THE DIOCESE OF PENSACOLA - TALLAHASSEE
ADMINISTRATIVE OFFICES

FINANCIAL STATEMENTS

JUNE 30, 2013

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CPAs AND ADVISORS

INDEPENDENT AUDITOR'S REPORT

The Most Reverend Gregory L. Parkes
Bishop of the Diocese of Pensacola - Tallahassee

We have audited the accompanying financial statements of the Diocese of Pensacola - Tallahassee Administrative Offices (the "Diocese"), which comprises the statement of financial position as of June 30, 2013, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and 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 of America; 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 of America. 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 Diocese of Pensacola - Tallahassee Administrative Offices as of June 30, 2013, 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 of America.

Report on Summarized Comparative Information

We have previously audited the Diocese's 2012 financial statements and, in our report dated October 2, 2012, we expressed an unqualified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Warren Averett, LLC

September 24, 2013
Pensacola, Florida

The Diocese of Pensacola - Tallahassee Administration Office
STATEMENTS OF FINANCIAL POSITION
June 30, 2013 and 2012

ASSETS	2013	2012
ASSETS		
Cash and cash equivalents	$ 25,839,923	$ 22,368,463
Investments and beneficial interest in perpetual trust	22,872,251	21,028,414
Priest pension plan assets - cash and investments	7,345,197	6,568,501
Accounts receivable from related parties, net	231,159	605,451
Loans receivable from related parties, net	17,552,723	18,311,640
Prepaid expenses and other assets	917,463	737,799
Land, buildings, improvements and equipment, net	20,238,678	20,698,606
Total assets	$ 94,997,394	$ 90,318,874
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	$ 798,272	$ 769,849
Deposits payable to related parties	27,764,712	25,986,837
Deferred revenue	1,752,066	1,661,355
Reserve for insurance losses	1,056,933	922,730
Priest pension plan	8,115,441	8,377,794
Interest rate swap	3,869,349	5,205,187
Long-term debt	18,699,260	19,112,388
Total liabilities	62,056,033	62,036,140
NET ASSETS		
Unrestricted net assets	26,917,822	21,562,238
Temporarily restricted net assets	4,861,521	2,137,059
Permanently restricted net assets	1,162,018	4,583,437
Total net assets	32,941,361	28,282,734
Total liabilities and net assets	$ 94,997,394	$ 90,318,874

The accompanying notes are an integral part of these financial statements.

The Diocese of Pensacola - Tallahassee Administration Office
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2013, with Summarized Financial Information for the Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013	2012
Support and other revenue					
Parish assessments	$ 2,432,313	$ --	$ --	$ 2,432,313	$ 2,437,572
Catholic Sharing Appeal	2,432,313	--	--	2,432,313	2,333,576
Contributions	18,621	343,284	--	361,905	385,019
Program revenue	574,589	--	--	574,589	475,488
Investment income (loss), net	1,205,040	798,107	27,586	2,030,733	497,395
Interest income	1,262,425	--	--	1,262,425	1,329,891
Insurance premiums	5,278,579	--	--	5,278,579	5,105,075
Other income	300,063	--	--	300,063	544,946
Gain (loss) on disposal of property and equipment	(3,566)	--	--	(3,566)	49,459
Total support and other revenue	13,500,377	1,141,391	27,586	14,669,354	13,158,421
Net assets released from restrictions:					
Satisfaction of program restrictions	809,996	(809,996)	--	--	--
Total net assets released from restrictions	809,996	(809,996)	--	--	--
Functional expenses					
Program expenses	1,336,868	--	--	1,336,868	1,376,739
Support services expenses	3,203,229	--	--	3,203,229	2,810,273
Other expenses					
Insured premiums, claims and other costs	4,588,383	--	--	4,588,383	4,237,867
Interest	1,964,273	--	--	1,964,273	1,987,480
Net periodic pension cost	288,434	--	--	288,434	183,396
Depreciation	604,421	--	--	604,421	609,398
Total expenses	11,985,608	--	--	11,985,608	11,205,153
Excess of support, revenues, and net assets released from restrictions over expenses	2,324,765	331,395	27,586	2,683,746	1,953,268
Other changes in net assets					
Change in value of interest rate swap	1,335,838	--	--	1,335,838	(1,650,189)
Pension related changes other than net periodic pension cost	639,043	--	--	639,043	(1,454,957)
Total other changes in net assets	1,974,881	--	--	1,974,881	(3,105,146)
CHANGES IN NET ASSETS	4,299,646	331,395	27,586	4,658,627	(1,151,878)
NET ASSETS, BEGINNING OF YEAR	21,562,238	2,137,059	4,583,437	28,282,734	29,434,612
RECLASSIFICATION OF NET ASSETS	1,055,938	2,393,067	(3,449,005)	-	-
NET ASSETS, END OF YEAR	$ 26,917,822	$ 4,861,521	$ 1,162,018	$ 32,941,361	$ 28,282,734

