STONEMOR PARTNERS LP
Form 10-Q/A
November 09, 2016


**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

# FORM 10-Q/A

**Amendment No. 1**

**(Mark One)**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2016**

**or**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from                    to                    .**

**Commission File Number: 001-32270**

**STONEMOR PARTNERS L.P.**

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Delaware** | **80-0103159** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **3600 Horizon Boulevard Trevose, Pennsylvania** | **19053** |
| **(Address of principal executive offices)** | **(Zip Code)** |

**(215) 826-2800**

**(Registrant s telephone number, including area code)**

**Not Applicable**

**(Former name, former address and former fiscal year, if changed since last report)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large accelerated filer | Accelerated filer |
| Non-accelerated filer (Do not check if a smaller reporting company) | Smaller reporting company |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of the registrant s outstanding common units at August 1, 2016 was 35,439,047.

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## Explanatory Note

We are filing this Amendment No. 1 to our quarterly report on Form 10-Q ( Form 10-Q/A ) for the period ended June 30, 2016 which was originally filed on August 5, 2016 ( Original Filing ), to restate the Partnership s consolidated financial statements as of June 30, 2016 and December 31, 2015 and for both the three and six months ended June 30, 2016 and 2015, as well as the related notes included in the Original Filing ( Restatement ).

This Form 10-Q/A contains only Item 1 (Financial Statements), Item 2 (Management s Discussion and Analysis of Financial Condition and Results of Operations), Item 4 (Controls and Procedures) of Part I and Item 6 (Exhibits) of Part II , and items including information not affected by the Restatement have not been repeated in this Form 10-Q/A.

The Restatement corrects accounting errors related to:

1) The allocation of net loss to the General Partner and the limited partners for the purposes of determining the general partner s and limited partners capital accounts presented within Partners capital, and the corresponding effect on net loss per limited partner unit (basic and diluted) for each of the three and six months ended June 30, 2016 and 2015;

2) The presentation of certain components of Cemetery property , Property and equipment, net of accumulated depreciation , Deferred cemetery revenues, net , Merchandise liability , Accounts payable and accrued liabilities and Common limited partners interest as of June 30, 2016 and December 31, 2015;

3) The presentation of Cemetery merchandise revenues , Cemetery service revenues , and Cost of goods sold related to assumed performance obligations from acquisitions for each of the three and six months ended June 30, 2016 and 2015;

4) The recording of incorrect amounts of investment revenues and expenses related to merchandise and perpetual care trusts on the consolidated statement of operations and the incorrect tracking of perpetual care-trusting obligations on the consolidated balance sheets;

5) The recognition of incorrect amounts of revenue from deferred pre-acquisition contracts in the consolidated statements of operations based on inaccurate system inputs;

6) Other adjustments principally relating to the recognition, accuracy and/or classification of certain amounts in Deferred cemetery revenues, net , Merchandise liabilities , and Other current assets ; and

7) The corresponding effect of the foregoing accounting errors on the Partnership s income tax accounts, consolidated statement of partners capital, consolidated statement of cash flows, and the related notes thereto, disclosed in the Partnership s consolidated financial statements as of June 30, 2016 and 2015

and for each of the three and six months ended June 30, 2016 and 2015 included in Item 1 Financial Statements (unaudited) to this Form 10-Q/A.

Note 2, *Restatement of Previously Issued Consolidated Financial Statements,* in the Partnership s consolidated financial statements included in Item 1 provides further information regarding the Restatement. Item 4 Controls and Procedures to this Form 10-Q/A discloses the material weaknesses in the Partnership s internal controls associated with the Restatement, as well as management s conclusion that the Partnership s internal controls over financial reporting were not effective as of December 31, 2015 and June 30, 2016. As disclosed therein, management is currently evaluating the changes needed in the Partnership s internal controls over financial reporting to remediate these material weaknesses.

This Form 10-Q/A does not reflect events occurring after the filing of the Original Filing and does not substantively modify or update the disclosures therein other than as required to reflect the adjustments described above and to state our current address of principal executive offices on the cover page of Form 10-Q/A. See Note 2 to the accompanying consolidated financial statements, set forth in Item 1 of this Form 10-Q/A, for additional information.

We are also filing currently dated certifications from our Chief Executive Officer and Chief Financial Officer as Exhibits 31.1, 31.2, 32.1, and 32.2 to this Form 10-Q/A.

Unless the context otherwise requires, references to we, us, our, StoneMor, the Company, or the Partnership a StoneMor Partners L.P. and its subsidiaries.

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## Part I Financial Information

## ITEM 1. FINANCIAL STATEMENTS

### STONEMOR PARTNERS L.P.

### CONSOLIDATED BALANCE SHEETS

**(in thousands)**

**(unaudited)**

| | June 30, 2016 | December 31, 2015 (As restated - see Note 2) |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 9,436 | $ 15,153 |
| Accounts receivable, net of allowance | 74,231 | 68,415 |
| Prepaid expenses | 7,037 | 5,367 |
| Other current assets | 21,823 | 22,241 |
| Total current assets | 112,527 | 111,176 |
| Long-term accounts receivable, net of allowance | 95,121 | 95,167 |
| Cemetery property | 333,859 | 334,457 |
| Property and equipment, net of accumulated depreciation | 114,790 | 116,127 |
| Merchandise trusts, restricted, at fair value | 494,596 | 464,676 |
| Perpetual care trusts, restricted, at fair value | 321,700 | 307,804 |
| Deferred selling and obtaining costs | 118,410 | 111,542 |
| Deferred tax assets | 181 | 181 |
| Goodwill | 70,572 | 69,851 |
| Intangible assets | 66,098 | 67,209 |
| Other assets | 18,341 | 16,167 |
| Total assets | $ 1,746,195 | $ 1,694,357 |
| **Liabilities and Partners Capital** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 33,660 | $ 29,989 |
| Accrued interest | 1,473 | 1,503 |
| Current portion, long-term debt | 5,373 | 2,440 |
| Total current liabilities | 40,506 | 33,932 |
| Long-term debt, net of deferred financing costs | 277,854 | 316,399 |
| Deferred revenues | 868,194 | 815,421 |
| Deferred tax liabilities | 17,828 | 17,747 |

| | | |
|---|---|---|
| Perpetual care trust corpus | 321,700 | 307,804 |
| Other long-term liabilities | 24,209 | 21,508 |
| Total liabilities | 1,550,291 | 1,512,811 |
| Commitments and contingencies | | |
| **Partners Capital** | | |
| General partner interest | (632) | 15 |
| Common limited partners interests | 196,536 | 181,531 |
| Total partners capital | 195,904 | 181,546 |
| Total liabilities and partners capital | $ 1,746,195 | $ 1,694,357 |

See Accompanying Notes to the Unaudited Consolidated Financial Statements.

