

A photograph of a cemetery during autumn. The trees are covered in vibrant yellow and orange leaves. In the foreground, several grey stone tombstones are visible, some with American flags. The ground is covered in fallen leaves. A large yellow circle is overlaid on the top half of the image, containing the main title text.

Acquiring or Selling a Cemetery or Funeral Home? How Accurate is the Trusting System?

**As a buyer, are you
paying too much for
hidden liabilities? As a
seller, do you know
what potential
liabilities exist?**

How Accurate is Your Pre-Need Trust Data?

If you utilize trusts to fund your pre-need liabilities or are considering acquiring any cemetery or funeral home that does, how certain are you that the amounts in trust will cover the contract liabilities? Will you be left “holding the bag” sometime in the future when existing contracts are delivered?

What Are the Potential Problems with Pre-Need Trust Data?

Accounting for cemeteries and trusts can be complicated. When a customer pre-plans their cemetery arrangements and/or funeral services, the cemetery or funeral home owner has made a sale that may be delivered within one day, if the customer is very unlucky, or potentially more than 25 years later. Revenue is not recognized on most pre-need merchandise and services until they are delivered to the customer. So, the accounting process can take a long time. Accounting for these pre-need items involves setting up a receivable and a deferred revenue (liability account). As cash is collected, the receivable is credited.

Depending on the laws in the state where a cemetery is located, as cash is collected, a certain percentage of cash collected has to be deposited into trust to fund the future delivery of the merchandise or services. The idea behind trusting is that the funds should be there when delivery is necessary by depositing the expected cost now and/or earning interest on these funds to cover any inflation or other price increases.

Problems that occur over the years include, but may not be limited, to the following items:

- Accounting computer systems complications or errors
- Amounts not being deposited into trust properly
- Amounts being withdrawn from trust improperly
- Non-adherence to changes in state trusting laws and or changes in the trusting laws not be implemented within accounting/trusting systems correctly or at all
- Amounts deposited into trust not covering the current costs of delivering pre-need items sold in the past, due to inflation
- Numerous staff members involved in the process, sometimes leading to errors.

How Does This Affect Value?

If there are accounting or trust issues, you may be paying too much for the cemetery or funeral home. If you are the owner of the cemetery or funeral home, you may be unknowingly overvaluing your company, passing on liabilities and not complying with terms of a potential sales contract.

How MKS&H Can Help

We sample your trust and accounting system data to provide an initial estimate of its accuracy. If the results of your initial sample are positive, you may feel confident enough to stop testing. If issues or errors are found, then we can provide guidance on whether more due diligence related to the trust system data will be beneficial. MKS&H has been working with cemetery and funeral home trusts for over 30 years and has attained unique experience dealing with trusts. We think you will find our initial sample testing of the trust data and related liabilities to be very cost efficient. Our due diligence efforts related to the trust data will provide you with valuable insight on potentially hidden liabilities within your target of acquisition or your own company. Talk with your MKS&H advisor today to make sure you aren't left “holding the bag.”