The accompanying notes are an integral part of these financial statements.

The Diocese of Pensacola - Tallahassee Administration Office
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 4,658,627	$ (1,151,878)
Adjustments to reconcile change in net assets		
to net cash from operating activities:		
Depreciation	604,421	609,398
Gain (loss) on disposal of assets	3,566	(49,459)
Realized and unrealized gains on investments	(1,407,020)	(69,578)
Change in insurance loss reserve	134,203	(339,885)
Change in interest rate swap	(1,335,838)	1,650,189
Decrease (increase) in		
Accounts receivable	374,292	31,845
Prepaid expenses and other assets	(179,664)	(67,097)
Increase (decrease) in		
Accounts payable and accrued liabilities	28,423	(223,126)
Deferred revenue	90,711	103,232
Priest pension plan	(262,353)	1,331,473
Net cash from operating activities	2,709,368	1,825,114
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of land, buildings, improvements and equipment	(148,059)	(69,009)
Proceeds from sale of land, buildings, improvements and equipment	--	70,031
Net (increase) decrease in loans receivable	758,917	654,066
Purchase of investments	(23,877,828)	(12,819,265)
Proceeds from sale of investments	22,664,315	8,825,579
Net cash from investing activities	(602,655)	(3,338,598)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in deposits payable	1,777,875	307,198
Payments on debt principal	(413,128)	(393,043)
Net cash from financing activities	1,364,747	(85,845)
NET INCREASE (DECREASE) IN CASH	3,471,460	(1,599,329)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	22,368,463	23,967,792
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 25,839,923	$ 22,368,463
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest on debt	$ 1,158,731	$ 1,186,670

The accompanying notes are an integral part of these financial statements.

NOTE A - ORGANIZATION

The Diocese of Pensacola – Tallahassee Administrative Offices (the "Diocese") was formed in 1975, and includes the 18 western counties of the State of Florida. The Diocese is a Corporation Sole, which is a not-for-profit corporation existing under the laws of the State of Florida. There are no stockholders, directors or officers in the Corporation Sole other than the holder of the Office of Bishop of Pensacola - Tallahassee (the "Bishop"). The Bishop holds title to all assets and is liable for all indebtedness of the Corporation Sole. The title to all assets and the responsibility for all indebtedness passes to the Bishop's successor in office.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Diocese's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

1. Basis of Accounting

The Diocese follows standards of accounting and financial reporting prescribed for nonprofit organizations. The Diocese uses the accrual basis of accounting.

The accompanying financial statements include the assets, liabilities, net assets, and financial activities at the diocesan level of administration. The Catholic Foundation of Northwest Florida, Inc., various religious orders, lay societies, foundations, and religious organizations which operate within the Diocese, but which are not fiscally responsible to the Bishop, and parishes and their related institutions, have not been included in the accompanying financial statements.

2. Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Diocese and changes therein are classified and reported as follows:

Unrestricted net assets are not subject to any donor-imposed stipulations. Board designated or appropriated amounts are not legally restricted and are also reported as part of the unrestricted class.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (Continued)

2. Basis of Presentation -- (Continued)

Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met either by actions of the Diocese and/or the passage of time.

Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by the Diocese. Generally, the donors of these assets permit the Diocese to use all or part of the income earned on related investments for general or specific purposes in support of the Diocese.