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**STONEMOR PARTNERS L.P.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**(in thousands, except per unit data)**

**(unaudited)**

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | | (As restated - see Note 2) | | |
| **Revenues:** | | | | |
| Cemetery: | | | | |
| Merchandise | $ 37,855 | $ 38,999 | $ 70,623 | $ 68,402 |
| Services | 13,676 | 15,367 | 27,139 | 29,924 |
| Investment and other | 12,012 | 16,653 | 26,387 | 27,926 |
| Funeral home: | | | | |
| Merchandise | 6,569 | 6,250 | 14,025 | 13,325 |
| Services | 8,170 | 7,244 | 17,037 | 15,429 |
| Total revenues | 78,282 | 84,513 | 155,211 | 155,006 |
| **Costs and Expenses:** | | | | |
| Cost of goods sold | 12,042 | 13,333 | 22,762 | 23,162 |
| Cemetery expense | 17,485 | 19,279 | 33,341 | 35,544 |
| Selling expense | 16,391 | 15,769 | 30,967 | 29,679 |
| General and administrative expense | 8,993 | 9,192 | 18,197 | 18,521 |
| Corporate overhead | 9,737 | 10,429 | 20,048 | 19,512 |
| Depreciation and amortization | 3,155 | 2,944 | 6,220 | 5,896 |
| Funeral home expenses: | | | | |
| Merchandise | 1,835 | 2,066 | 3,984 | 4,442 |
| Services | 6,151 | 5,703 | 12,602 | 11,296 |
| Other | 4,746 | 4,380 | 9,886 | 8,561 |
| Total cost and expenses | 80,535 | 83,095 | 158,007 | 156,613 |
| Operating income (loss) | (2,253) | 1,418 | (2,796) | (1,607) |
| Other gains (losses), net | (191) | | (1,073) | |
| Interest expense | (5,707) | (5,770) | (11,497) | (11,233) |
| Loss before income taxes | (8,151) | (4,352) | (15,366) | (12,840) |
| Income tax benefit (expense) | (500) | (292) | (760) | (314) |
| Net loss | $ (8,651) | $ (4,644) | $ (16,126) | $ (13,154) |
| General partner s interest | $ 1,085 | $ 899 | $ 2,173 | $ 1,584 |

| | | | | |
|---|---|---|---|---|
| Limited partners interest | $ (9,736) | $ (5,543) | $ (18,299) | $ (14,738) |
| Net loss per limited partner unit (basic and diluted) | $ (0.28) | $ (0.19) | $ (0.54) | $ (0.50) |
| Weighted average number of limited partners units outstanding (basic and diluted) | 34,837 | 29,286 | 33,688 | 29,258 |

See Accompanying Notes to the Unaudited Consolidated Financial Statements.

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**STONEMOR PARTNERS L.P.**

**CONSOLIDATED STATEMENT OF PARTNERS CAPITAL**

**(dollars in thousands)**

**(unaudited)**

| | Outstanding Common Units | Partners Capital Common Limited Partners | Partners Capital General Partner | Total |
|---|---|---|---|---|
| | | (As restated - see Note 2) | | |
| December 31, 2015 | 32,108,782 | $ 181,531 | $ 15 | $ 181,546 |
| Issuance of common units | 3,203,682 | 77,345 | | 77,345 |
| Common unit awards under incentive plans | 9,293 | 820 | | 820 |
| Net loss | | (18,299) | 2,173 | (16,126) |
| Cash distributions | | (41,883) | (2,820) | (44,703) |
| Unit distributions paid in kind | 117,290 | (2,978) | | (2,978) |
| June 30, 2016 | 35,439,047 | $ 196,536 | $ (632) | $ 195,904 |

See Accompanying Notes to the Unaudited Consolidated Financial Statements.

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**STONEMOR PARTNERS L.P.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(in thousands)**

**(unaudited)**

| | Six months ended June 30, 2016 | 2015 (As restated - see Note 2) |
|---|---|---|
| **Cash Flows From Operating Activities:** | | |
| Net loss | $ (16,126) | $ (13,154) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Cost of lots sold | 4,443 | 4,917 |
| Depreciation and amortization | 6,220 | 5,896 |
| Non-cash compensation expense | 820 | 547 |
| Non-cash interest expense | 1,534 | 1,467 |
| Other gains (losses), net | 1,073 | |
| Changes in assets and liabilities: | | |
| Accounts receivable, net of allowance | (5,867) | (9,469) |
| Merchandise trust fund | (10,517) | (23,478) |
| Other assets | (3,740) | (4,352) |
| Deferred selling and obtaining costs | (6,868) | (7,483) |
| Deferred revenue | 32,516 | 43,755 |
| Deferred taxes (net) | 81 | (129) |
| Payables and other liabilities | 4,890 | 5,458 |
| Net cash provided by operating activities | 8,459 | 3,975 |
| **Cash Flows From Investing Activities:** | | |
| Cash paid for capital expenditures | (7,504) | (7,250) |
| Cash paid for acquisitions | (1,500) | |
| Proceeds from asset sales | 1,848 | |
| Net cash used in investing activities | (7,156) | (7,250) |
| **Cash Flows From Financing Activities:** | | |
| Cash distributions | (44,703) | (36,297) |
| Proceeds from borrowings | 38,744 | 56,823 |
| Repayments of debt | (75,247) | (14,215) |
| Proceeds from issuance of common units | 74,537 | |
| Cost of financing activities | (351) | (34) |
| Net cash provided by (used in) financing activities | (7,020) | 6,277 |

| | | | | |
|---|---|---|---|---|
| **Net increase (decrease) in cash and cash equivalents** | | (5,717) | | 3,002 |
| **Cash and cash equivalents - Beginning of period** | | 15,153 | | 10,401 |
| **Cash and cash equivalents - End of period** | $ | 9,436 | $ | 13,403 |
| **Supplemental disclosure of cash flow information:** | | | | |
| Cash paid during the period for interest | $ | 9,994 | $ | 9,551 |
| Cash paid during the period for income taxes | $ | 2,325 | $ | 3,516 |
| **Non-cash investing and financing activities:** | | | | |
| Acquisition of assets by financing | $ | 137 | $ | 242 |

See Accompanying Notes to the Unaudited Consolidated Financial Statements.

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**STONEMOR PARTNERS L.P.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2016**

**(Unaudited)**

## 1. GENERAL

*Nature of Operations*

StoneMor Partners L.P. (the Partnership ) is a provider of funeral and cemetery products and services in the death care industry in the United States. As of June 30, 2016, the Partnership operated 307 cemeteries in 27 states and Puerto Rico, of which 276 are owned and 31 are operated under lease, management or operating agreements. The Partnership also owned and operated 107 funeral homes in 19 states and Puerto Rico.

