking price of \$1 million.

OK, by this point, you might have figured out that the Matrix Cemetery 3 is the best deal because the balance sheet is accurate as shown. There are no unrecorded liabilities, the inventories are shown at cost, and it includes plotted graves developed and not sold.

Hopefully by now, you can read a balance sheet and better understand what to look for and more impor-

tantly what to ask.

Checklist for Purchaser in Acquiring a Cemetery

We have listed 34 items that are not listed in order of importance that should be considered when performing due diligence for a cemetery or funeral home acquisition. Please keep in mind this is not an all inclusive list.

1) Check Articles of Incorporation and/or Association. Up to date? Need any changes? Are they adequate?

2) Check Constitution or By-laws. Are they current? Are changes needed?

3) Obtain copies of the rules and regulations that govern the cemetery. How current are they? Are there serious deficiencies?

4) Secure complete financial statements for the last 3 years.

5) Examine charter. Are powers implied or specified? Are the conveyed powers sufficiently broad, or do they need to be amended? Does the charter limit sales?

6) What year was the cemetery/fu-

neral home started?

7) Obtain number of interments/cases to date. Per year.

8) Obtain price lists of all products for sale. Include caskets, memorials, spaces, vaults, flowers, wreaths, evergreen blankets, vases, urns, crypts, niches, etc.

9) Obtain price lists of all services performed. How does this compare to competitor operations? Include service fees, transfer fees, interment fees, foundation and setting charges, planting fees.

10) Secure information on all sources of income. Have all taxes been paid including sales tax, real estate and withholding taxes.

11) Obtain listing of account receivables. Listing should be aged with receivables over 90 days delinquent discounted by one-third.

12) What are the liabilities? Undelivered but sold merchandise and services?

13) Are there any other debts?

14) What is the amount in the perpetual (endowment care trust fund),

MATRIX CEMETERY 2 BALANCE SHEET DECEMBER 31, 2003	
ASSETS	
CASH IN BANKS	\$110,000
ACCOUNTS RECEIVABLE	1,925,000
INVENTORIES	875,000
DUE FROM SUBSIDIARY	155,000
PREPAYMENTS	10,000
EQUIPMENT (NET OF DEPRECIATION)	115,000
TOTAL ASSETS	\$3,585,000
LIABILITIES AND NET WORTH	
LIABILITIES	
NOTES PAYABLE	\$325,000
ACCOUNTS PAYABLE	115,000
ACCRUED TAXES	11,000
TOTAL LIABILITIES	\$451,000
NET WORTH	
CAPITAL STOCK ISSUED	100,000
SURPLUS	3,034,000
TOTAL NET WORTH	3,134,000
TOTAL LIABILITIES AND NET WORTH	\$3,585,000
ASKING PRICE	\$1,000,000

preneed funeral trust? Where are these investments held? How are they being invested?

15) Are there any reserve funds? Retirement funds? Merchandise trusts?

16) Secure a current inventory of all office, caskets, merchandise and grounds equipment, noting the insured value, the condition of equipment and the age.

17) Itemize all fixed assets of cemetery/funeral home and estimate their real value. Are these facilities suffi-

cient or are additions or expansions urgently needed?

18) Look at conditions of the grounds. Have the roads and parking lot been maintained? Check trees and turf. Check conditions of buildings.

19) What is public opinion of the cemetery/funeral home?

20) Are there any special sections developed in the cemetery?

21) Ascertain history of cemetery/funeral home. Have there been unfortunate experiences in the past? Is there any current pending or threat-

ened litigation or such?

22) If property had any investment selling, determine the total amount of this, and secure a list of investment owners. Determine if this might be advantageous or disadvantageous. Is the cemetery obligated to repurchase any of this property?

23) What are sub-soil conditions? Any severe rock, sand or gravel underlay? Does soil percolate or might property be wet? Any severe topography or heavily wooded areas that might create expensive future development problems?

24) Are office records up to date? Has information been backed up on computer or microfilm? Is there access to a computer?

25) What is the existing inventory of cemetery space divided by lots, crypts, niches?

26) Obtain amount of undeveloped acreage available for future development.

27) Is there excess undeveloped acreage that could be sold separately?

28) Is the property centrally located? Readily accessible to cemeteries and funeral homes? Near expressways or good traffic arteries? Is the property near good subdivisions? Is the property in an area where population may decline or expand?

29) How many times has the property changed hands?

30) Are there key people employed by the property who could be retained? Has compensation and fringe benefits paid by prior management been adequate?