3. Revenue Recognition

The Diocese's primary revenue is from assessments to the Diocesan parishes, Catholic Sharing Appeal, interest on loans, and premiums charged to Diocesan parishes and schools for health, worker's compensation, general and property insurance. Upon receipt of any *promises to give* that are considered unconditional or legally enforceable, such contributions are recognized by recording a receivable and revenue at the time the promise is received. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

4. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Significant estimates in these financial statements include the priest pension plan liability, interest rate swap liability, and reserve for insurance losses. Actual results could differ from those estimates.

5. Cash and Cash Equivalents

The Diocese considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

6. Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are carried at their fair value. Unrealized gains and losses are included in changes in net assets.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (Continued)

7. Beneficial Interest in Perpetual Trust

The beneficial interest in perpetual trust represents a donation of an irrevocable perpetual trust where the Diocese is the sole beneficiary of the trust income. Under this agreement, the Diocese is not the trustee and does not exercise control over the related assets. The Diocese records the trust as a permanently restricted net asset, based on the market value of the trust's assets. Trust income is recorded as temporarily restricted income in the period it is received.

8. Fair Value

The Diocese follows the Financial Accounting Standards Board (FASB) guidance on Fair Value Measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

9. Accounts Receivable

The Diocese's accounts receivable are primarily due from Diocesan parishes for the Catholic Sharing Appeal (annual fundraiser), and parishes and schools for insurance premiums. Management reviews the receivables periodically and provides an allowance for uncollectible accounts at a level which, in management's judgment, is adequate to absorb potential losses inherent from uncollectible receivables.

10. Loans Receivable

Loans receivable consist of amounts loaned to Diocesan parishes, schools, and related entities. Interest income is recognized monthly on outstanding loan balances generally at an annual rate of 7.5%. Accounts are generally considered to be past due and delinquent 30 days after the monthly due date.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (Continued)

11. Land, Buildings, Improvements and Equipment

Land, buildings, improvements and equipment acquisitions in excess of $500 are capitalized at cost, when purchased, or at fair value at date of gift, when donated. The Diocese does not imply a time restriction on gifts of long-lived assets received. Buildings and equipment are depreciated using the straight-line method over the useful lives as follows:

Buildings	30 years
Furniture and equipment	4-10 years

12. Deposits Payable

The Diocese maintains an investment program established for the benefit of Diocesan parishes, schools, and related entities. Deposits Payable represents funds that these entities have placed with the Diocese for investment purposes. Interest is paid at 3% and the deposits are payable on demand.

13. Deferred Revenue

Deferred revenue consists of insurance premium payments received in advance that relate to services to be rendered in a future period and are deferred and recognized as revenue in the period earned.

14. Allocation of Expenses

The costs of providing the various programs and supporting activities of the Diocese have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting activities.

15. Derivative Instrument

The Diocese uses an interest rate swap contract to manage interest rate risk on its long-term debt. The swap is recorded at fair value and included in the statement of financial position as an asset or liability. The Diocese's interest rate risk management strategy is to stabilize cash flow requirements by using the swap to convert its variable rate debt to a fixed rate.

The fair value of the swap is the estimated amount the Diocese would have to pay in order to terminate the swap agreement at the reporting date. See Note I for additional disclosure on the fair value of the interest rate swap.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (Continued)

16. Tax Exemption

The Diocese, as part of the Roman Catholic Church in the United States, is exempt from federal income tax under Section 501 (c) (3) of the Internal Revenue Code. The Diocese is not required to file a federal income tax return unless unrelated business income in excess of exempt amounts is earned. The Diocese is not aware of unrelated business income which would necessitate filing of a tax return. The Diocese is not aware of any uncertain tax positions that would require disclosure or accrual in accordance with generally accepted accounting principles.

17. Events Occurring After the Reporting Date

The Diocese has evaluated events and transactions that occurred between June 30, 2013 and September 24, 2013, which is the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

18. Prior Year Reclassifications

Certain amounts contained in the prior financial statements have been reclassified to conform to the current year presentation.