*Basis of Presentation*

The accompanying consolidated financial statements, which are unaudited except for the balance sheet at December 31, 2015, which is derived from audited financial statements, are presented in accordance with the requirements of Form 10-Q and accounting principles generally accepted in the United States ( GAAP ) for interim reporting. They do not include all disclosures normally made in financial statements contained in Form 10-K. In management s opinion, all adjustments necessary for a fair presentation of the Partnership s financial position, results of operations and cash flows for the periods disclosed have been made. These interim consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto presented in Amendment No. 1 to the Partnership s Annual Report on Form 10-K/A for the year ended December 31, 2015. Certain amounts in the prior year s financial statements have been reclassified to conform to the current year presentation. The results of operations for the three and six months ended June 30, 2016 may not necessarily be indicative of the results of operations for the full year ending December 31, 2016.

*Principles of Consolidation*

The unaudited consolidated financial statements include the accounts of each of the Partnership s wholly-owned subsidiaries. These statements also include the accounts of the merchandise and perpetual care trusts in which the Partnership has a variable interest and is the primary beneficiary. The Partnership operates 31 cemeteries under long-term lease, operating or management contracts. The operations of 16 of these managed cemeteries have been consolidated.

The Partnership operates 15 cemeteries under long-term leases and other agreements that do not qualify as acquisitions for accounting purposes. As a result, the Partnership did not consolidate all of the existing assets and liabilities related to these cemeteries. The Partnership has consolidated the existing assets and liabilities of the merchandise and perpetual care trusts associated with these cemeteries as variable interest entities since the Partnership controls and receives the benefits and absorbs any losses from operating these trusts. Under the long-term leases, and other agreements associated with these properties, which are subject to certain termination provisions, the Partnership is the exclusive operator of these cemeteries and earns revenues related to sales of merchandise, services, and interment rights, and incurs expenses related to such sales, including the maintenance and upkeep of these cemeteries. Upon termination of these contracts, the Partnership will retain all of the benefits and related contractual obligations incurred from sales generated during the contract period. The Partnership has also recognized the existing performance obligations that it assumed as part of these agreements.

*New Accounting Pronouncements*

In the second quarter of 2014, the Financial Accounting Standards Board ( FASB ) issued Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) ( ASU 2014-09 ), which supersedes the revenue recognition requirements in Topic 605 Revenue Recognition and most industry-specific guidance. The core principle of ASU 2014-09 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. During the third quarter of 2015, Update No. 2015-14, Revenue from Contracts with Customers (Topic 606) was released, deferring the effective date of the amendments to annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early application is permitted, only as of an annual reporting period beginning after December 15, 2016. During the first quarter of 2016, Update No. 2016-08, Revenue from Contracts with Customers (Topic 606) was released, which clarifies the implementation guidance on principal versus agent considerations. During the second quarter of 2016, Update No. 2016-10, Revenue from Contracts with Customers (Topic 606) was released, which clarifies the implementation guidance on identifying performance obligations. The FASB also issued Update No. 2016-12, Revenue from Contracts with Customers (Topic 606) ( ASU 2016-12 ). The core principle of ASU 2016-12 is to narrow scope improvements and practical expedients by clarifying the collectability criteria for customer collection exclusions representing an improvement over previous guidance. The Partnership will adopt the requirements of these updates upon the effective date of January 1, 2018, and is evaluating the potential impact of the adoption on its financial position, results of operations or related disclosures.

In the first quarter of 2016, the FASB issued Update No. 2016-01, Financial Instruments (Subtopic 825-10) ( ASU 2016-01 ). The core principle of ASU 2016-01 is that equity investments should be measured at fair value with changes in the fair value recognized through net income. The amendment is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early application is not permitted for the key aspects of the amendment. The Partnership will adopt the requirements of ASU 2016-01 upon its effective date of January 1, 2018, and is evaluating the potential impact of the adoption on its financial position, results of operations and related disclosures.

In the first quarter of 2016, the FASB issued Update No. 2016-02, Leases (Topic 842) ( ASU 2016-02 ). The core principle of ASU 2016-02 is that all leases create an asset and a liability for lessees and recognition of those lease assets and lease liabilities represents an improvement over previous GAAP, which did not require lease assets and lease liabilities to be recognized for most leases. The amendment is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. The Partnership plans to adopt the requirements of ASU 2016-02 upon its effective date of January 1, 2019, and is evaluating the potential impact of the adoption on its financial position, results of operations and related disclosures.

In the second quarter of 2016, the FASB issued Update No. 2016-13, Credit Losses (Topic 326) ( ASU 2016-13 ). The core principle of ASU 2016-13 is that all assets measured at amortized cost basis should be presented at the net amount expected to be collected using historical experience, current conditions, and reasonable and supportable forecasts as a basis for credit loss estimates, instead of the probable initial recognition threshold used under current GAAP. The amendment is effective for annual reporting periods beginning after December 15, 2019, including interim periods within those fiscal years. Early application is permitted. The Partnership plans to adopt the requirements of ASU 2016-13 upon its effective date of January 1, 2020, and is evaluating the potential impact of the adoption on its financial position, results of operations and related disclosures.

In 2015, the FASB issued Update No. 2015-07, Fair Value Measurement (Topic 820). The amendments in this update removed the requirement to categorize within the fair value hierarchy investments for which fair value is measured using the net asset value per share practical expedient. The entity adopted this guidance in the current period pertaining to its new investment funds (see Notes 6, 7 and 14).

**Use of Estimates**

The preparation of the Partnership s unaudited consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the unaudited consolidated financial statements, as well as the reported amounts of revenue and expense during the reporting periods. The Partnership s unaudited consolidated financial statements are based on a number of significant estimates, including revenue and expense accruals, depreciation and amortization, merchandise trusts and perpetual care trusts asset valuation, allowance for cancellations, unit-based compensation, deferred contract revenues, deferred merchandise trust investment earnings, deferred selling and obtaining costs, assets and liabilities obtained via business combinations and income taxes. As a result, actual results could differ from those estimates.

**Net Income (Loss) per Common Unit**

Basic net income (loss) attributable to common limited partners per unit is computed by dividing net income (loss) attributable to common limited partners, which is determined after the deduction of the general partner s interest, by the weighted average number of common limited partner units outstanding during the period. Net income (loss) attributable to common limited partners is determined by deducting net income attributable to participating securities, if applicable and net income (loss) attributable to the general partner s units. The general partner s interest in net income (loss) is calculated on a quarterly basis based upon its ownership interest and incentive distributions to be distributed for the quarter, with a priority allocation of net income to the general partner s incentive distributions, if any, in accordance with the partnership agreement, and the remaining net income (loss) allocated with respect to the general partner s and limited partners ownership interests.

