

With 25,000 Across the United States, I'd Say Accounting for Cemeteries Is Pretty Important

by Daniel M. Isard, MSFS

CAN THERE BE A MORE BORING SUBJECT to discuss during a worldwide pandemic than accounting? If that is what you are thinking, I disagree. Accounting is the oxygen to keep your business alive. You don't understand it, so you denigrate its existence. Invest eight minutes into reading this article. If I have not changed your opinion, send me an e-mail yelling at me for wasting eight minutes of your time. If I have succeeded, go out and get a tattoo that says, "Accountants are cool!"

The problem with your lack of appreciation for accounting is because your accountant is not making it important. Most cemetery managers think there are three reasons for accounting:

1. Tax Return Accuracy
2. Regulatory Compliance
3. Trust Management

If this is your honest opinion, that is fine. It is just like saying, when you go into a restaurant, you want the cook to give you food that doesn't kill you. The bar is set too low in both examples.

The number-one reason for embracing accounting is to understand how your business is being run. That means an awareness of what is happening now and what needs to be changed. To do that, you must look at accounting and operating results. A good accountant does that. Yours may not.

If you are running a for-profit cemetery, your failure to understand the depth of your accounting can be costing you money. You are losing profit and long-term value. If you are running a nonprofit cemetery as a manager or supervising as a board member, you don't have to worry about value. You do have to worry about being sued by lot holders or other beneficial interest holders.

If you are not paying attention to the accounting and the operating results, that is a breach of your fiduciary responsibilities. That means you can be sued individually.

Do I have your attention now?

**If you ask you
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Accounting Basics

There are about 25,000 cemeteries in the United States. About 7,500 are for-profit and the remaining 17,500 are nonprofit (municipal, military, religious, benevolent association, unregistered family, etc.). All should do accounting the same way. Unfortunately, most have accountants who only work on one cemetery. Therefore, they have never taken the time to research the proper Chart of Accounts and Defined Terms.

One cemetery manager we started doing the accounting for was not declaring the opening and closings as revenue. When we spoke to the now-former CPA, she told us, "I researched it and found that opening and

closings are a cash advance item and therefore an exchange." When we asked how she researched it, unfortunately, she told us she spoke to a funeral home. She didn't understand a cash advance for a funeral home is revenue for a cemetery.

Cemeteries have Generally Accepted Accounting Principles (the acronym GAAP is the governing standard). GAAP is a common set of accounting principals that are set by the Financial Accounting Standards Board (FASB).

The purpose is to create consistency within accounting and specifically within different Standard Industry Codes. It creates consistent behavior by accountants across all industries and specifically within each industry. It provides for consistent entries period by period for each client.

Public companies must use GAAP. It is an option for private companies. However, even if not using GAAP, private companies can use Consistently Applied Accounting Principles (known as CAAP). Not using GAAP or CAAP leads to CRAP—Constantly Redoing Accounting Principals.

If you ask your accountant "do we report our income on GAAP, CAAP or something else?" and you are met with a shrug of the shoulders, it is time to start interviewing new accountants.

Tax Accounting vs. Cash Flow Accounting

There are many reports a good accountant will produce for a client. The two that most people understand are Balance Sheet and Profit/Loss Statement (sometimes referred to as "Income Statement"). However, there are other reports that can be produced. Maybe the most important is the Cash Flow report.

Cemeteries are dealers of their own inventory. As such, they must file their taxes on the Accrual Basis of reporting. The Accrual Basis means you recognize revenue when you have the right to receive the revenue (even if you are getting paid over time); and you recognize expenses when you have the obligation to pay them.

The Cash Basis recognizes revenue when you receive the cash and deducts the expense when you pay the expense. Most individuals are on the Cash Basis of accounting for their personal tax returns.

So why should your accountant produce a Cash Flow report if you are going to be taxed on the Accrual Basis? Let me take you back 25 or so years to a public company that owned funeral homes and cemeteries. It was filing taxes on Accrual Basis and was conforming to GAAP.

However, when it tried to bolster revenue, the company did it by pushing advance cemetery sales. Almost 75% of advance cemetery sales are installment sales. Imagine it made a \$2,000 sale and got 20% down (\$400). It paid out \$500 in commission, had another \$100/sale in advertising and marketing costs and then paid about \$400 in income taxes per sale.

If you are following, the company brought in only 75% of advance sales, \$400, but paid out \$900! The thing that was supposed to help caused a hemorrhage on the company's cash flow!

How do you know that you are not inadvertently doing the same?

Cemeteries Are Unique to Accounting

Very few businesses routinely use segregated trusts as part of their business model. Cemeteries typically have two or three. The Perpetual (or Endowment) Care Trust is most unusual in a business. The Merchandise Trust and the Service Trust (aka Opening/Closing Trust) also are unique. Each of these must be accounted for.

In the Perpetual Care Trust, we must do two things. First, we must balance for regulatory purposes the annual deposits and the earnings. Secondly, we must show the distribution of the earnings.

The Merchandise Trust and the Service Trust have a similar need to balance the deposit (versus amount retained) and the ultimate distribution of principal as merchandise or services are delivered. We must again recognize the earnings on the invested corpus and the distribution of those earnings.

All of this makes a cemetery a more complex entity to do accounting for.

It should not be trusted to the lowest bidder!

Good Accounting

Good accounting is not just getting the taxes filed on time. It is giving management the information and explanation of the operation of their business in a timely fashion so changes can be made, if needed. Good accounting blends the accrual method with the cash flow method to help a company understand the changes in its cash positions, accounts receivables, and inventory, with liabilities. The person that usually acts to translate all this for a client is the client's Chief Financial Officer (CFO). Very few cemeteries have a CFO because they can't afford one. However, the accountant should communicate this to the client.

During a pandemic, we have a sync wave of activity. As the death toll peaks and then ebbs, the business goes through these 60- to 90-day periods of exhaustion to catch up. Most of all, the cemetery must have adequate cash reserves or loans. The government has provided a short-term loan program to aid with staffing called the Payroll Protection Program (PPP) loan. For most of our clients, this loan helped by providing about 2½ months of payroll relief.

The longer-term loan program is the Economic Injury Disaster Loan (EIDL). This is a low-interest loan program with a repayment term of 30 years. Both help provide for the maintenance of cash. A good accountant should have helped you apply for both loans. Why both loans? Because you don't want to run out of cash during a pandemic.

Most accountants are focused on audit issues. Audit issues are recording the data

of what happened. That is like driving while looking in the rear-view mirror rather than looking forward through the windshield. Good accountants, like good drivers, can do both.

So, did I respectfully fill your last eight minutes? ☑



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