NOTE C - INVESTMENTS

Investments are recorded at fair value, determined from quoted prices in active markets for identical assets (level 1 inputs), and are summarized as follows:

	Cost	Fair Value
Corporate bonds	$ 5,098,954	$ 4,985,627
Corporate stocks	11,559,944	14,143,004
U.S. Government securities	7,581,489	7,470,291
Mutual funds	1,759,120	1,932,365
Beneficial interest in perpetual trust (Note D)	948,571	1,027,041
	$ 26,948,078	$ 29,558,328

NOTE C - INVESTMENTS -- (Continued)

Included in investments are amounts totaling $6,686,077 held for the priest pension plan.

Investment return consisted of the following:

Interest and dividends	$ 623,713
Realized and unrealized gains	1,407,020
	$ 2,030,733

NOTE D - BENEFICIAL INTEREST IN PERPETUAL TRUST

The Diocese is the sole beneficiary of a longstanding perpetual trust that is required to be recorded on the Diocese's financial statements. The fair value of the trust's assets is recorded in the statement of financial position and the change in the fair value each year is included in the statement of activities as a change in permanently restricted net assets. Earnings from the trust are to be used for the education of priests. The trust consists entirely of marketable equity securities, fixed income investments, and temporary cash investments. At June 30, 2013 the fair value of this trust was $1,027,041.

NOTE E - ACCOUNTS RECEIVABLE

Accounts receivable are summarized as follows:

Catholic Sharing Appeal	$ 295,589
Insurance premiums	285,369
Parish receivables	25,757
Other	114,590
	721,305
Less allowance for doubtful accounts	(490,146)
	$ 231,159

NOTE F - LOANS RECEIVABLE

Loans receivable	$ 17,627,723
Less allowance for doubtful accounts	(75,000)
	$ 17,552,723

Annual maturities of loan receivables are as follows:

Year ending June 30,		
2014	$	914,562
2015		1,772,423
2016		860,994
2017		789,247
Thereafter		13,290,497
	$	17,627,723

NOTE G - LAND, BUILDINGS, IMPROVEMENTS AND EQUIPMENT

Land, buildings, improvements and equipment are summarized as follows:

Land	$ 9,800,242
Buildings and improvements	15,550,427
Equipment	700,719
Vehicles	163,115
Furniture and fixtures	727,238
	26,941,741
Less accumulated depreciation	(6,703,063)
	$ 20,238,678

Depreciation expense was $604,421 for the year ended June 30, 2013.

NOTE H - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of:

Accounts payable	$ 203,217
Second Collections payable	298,853
Catholic Sharing Appeal rebates	91,650
Accrued interest	94,275
Accrued payroll and related items	110,277
	$ 798,272

NOTE I - LONG-TERM DEBT AND INTEREST RATE SWAP

At June 30, 2013, the balance of the note payable was $18,699,260, and was secured by loans receivable and unrestricted deposits. The note requires monthly principal and interest (at LIBOR plus .75%) and requires a final balloon payment due January 1, 2015.

The Diocese uses an interest rate swap (swap) to convert the variable rate debt to a fixed rate, serving as a hedge against interest rates increasing. Swaps generally involve the exchange of fixed and variable rate interest payments between two parties, based on a common notional principal amount and maturity date. The notional balance amortizes as principal payments are made on the note payable.

Under the swap, the Diocese pays interest to the bank at a fixed rate of 6.05% on the outstanding notional principal and the bank, in turn, pays interest to the Diocese at the LIBOR plus .75% rate on the same notional amount, effectively converting the Diocese's note payable from a variable interest rate to a fixed 6.05% interest rate.

The fair value of the swap, as determined by the bank (level 2 input), was $3,869,349 at June 30, 2013, and is recorded as a liability in the Statement of Financial Position. The liability represents the estimated settlement amount if the swap terminated on June 30, 2013. The Diocese believes this settlement amount is the best representation of the fair value of the swap.

This note was refinanced subsequent to year end, see Note P for disclosure of new note terms.