The Partnership presents net income (loss) per unit under the two-class method for master limited partnerships, which considers whether the incentive distributions of a master limited partnership represent a participating security when considered in the calculation of earnings per unit under the two-class method. The two-class method considers whether the partnership agreement contains any contractual limitations concerning distributions to the incentive distribution rights that would impact the amount of earnings to allocate to the incentive distribution rights for each reporting period. If distributions are contractually limited to the incentive distribution rights share of currently designated available cash for distributions as defined under the partnership agreement, undistributed earnings in excess of available cash should not be allocated to the incentive distribution rights. Under the two-class method, management of the Partnership believes the partnership agreement contractually limits cash distributions to available cash; therefore, undistributed earnings in excess of available cash are not allocated to the incentive distribution rights.

The following is a reconciliation of net income (loss) allocated to the common limited partners for purposes of calculating net income (loss) attributable to common limited partners per unit (in thousands, except unit data):

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Net loss | $ (8,651) | $ (4,644) | $ (16,126) | $ (13,154) |
| Less: Incentive distribution right ( IDR ) payments to general partner | 1,195 | 975 | 2,387 | 1,786 |
| Net loss to allocate to general and limited partners | (9,846) | (5,619) | (18,513) | (14,940) |
| General partner s interest excluding IDRs | (110) | (76) | (214) | (202) |
| Net loss attributable to common limited partners | $ (9,736) | $ (5,543) | $ (18,299) | $ (14,738) |

Diluted net income (loss) attributable to common limited partners per unit is calculated by dividing net income (loss) attributable to common limited partners, less income allocable to participating securities, by the sum of the weighted average number of common limited partner units outstanding and the dilutive effect of unit appreciation rights and other awards, as calculated by the treasury stock or if converted methods, as applicable. These awards consist of common units issuable upon payment of an exercise price by the participant under the terms of the Partnership s long-term incentive plan (see Note 13).

The following table sets forth the reconciliation of the Partnership s weighted average number of common limited partner units used to compute basic net income (loss) attributable to common limited partners per unit with those used to compute diluted net income (loss) attributable to common limited partners per unit (in thousands):

| | Three months ended June 30, | Six months ended June 30, |
|---|---|---|

| | 2016 | 2015 | 2016 | 2015 |
|---|---|---|---|---|
| Weighted average number of common limited partner units - basic | 34,837 | 29,286 | 33,688 | 29,258 |
| Add effect of dilutive incentive awards (1) | | | | |
| Weighted average number of common limited partner units - diluted | 34,837 | 29,286 | 33,688 | 29,258 |

(1) The diluted weighted average number of limited partners units outstanding presented on the consolidated statement of operations does not include 299,226 units and 193,172 units for the three months ended June 30, 2016 and 2015, respectively and 296,594 units and 187,758 units for the six months ended June 30, 2016 and 2015, as their effects would be anti-dilutive.

**2. RESTATEMENT OF PREVIOUSLY ISSUED CONSOLIDATED FINANCIAL STATEMENTS**

Subsequent to the issuance of the Partnership s Form 10-Q for the period ended June 30, 2016, the Partnership determined that material adjustments were needed to correct certain accounting errors. Accordingly, the accompanying consolidated financial statements of the Partnership as of June 30, 2016 and December 31, 2015 and for each of the three and six months ended June 30, 2016 and 2015, and the related notes hereto, have been restated to correct these accounting errors (the Restatement ). A summary of these accounting errors, and their effect on the Partnership s consolidated financial statements is, as follows:

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A. The Partnership allocates net loss to the General Partner and its limited partners for the purposes of determining the General Partner s and limited partners capital accounts within Partners capital , and to calculate net loss per limited partner unit (basic and diluted). However, the historical allocation of the Partnership s net losses did not appropriately consider available cash that had been (or will be) distributed to the separate class of nonvoting limited partner interest (the incentive distribution rights) held by the General Partner. While this misallocation had no impact on the Partnership s consolidated net loss for both the three and six months ended June 30, 2016 and 2015, the revised calculation to correctly allocate net losses increased the limited partners historical share of allocated net loss and decreased the General Partner s historical share of allocated net loss. As a result, the accompanying consolidated statement of operations and consolidated statement of partners capital have been restated to increase the limited partners share of allocated net loss and decrease the General Partner s share of allocated net loss by approximately $1.2 million and $1.0 million for the three months ended June 30, 2016 and 2015, respectively, and $2.4 million and $1.8 million for the six months ended June 30, 2016 and 2015. Accordingly, the accompanying consolidated statement of partner s capital has also been restated to decrease the limited partners share of partners capital, and increase the General Partner s share of partners capital by approximately $12.5 million and $10.2 million as of June 30, 2016 and December 31, 2015, respectively.

B. The Partnership had historically presented the cost component of its performance obligations as a liability referred to as Merchandise liability and the offset for these liabilities was recognized as a reduction in Deferred cemetery revenues, net in the Partnership s consolidated balance sheet. However, subsequent to the issuance of the Partnership s Form 10-Q for the period ended June 30, 2016, the Partnership determined that the correct presentation of these obligations is Deferred revenues , rather than a separate Merchandise liability . Accordingly, the accompanying consolidated balance sheet as of June 30, 2016 and December 31, 2015, has been restated to reclassify merchandise liabilities of approximately $170.0 million and $173.1 million as of June 30, 2016 and December 31, 2015, respectively, from Merchandise liability to Deferred revenue . The Partnership restated its financial statement line item presentation of Deferred cemetery revenues, net to Deferred revenues . Accordingly, the accompanying consolidated balance sheet as of June 30, 2016 and December 31, 2015 has been restated to reclassify approximately $695.1 million and $637.5 million as of June 30, 2016 and December 31, 2015, respectively, from Deferred cemetery revenue, net to Deferred revenue .

C. The Partnership had historically presented revenue related to assumed obligations from acquisitions on a net basis in the Partnership s consolidated statement of operations. However, subsequent to the issuance of the Partnership s Form 10-Q for the period ended June 30, 2016, the Partnership determined that the correct presentation of this revenue was on a gross basis. Accordingly, the accompanying consolidated statement of operations has been restated to present such revenue on a gross basis. This classification resulted in an increase in Cemetery merchandise revenues of approximately $0.8 million and $1.3 million for the three months ended June 30, 2016 and 2015, respectively, and $1.6 million and $2.5 million for the six months ended June 30, 2016 and 2015, respectively, an increase in Cemetery services revenue of approximately $0.3 million and $0.2 million for the three months ended June 30, 2016 and 2015, respectively, and $0.5 million and $0.3 million for the six months ended June 30, 2016 and 2015, respectively, and an increase Cost of goods sold of approximately $1.0 million and $1.5 million for the three months ended June 30, 2016 and 2015, respectively, and $2.0 million and $2.8 million for the six months ended June 30, 2016 and 2015, respectively.