31) Is cemetery or funeral home personnel unionized? Are there any union problems?

32) Who will be drawing up a purchase contract?

33) Are there any environmental issues? Conduct a Phase 1 report.

34) What is the zoning of the cemetery or funeral home?

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MATRIX CEMETERY 3 BALANCE SHEET DECEMBER 31, 2003

ASSETS

CASH IN BANKS		\$1,100
ACCOUNTS RECEIVABLE		31,900
INVENTORIES		
LAND	\$5,700	
CRYPTS AND NICHES	8,300	
TOTAL INVENTORIES		14,000
PREPAYMENTS		1,000
TOTAL CURRENT ASSETS		48,000

FIXED ASSETS

EQUIPMENT	4,200	
LESS: RESERVE FOR DEPRECIATION	1,200	
NET FIXED ASSETS		3,000

OTHER ASSETS

UNDEVELOPED LAND	7,600	
INTANGIBLE ASSETS	2,400	
TOTAL OTHER ASSETS		10,000
TOTAL ASSETS		\$61,000

LIABILITIES AND NET WORTH

CURRENT LIABILITIES

NOTES PAYABLE	\$2,000	
ACCOUNTS PAYABLE	1,500	
ACCRUED TAXES	500	
TOTAL CURRENT LIABILITIES		\$4,000

NET WORTH

CAPITAL STOCK ISSUED	2,000	
EARNED SURPLUS	55,000	
TOTAL NET WORTH		57,000
TOTAL LIABILITIES AND NET WORTH		\$61,000
ASKING PRICE		\$100,000

Due Diligence List

prepared by William N. Anspach

I. CORPORATE DOCUMENTS FOR EACH ENTITY

1. Copy of articles of incorporation
2. Copy of by-laws
3. Copy of minute book
4. Copy of stock book, stock ledger and other records of the issuance of stock (need to know number of authorized shares and number of issued shares).
5. List of officers and members of board of directors
6. Copy of each license and permit

II. REAL AND PERSONAL PROPERTY

1. Legal description of real property
2. List of personal property, including major items of equipment, machinery, furniture and fixtures whether owned or leased. (If leased, enclose copy of lease.)
3. Inventory
 - (a) Number of unsold niches
 - (b) Number of unsold crypts (indicate whether crypt is single or double)
4. Knowledge of any zoning or other changes in law that will affect ability to operate the business

III. GRAVE SPACES AND FUNERAL SERVICES

1. Number of developed acres
2. Number of undeveloped acres
3. Number of remaining unsold grave spaces in the developed acres
4. List of unsold grave spaces by each section in the cemetery (if available)
5. Number of interments for 1998, 1999 and 2000
6. Number of funeral services for 1998, 1999 and 2000

IV. DOCUMENTS AND CONTRACTS

1. Copy of financial statements for 1998, 1999 and 2000
2. Copies of all current insurance policies. (For previous nine years, attach copy of the declarations pages showing name of carrier, policy number, coverages).
3. Copies of all material contracts and agreements which are presently in effect. Material contract involves more than \$1,000.
4. Copies of three most recent years of federal, state and local income tax returns. Have any of

the entities ever been audited by the IRS? If so, please provide details. Also provide name, address and telephone number of CPA for the business.

V. TRUST FUND INFORMATION

1. Copy of trust agreements
2. Financial institution holding trust assets
 - (a) Name, address and telephone number
 - (b) Account number
 - (c) Contract person
3. Most recent balance in each trust account
4. Copy of trust fund audit (if any) and report for the last two years
5. Ledger of all preneed contracts providing for delivery of merchandise or services and cemetery interment rights

VI. EMPLOYEE MATTERS

1. List of employees, wage scale and right to bonuses
2. Amount of accrued, but unused vacation days
3. Copies of all health and life insurance plans in effect
4. Copies of all profit sharing, pension plans and cafeteria plans
5. Copies of all Form W-2s for 2000

VII. ENVIRONMENTAL MATTERS

1. Number of underground storage tanks on property. If any, records of tests.
2. All communications from federal or state environmental authorities
3. Knowledge of any asbestos located on property or used in construction of any building
4. Knowledge of any PCBs (polychlorinated biphenyls) located on the property (generally exist if you have electrical transmission lines and towers running across the property)

VIII. MISCELLANEOUS

1. Description of any threatened or pending litigation
2. List of all automobiles, trucks and other vehicles and if available a copy of the title to each vehicle. If any vehicle is leased, please indicate.
3. List of all indebtedness other than current trade accounts payable

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