NOTE I - LONG-TERM DEBT AND INTEREST RATE SWAP -- (Continued)

Annual maturities of long-term debt are as follows:

Year ending June 30	
2014	$ 434,273
2015	18,264,987
	$ 18,699,260

NOTE J - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

Education	$ 4,113,157
Ministry and evangelization	615,933
Other	132,431
	$ 4,861,521

Permanently restricted net assets, totaling $1,162,018 at June 30, 2013, consists mainly of a beneficial interest in perpetual trust. Earnings are primarily available for seminarian support and priests' education.

NOTE K - RETIREMENT PLANS

Lay Employees - 401(k) Plan:

The Diocese has a defined contribution plan that covers all lay employees age 20.5 or older. The Diocese matches a scaled percentage of employee contributions up to the first 6% of their compensation depending upon their years of service. The Diocese's matching contributions amounted to $65,552 for the year ended June 30, 2013.

Diocese of Pensacola-Tallahassee Pension Plan for Priests:

The Diocese has a non-contributory defined benefit pension plan (pension plan) that covers all priests of the Diocese. Pension costs include current service costs, which are accrued and funded on a current basis, and prior costs, which are amortized over 15 years. The plan assets are held in an account under Diocese control, and are invested in U.S. government securities, corporate bonds, and equities. The annual measurement date is June 30 for the pension benefits.

NOTE K - RETIREMENT PLANS -- (Continued)

The pension plan is underfunded at June 30, 2013, and consists of the following components.

Projected benefit obligation	$ (8,115,441)
Fair value of plan assets	7,345,197
Funded status	$ (770,244)

The accumulated benefit obligation at June 30, 2013 was $8,115,441.

Following is financial information related to changes in the projected benefit obligation and value of plan assets:

Benefit obligation, beginning of year	$ 8,377,794
Service cost	163,689
Interest cost	343,481
Actuarial loss	(326,745)
Benefits paid	(442,778)
Benefit obligation, end of year	$ 8,115,441

Fair value of plan assets, beginning of year	$ 6,568,501
Actual return on plan assets	531,034
Employer contribution	688,440
Benefits paid	(442,778)
Fair value of plan assets, end of year	$ 7,345,197

The components of net periodic pension cost, recognized in the Statement of Activities at June 30, 2013, follow:

Service cost	$ 163,689
Interest cost	343,481
Expected return on assets	(462,524)
Amortization of unrecognized transition obligation	133,272
Amortization of unrecognized actuarial loss	110,516
Net periodic benefit cost	$ 288,434

NOTE K - RETIREMENT PLANS -- (Continued)

Amounts recognized as a reduction in unrestricted net assets, but not yet recognized as a component of net periodic pension costs consist of:

Unrecognized transition obligation	$ 1,332,726
Unrecognized actuarial net loss	1,879,227
	$ 3,211,953

The estimated transition obligation for the pension plan that is expected to be recognized from changes in unrestricted net assets into net periodic benefit cost over the next fiscal year is $243,788.

The following are weighted-average assumptions used to determine benefit obligations at June 30, 2013:

Discount rate	4.53%

The following are weighted-average assumptions used to determine net periodic benefit cost for the year ended June 30, 2013:

Discount rate	4.21%
Expected return on plan assets	7.00%

The discount rate will fluctuate depending on the rate at which pension obligations can be effectively settled. The assumption for the expected return on plan assets for pension purposes is the average rate of earnings expected on the funds invested to provide for benefits included in the projected benefit obligation.

The pension plan actual asset allocations at June 30, 2013 by asset category are as follows:

Asset Category	
Equity securities	48%
Debt securities	43%
Other	9%
	100%

NOTE K - RETIREMENT PLANS -- (Continued)

The Diocese's investment policy includes various guidelines and procedures designed to ensure assets are invested in a manner necessary to meet expected future benefits earned by participants. The investment guidelines consider a broad range of economic conditions.

The investment policy is periodically reviewed by the Diocese and a designated third-party fiduciary for investment matters. The policy is established and administered in a manner to comply at all times with applicable government regulations.

The Diocese does not expect to contribute to the plan for fiscal year ending June 30, 2014.