D. The Partnership had historically recorded funeral home land from acquisitions within Cemetery property . However, subsequent to the issuance of the Partnership s Form 10-Q for the period ended June 30, 2016, the Partnership determined that such Funeral home land should be recorded within Property and equipment . This adjustment resulted in a decrease of $11.7 million and $11.8 million in Cemetery property as of June 30, 2016 and December 31, 2015, respectively, and a corresponding increase in Property and equipment . Additionally, the Partnership had historically recorded deferred cemetery property within Deferred cemetery revenues, net . However, subsequent to the issuance of the Partnership s Form 10-Q for the period ended June 30, 2016, the Partnership determined that such amounts should have been recorded within Cemetery property . This adjustment resulted in an increase in Cemetery property in the amount of $3.7 million and $3.6 million as of June 30, 2016 and December 31, 2015, respectively.

E. The Partnership had historically recorded the obligation for certain of the Partnership s outstanding phantom unit awards as liabilities. However, subsequent to the issuance of the Partnership s Form 10-Q for the period ended June 30, 2016, the Partnership determined that these awards are equity awards and should be classified as equity. Accordingly, the accompanying consolidated balance sheet as of June 30, 2016 and December 31, 2015, has been restated to adjust the awards as equity award, resulting in a $1.9 million increase to Common limited partners interest and a decrease for the same amount to Accounts payable and accrued liabilities as of June 30, 2016 and December 31, 2015.

F. The Partnership had historically recognized incorrect amounts of investment revenues and expenses related to its merchandise and perpetual care trusts on its consolidated statement of operations and was incorrectly tracking its perpetual care-trusting obligations on its consolidated balance sheets. Accordingly, the accompanying consolidated financial statements as of June 30, 2016 and 2015 and for both the three and six months ended June 30, 2016 and 2015 have been restated for these adjustments. The adjustments resulted in an increase in Deferred revenues of approximately $18.5 million and $17.9 million, a decrease in Partners Capital of approximately $26.5 million and $25.4 million, and an increase in Other long-term liabilities of approximately $8.0 million and $7.5 million as of June 30, 2016 and December 31, 2015, respectively. In addition, the correction of these accounting errors resulted in an increase in Investment and other revenues of $0.3 million in the three months ended June 30, 2016 and $0.2 million in the six months ended June 30, 2016, and an increase in Cost of goods sold of $0.7 million and $0.4 million for the three months ended June 30, 2016 and 2015, respectively, and $1.3 million and $0.7 million for the six months ended June 30, 2016 and 2015, respectively.

G. The Partnership had historically recognized incorrect amounts of revenue from deferred pre-acquisition contracts in its consolidated statement of operations based on inaccurate system inputs. Subsequent to the issuance of the Partnership s Form 10-Q for the period ended June 30, 2016, the Partnership determined that revenue recognition on such pre-acquisition revenue was understated. Accordingly, the accompanying consolidated financial statements for the three and six months ended June 30, 2016 and 2015 have been restated to reflect the correction of the system inputs. The adjustments resulted in a decrease in Deferred revenues and an increase in Partners Capital of $16.5 million as of June 30, 2016 and December 31, 2015 and an increase in Cemetery merchandise revenues of $0.4 million and $0.8 million for the three and six months ended June 30, 2015 and an increase in Cemetery services revenues of $0.1 million in the three and six months ended June 30, 2015.

H. Remaining adjustments principally relate to the recognition, accuracy and/or classification of certain amounts in Deferred cemetery revenues, net , Merchandise liabilities , and Other current assets , determined subsequent to the issuance of the Partnership s Form 10-Q for the period ended June 30, 2016. Accordingly, the accompanying consolidated financial statements as of June 30, 2016 and December 31, 2015, and for the three and six months ended June 30, 2016 and 2015 have been restated for these adjustments. The adjustments resulted in a decrease of $3.6 million and a decrease of $1.9 million in "Deferred revenues" as of June 30, 2016 and December 31, 2015, respectively. The adjustments also resulted in an increase in "Cemetery merchandise revenues" of $1.0 million and $1.2 million, an increase in "Cemetery services revenues" of $0.4 million and $0.6 million, and an increase in "Cost of goods sold" of $0.6 million and $1.6 million in the three months ended June 30, 2016, and 2015, respectively. The adjustments resulted in an increase in "Cemetery merchandise revenues" of $2.0 million and $2.2 million, an increase in "Cemetery services revenues" of $0.9 million and $1.0 million, and an increase in "Cost of goods sold" of $1.1 million and $2.9 million in the six months ended June 30, 2016, and 2015, respectively.

I. The Partnership calculated the effect on income taxes associated with the foregoing accounting errors and, as such, "Income tax benefit (expense)" within consolidated statement of operations was restated by $0.1 million for the three and six months ended June 30, 2015 and the "Deferred tax liability" within the consolidated balance sheets are restated by approximately $0.1 million as of June 30, 2016 and December 31, 2015.

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The effect of these adjustments on the Partnership s consolidated balance sheets, statements of operations, partners capital and cash flows for each of the three and six months ended June 30, 2016 and 2015, and as of June 30, 2016 and December 31, 2015 is summarized below for each affected caption:

| | | As of June 30, 2016 | | | As of December 31, 2015 | | |
|---|---|---|---|---|---|---|---|
| | Reference | As Filed | Restatement Adjustments | As Restated | As Filed | Restatement Adjustments | As Restated |
| | | | | (in thousands) | | | |
| Other current assets | H | $ 19,126 | $ 2,697 | $ 21,823 | $ 18,863 | $ 3,378 | $ 22,241 |
| Total current assets | | 109,830 | 2,697 | 112,527 | 107,798 | 3,378 | 111,176 |
| Cemetery property | D | 341,825 | (7,966) | 333,859 | 342,639 | (8,182) | 334,457 |
| Property and equipment, net of accumulated depreciation | D | 103,083 | 11,707 | 114,790 | 104,330 | 11,797 | 116,127 |
| Deferred tax assets | I | 40 | 141 | 181 | 40 | 141 | 181 |
| Other assets | H | 17,243 | 1,098 | 18,341 | 15,069 | 1,098 | 16,167 |
| Total assets | | 1,738,518 | 7,677 | 1,746,195 | 1,686,125 | 8,232 | 1,694,357 |
| Accounts payable and accrued liabilities | E | 35,546 | (1,886) | 33,660 | 31,875 | (1,886) | 29,989 |
| Total current liabilities | | 42,392 | (1,886) | 40,506 | 35,818 | (1,886) | 33,932 |
| Deferred cemetery revenues, net | B | 695,092 | (695,092) | | 637,536 | (637,536) | |
| Merchandise liability | B | 169,974 | (169,974) | | 173,097 | (173,097) | |
| Deferred revenues | B, D, F, G, H | | 868,194 | 868,194 | | 815,421 | 815,421 |
| Deferred tax liabilities | I | 17,914 | (86) | 17,828 | 17,833 | (86) | 17,747 |
| Other long-term liabilities | F | 16,168 | 8,041 | 24,209 | 13,960 | 7,548 | 21,508 |
| Total liabilities | | 1,541,094 | 9,197 | 1,550,291 | 1,502,447 | 10,364 | 1,512,811 |
| | A, F, G, H, I | (13,054) | 12,422 | (632) | (10,038) | 10,053 | 15 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| General partner interest | | | | | | | |
| Common limited partners interest | A, E, F, G, H, I | 210,478 | (13,942) | 196,536 | 193,716 | (12,185) | 181,531 |
| Total partners capital | | 197,424 | (1,520) | 195,904 | 183,678 | (2,132) | 181,546 |
| Total liabilities and partners capital | | $ 1,738,518 | $ 7,677 | $ 1,746,195 | $ 1,686,125 | $ 8,232 | $ 1,694,357 |

| | | Three months ended June 30, | | | | | |
|---|---|---|---|---|---|---|---|
| | | 2016 | | | 2015 | | |
| | Reference | As Filed | Restatement Adjustments | As Restated | As Filed | Restatement Adjustments | As Restated |
| | | (in thousands, except per unit data) | | | | | |
| Cemetery revenues: | | | | | | | |
| Merchandise | C, G, H | $ 36,105 | $ 1,750 | $ 37,855 | $ 36,042 | $ 2,957 | $ 38,999 |
| Services | C, G, H | 12,984 | 692 | 13,676 | 14,591 | 776 | 15,367 |
| Investment and other | F | 11,721 | 291 | 12,012 | 16,698 | (45) | 16,653 |
| Total revenues | | 75,549 | 2,733 | 78,282 | 80,825 | 3,688 | 84,513 |
| Cost of goods sold | C, F, H | 9,737 | 2,305 | 12,042 | 9,807 | 3,526 | 13,333 |
| Total cost and expenses | | 78,230 | 2,305 | 80,535 | 79,569 | 3,526 | 83,095 |
| Operating income (loss) | | (2,681) | 428 | (2,253) | 1,256 | 162 | 1,418 |
| Loss before income taxes | | (8,579) | 428 | (8,151) | (4,514) | 162 | (4,352) |
| Income tax benefit (expense) | I | (500) | | (500) | (334) | 42 | (292) |
| Net loss | | (9,079) | 428 | (8,651) | (4,848) | 204 | (4,644) |
| General partner s interest for the period | A, F, G, H, I | (103) | 1,188 | 1,085 | (65) | 964 | 899 |
| Limited partners interest for the period | A, F, G, H, I | (8,976) | (760) | (9,736) | (4,783) | (760) | (5,543) |
| Net loss per limited partner unit (basic and diluted) | A, F, G, H, I | $ (0.26) | $ (0.02) | $ (0.28) | $ (0.16) | $ (0.03) | $ (0.19) |

| | | Six months ended June 30, | | | | | |
|---|---|---|---|---|---|---|---|
| | | 2016 | | | 2015 | | |
| | Reference | As Filed | Restatement Adjustments | As Restated | As Filed | Restatement Adjustments | As Restated |
| | | (in thousands, except per unit data) | | | | | |
| Cemetery revenues: | | | | | | | |
| Merchandise | C, G, H | $ 67,080 | $ 3,543 | $ 70,623 | $ 62,979 | $ 5,423 | $ 68,402 |
| Services | C, G, H | 25,816 | 1,323 | 27,139 | 28,501 | 1,423 | 29,924 |
| Investment and other | F | 26,173 | 214 | 26,387 | 28,008 | (82) | 27,926 |
| Total revenues | | 150,131 | 5,080 | 155,211 | 148,242 | 6,764 | 155,006 |
| Cost of goods sold | C, F, H | 18,294 | 4,468 | 22,762 | 16,890 | 6,272 | 23,162 |
| Total cost and expenses | | 153,539 | 4,468 | 158,007 | 150,341 | 6,272 | 156,613 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Operating income (loss) | | (3,408) | 612 | (2,796) | (2,099) | 492 | (1,607) |
| Loss before income taxes | | (15,978) | 612 | (15,366) | (13,332) | 492 | (12,840) |
| Income tax benefit (expense) | I | (760) | | (760) | (399) | 85 | (314) |
| Net loss | | (16,738) | 612 | (16,126) | (13,731) | 577 | (13,154) |
| General partner s interest for the period | A, F, G, H, I | (196) | 2,369 | 2,173 | (185) | 1,769 | 1,584 |
| Limited partners interest for the period | A, F, G, H, I | (16,542) | (1,757) | (18,299) | (13,546) | (1,192) | (14,738) |
| Net loss per limited partner unit (basic and diluted) | A, F, G, H, I | $ (0.49) | $ (0.05) | $ (0.54) | $ (0.46) | $ (0.04) | $ (0.50) |

| | Reference | Common Limited Partners | General Partner | Total | Common Limited Partners | General Partner | Total | Common Limited Partners | General Partner | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | As Filed | | Restatement Adjustments (in thousands) | | | | As Restated | |
| apital alance at ecember 31, 015 | A, E, F, G, H, I | $ 193,716 | $ (10,038) | $ 183,678 | $ (12,185) | $ 10,053 | $ (2,132) | $ 181,531 | $ 15 | $ 181,546 |
| et loss | A, F, G, H | (16,542) | (196) | (16,738) | (1,757) | 2,369 | 612 | (18,299) | 2,173 | (16,126) |
| apital alance at une 30, 2016 | A, E, F, G, H, I | $ 210,478 | $ (13,054) | $ 197,424 | $ (13,942) | $ 12,422 | $ (1,520) | $ 196,536 | $ (632) | $ 195,904 |

| | | Six months ended June 30, | | | | | |
|---|---|---|---|---|---|---|---|
| | | | 2016 | | | 2015 | |
| | Reference | As Filed | Restatement Adjustments | As Restated | As Filed | Restatement Adjustments | As Restated |
| | | | | (in thousands) | | | |
| Net loss | F, G, H, I | $ (16,738) | $ 612 | $ (16,126) | $ (13,731) | $ 577 | $ (13,154) |
| Changes in assets and liabilities: | | | | | | | |
| Other assets | D, H | (4,295) | 555 | (3,740) | (9,162) | 4,810 | (4,352) |
| Deferred revenues | B, D, F, G, H | 37,755 | (5,239) | 32,516 | 45,307 | (1,552) | 43,755 |
| Deferred taxes (net) | I | | | | (44) | (85) | (129) |
| Payables and other liabilities | F | 818 | 4,072 | 4,890 | 9,208 | (3,750) | 5,458 |
| Net cash provided by operating activities . | | $ 8,459 | $ | $ 8,459 | $ 3,975 | $ | $ 3,975 |