The following pension benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

2014	$ 467,000
2015	453,000
2016	440,000
2017	451,000
2018	454,000
2019 - 2023	2,730,000
	$ 4,995,000

NOTE L - SELF-INSURANCE

Employee Group Insurance

Substantially all employees of the Diocese and affiliated parishes, schools and related entities are provided health benefits through an insurance plan administered by the Diocese. Premiums, recorded within insurance premium revenue in the accompanying statement of activities, are billed monthly to participating entities for their estimated share of costs. Insurance claims and administrative fees are expensed as incurred by the Diocese. As part of this self-insurance program, the Diocese purchases excess insurance coverage from outside insurance carriers. During the year ended June 30, 2013, the Diocese was responsible for costs up to $100,000 per covered person with an aggregate maximum of $5,000,000.

NOTE L - SELF-INSURANCE -- (Continued)

Property, General, Workers' Compensation and Loss Sharing Agreement

The Diocese and certain other dioceses within the State of Florida participate in a self-insurance program to provide coverage for property and general liability, and workers' compensation claims. Each participating diocese is assigned a loss fund which represents the maximum amount of losses the diocese will be responsible for in any one claim year. The loss sharing agreement provides that each diocese will be reimbursed by the other participants for aggregate losses during the claim year in excess of its loss fund. Reimbursements are collected from the other dioceses based on their proportionate share of the total loss fund. Once the total loss fund has been depleted, additional claims are recoverable from an outside carrier from which excess insurance coverage was purchased. The purpose of the loss sharing agreement is to protect the participating dioceses from exceptionally large or catastrophic losses.

The Diocese also participates in a second sharing agreement with the other dioceses which is intended to cover losses which are not insured under the first agreement or are not insurable.

A reserve for insurance losses has been recorded for claims filed but not paid as well as for claims incurred but not reported. The amount of the reserve is estimated based on an actuarial valuation of losses, and is recorded by the Diocese at the present value of the estimated unpaid losses using a discount factor of 4%. Any resulting adjustments are reflected in the provision for insurance losses in the year such adjustment is considered necessary.

The Diocese assesses each participating parish, school and related entity for their share of the estimated costs of claims, administration fees, and premiums for excess insurance coverage and anticipated reserve requirements. Any excess of assessments over actual losses is retained by the Diocese to cover future program years.

NOTE M - RELATED PARTIES

The Diocese paid approximately $116,000 in legal fees for the year ended June 30, 2013 to a law firm of which one of the partners serves on the Diocese's finance committee.

NOTE N - COMMITMENTS AND CONTINGENCIES

The Diocese is involved in various legal matters incidental to the normal course of its operations. In the opinion of management, the ultimate liability resulting from such litigation will not exceed the reserve for insurance losses recorded in the accompanying financial statements.

The Diocese maintains cash balances in several financial institutions. FDIC provides insurance for all accounts up to $250,000 at each institution. Cash balances during the year may exceed federally insured limits. The Diocese has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash held by financial institutions.

NOTE O – RECLASSIFICATIONS

During the year, there were two reclassifications within net assets. Approximately, $3,449,000 was reclassified from permanently restricted to temporarily restricted net assets in relation to accumulated donations from the Burse Club. Prior management had interpreted these funds to be permanently restricted, however, there is no documentation to support such restriction, therefore, these funds were reclassified as temporarily restricted for the education of seminarians. Approximately $1,056,000 was reclassified from temporarily restricted to unrestricted net assets based on a reevaluation of the donor’s estate documentation and an attorney’s opinion. Both items are recorded as reclassifications on the Statement of Activities and Changes in Net Assets.

NOTE P- SUBSEQUENT EVENT

In July 2013, the Diocese paid off the existing note payable and terminated and settled the interest rate swap agreement. The existing $18.7 million note was paid off with proceeds from a new $16.9 million note, along with a cash payment of approximately $1.8 million. The $16.9 million note bears a fixed interest rate of 2.6 percent and requires consecutive monthly payments of principal and interest of $85,651 until July 2018, at which time a balloon payment of approximately $13.8 million is due. The swap agreement termination note payable totaling $3,856,974 bears interest at LIBOR plus 1.2 percent and requires consecutive monthly payments of principal of $14,892, plus accrued interest until July 2018, at which time a balloon payment of approximately $3 million is due.