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The Restatement adjustments affecting the consolidated statement of cash flows for the periods noted are included in the Partnership s net loss from operations and offset by changes in operating assets and liabilities. There were no adjustments related to cash provided by (used in) investing and financing activities.

## 3. ACQUISITIONS

*2016 Acquisition*

During the second quarter of 2016, the Partnership acquired related assets, net of certain assumed liabilities of three direct service cremation businesses for $1.5 million. The Partnership accounted for this transaction under the acquisition method of accounting. Accordingly, the Partnership evaluated the identifiable assets acquired and liabilities assumed at the acquisition date fair values. All other costs incurred associated with the acquisition of the assets noted were expensed as incurred. The following table presents the Partnership s values assigned to the assets acquired and liabilities assumed in the acquisition, based on their estimated fair values at the date of the acquisition, which may be prospectively adjusted as additional information is received (in thousands):

| | |
|---|---|
| Assets: | |
| Accounts receivable | $ 22 |
| Cemetery and funeral home property | 90 |
| Property and equipment | 220 |
| Merchandise trusts, restricted | 290 |
| Other assets | 13 |
| Total assets | 635 |
| Liabilities: | |
| Deferred revenues | 193 |
| Total liabilities | 193 |
| Fair value of net assets acquired | 442 |
| Consideration paid - cash | 1,500 |
| Total consideration paid | 1,500 |
| Goodwill from purchase | $ 1,058 |

The Partnership recorded goodwill of $1.1 million in the Funeral Home reporting unit for the properties acquired in 2016.

*2015 Acquisitions*

During the year ended December 31, 2015, the Partnership acquired the following properties and related assets, net of certain assumed liabilities:

One funeral home for cash consideration of $0.9 million on July 21, 2015;

Three funeral homes and one cemetery for cash consideration of $5.7 million on August 6, 2015;

Two cemeteries for cash consideration of $1.5 million on August 20, 2015;

One funeral home for cash consideration of $5.0 million on August 31, 2015, and an additional $1.0 million paid in five annual installments beginning on the 1st anniversary of the closing date; and

One cemetery and two funeral homes for cash consideration of $5.7 million on December 1, 2015.

The Partnership accounted for these transactions under the acquisition method of accounting. Accordingly, the Partnership evaluated the identifiable assets acquired and liabilities assumed at their respective acquisition date fair values. All other costs incurred associated with the acquisition of the assets noted were expensed as incurred. The following table presents the Partnership s values assigned to the assets acquired and liabilities assumed in the acquisitions, based on their estimated and revised fair values, as applicable, which may be prospectively adjusted as additional information is received (in thousands):

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| | |
|---|---|
| Assets: | |
| Accounts receivable | $ 2,641 |
| Cemetery property | 5,249 |
| Property and equipment | 7,710 |
| Inventory | 53 |
| Merchandise trusts, restricted | 15,075 |
| Perpetual care trusts, restricted | 4,134 |
| Intangible assets | 406 |
| Total assets | 35,268 |
| Liabilities: | |
| Deferred revenues | 21,349 |
| Perpetual care trust corpus | 4,134 |
| Other liabilities | 21 |
| Total liabilities | 25,504 |
| Fair value of net assets acquired | 9,764 |
| Consideration paid cash | 18,800 |
| Deferred cash consideration | 876 |
| Total consideration paid | 19,676 |
| Gain on bargain purchase | $ 766 |
| Goodwill from purchase | $ 10,678 |

Certain provisional amounts pertaining to the 2015 acquisitions were adjusted in the second quarter of 2016 as the Company obtained additional information related to two of the acquisitions. The changes resulted in an adjustment to the gain on acquisition recognized during the year ended December 31, 2015, reducing the gain by $0.8 million via a loss recognized in the current period in accordance with GAAP. The amounts shown may be adjusted as additional information is received. The Partnership recorded goodwill of $1.1 million and $9.6 million in the Cemetery and Funeral Home reporting units, respectively, with regard to the properties acquired during the year ended December 31, 2015.

The following data presents pro forma revenues, net income (loss) and basic and diluted net income (loss) per unit for the Partnership as if the acquisitions consummated during the six months ended June 30, 2016 and the year ended December 31, 2015 had occurred as of January 1, 2015. The Partnership prepared these pro forma unaudited financial results for comparative purposes only. The results may not be indicative of the results that would have occurred if the acquisitions consummated during the six months ended June 30, 2016 and 2015 had occurred as of January 1, 2015 or the results that will be attained in future periods (in thousands, except per unit data):

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |

| | | | | |
|---|---|---|---|---|
| Revenue | $ 78,282 | $ 86,426 | $ 155,324 | $ 158,832 |
| Net loss | (8,651) | (4,516) | (16,107) | (12,898) |
| Net loss per limited partner unit (basic and diluted) | $ (0.28) | $ (0.18) | $ (0.54) | $ (0.50) |

The properties acquired in 2016 have contributed $0.1 million of revenue and less than $0.1 million of operating profit for the three and six months ended June 30, 2016, respectively. The properties acquired in 2015 have contributed $4.8 million and $2.4 million of revenue and $0.8 million and $0.4 million of operating profit for the three and six months ended June 30, 2016 respectively.

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**4. ACCOUNTS RECEIVABLE, NET OF ALLOWANCE**

Accounts receivable, net of allowance, consists of the following at the dates indicated (in thousands):

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Customer receivables | $ 217,071 | $ 207,645 |
| Unearned finance income | (20,323) | (20,078) |
| Allowance for contract cancellations | (27,396) | (23,985) |
| Accounts receivable, net of allowance | 169,352 | 163,582 |
| Less: current portion, net of allowance | 74,231 | 68,415 |
| Long-term portion, net of allowance | $ 95,121 | $ 95,167 |

Activity in the allowance for contract cancellations is as follows (in thousands):

| | Six months ended June 30, 2016 | Six months ended June 30, 2015 |
|---|---|---|
| Balance, beginning of period | $ 23,985 | $ 22,138 |
| Provision for cancellations | 13,267 | 13,200 |
| Charge-offs, net | (9,856) | (10,264) |
| Balance, end of period | $ 27,396 | $ 25,074 |

**5. CEMETERY PROPERTY**

Cemetery property consists of the following at the dates indicated (in thousands):

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Cemetery land | $ 253,596 | $ 253,955 |
| Mausoleum crypts and lawn crypts | 80,263 | 80,502 |
| Cemetery property | $ 333,859 | $ 334,457 |

**6. PROPERTY AND EQUIPMENT**

Property and equipment consists of the following at the dates indicated (in thousands):

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Building and improvements | $ 119,634 | $ 117,034 |

| | | | | |
|---|---|---|---|---|
| Furniture and equipment | | 54,202 | | 54,346 |
| Funeral home land | | 11,707 | | 11,797 |
| Property and equipment, gross | | 185,543 | | 183,177 |
| Less: accumulated depreciation | | (70,753) | | (67,050) |
| Property and equipment, net of accumulated depreciation | $ | 114,790 | $ | 116,127 |

Depreciation expense was $2.6 million and $2.4 million for three months ended June 30, 2016 and 2015, respectively, and $5.1 million and $4.8 million for six months ended June 30, 2016 and 2015, respectively.

**7. MERCHANDISE TRUSTS**

At June 30, 2016 and December 31, 2015, the Partnership s merchandise trusts consisted of investments in debt and equity marketable securities and cash equivalents, both directly as well as through mutual and investment funds. Certain assets acquired in connection with the Partnership s 2015 and 2016 acquisitions (see Note 3) are based upon preliminary estimated values assigned to the assets by the Partnership at the date of acquisition, and will be adjusted when additional information is received.

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All of these investments are classified as Available for Sale and accordingly, all of the assets are carried at fair value. All of the investments subject to the fair value hierarchy (see Note 1) are considered either Level 1 or Level 2 assets pursuant to the three-level hierarchy described in Note 15. There were no Level 3 assets.

The merchandise trusts are variable interest entities (VIE) for which the Partnership is the primary beneficiary. The assets held in the merchandise trusts are required to be used to purchase the merchandise and provide the services to which they relate. If the value of these assets falls below the cost of purchasing such merchandise and providing such services, the Partnership may be required to fund this shortfall.

The Partnership included $8.3 million and $8.2 million of investments held in trust by the West Virginia Funeral Directors Association at June 30, 2016 and December 31, 2015, respectively, in its merchandise trust assets. As required by law, the Partnership deposits a portion of certain funeral merchandise sales in West Virginia into a trust that is held by the West Virginia Funeral Directors Association. These trusts are recognized at their account value, which approximates fair value.

A reconciliation of the Partnership s merchandise trust activities for the six months ended June 30, 2016 and 2015 is presented below (in thousands):

| | **Six months ended June 30,** | |
|---|---|---|
| | **2016** | **2015** |
| Balance, beginning of period | $ 464,676 | $ 484,820 |
| Contributions | 30,259 | 31,667 |
| Distributions | (29,645) | (21,231) |
| Interest and dividends | 11,686 | 8,391 |
| Capital gain distributions | 263 | (741) |
| Realized gains and losses | 2,337 | 14,453 |
| Taxes | (1,694) | (3,026) |
| Fees | (1,048) | (1,632) |
| Unrealized change in fair value | 17,762 | (33,774) |
| Balance, end of period | $ 494,596 | $ 478,927 |

During the six months ended June 30, 2016, purchases of available for sale securities were $47.1 million, while sales, maturities and paydowns of available for sale securities were $28.1 million.

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The cost and market value associated with the assets held in the merchandise trusts as of June 30, 2016 and December 31, 2015 were as follows (in thousands):

| June 30, 2016 | Fair Value Hierarchy Level | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|---|
| Short-term investments | 1 | $ 28,567 | $ | $ | $ 28,567 |
| Fixed maturities: | | | | | |
| U.S. governmental securities | 2 | 96 | 9 | | 105 |
| Corporate debt securities | 2 | 8,854 | 169 | (493) | 8,530 |
| Other debt securities | 2 | 160 | | | 160 |
| Total fixed maturities | | 9,110 | 178 | (493) | 8,795 |
| Mutual funds - debt securities | 1 | 245,134 | 3,267 | (6,829) | 241,572 |
| Mutual funds - equity securities | 1 | 137,408 | 5,502 | (8,085) | 134,825 |
| Other investment funds (1) | | 27,458 | 183 | | 27,641 |
| Equity securities | 1 | 40,616 | 2,386 | (3,346) | 39,656 |
| Other invested assets | 2 | 1,630 | 314 | | 1,944 |
| Total managed investments | | $ 489,923 | $ 11,830 | $ (18,753) | $ 483,000 |
| Assets acquired via acquisition | | 3,264 | | | 3,264 |
| West Virginia Trust Receivable | | 8,332 | | | 8,332 |
| Total | | $ 501,519 | $ 11,830 | $ (18,753) | $ 494,596 |

(1) Other investment funds are measured at fair value using the net asset value per share practical expedient and have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the balance sheet. This asset class is composed of fixed income funds and equity funds which have redemption periods ranging from 30 to 90 days.

| December 31, 2015 | Fair Value Hierarchy Level | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|---|
| Short-term investments | 1 | $ 35,150 | $ | $ | $ 35,150 |
| Fixed maturities: | | | | | |
| U.S. governmental securities | 2 | 98 | 6 | (3) | 101 |
| Corporate debt securities | 2 | 11,922 | 8 | (546) | 11,384 |
| Other debt securities | 2 | 7,150 | 11 | (7) | 7,154 |
| Total fixed maturities | | 19,170 | 25 | (556) | 18,639 |

| | | | | | |
|---|---|---|---|---|---|
| Mutual funds - debt securities | 1 | 232,096 | 86 | (10,713) | 221,469 |
| Mutual funds - equity securities | 1 | 139,341 | 69 | (12,249) | 127,161 |
| Equity securities | 1 | 49,563 | 1,127 | (2,474) | 48,216 |
| Other invested assets | 2 | 1,681 | | | 1,681 |
| Total managed investments | | $ 477,001 | $ 1,307 | $ (25,992) | $ 452,316 |
| Assets acquired via acquisition | | 4,185 | | | 4,185 |
| West Virginia Trust Receivable | | | | | |