

**DIOCESE OF PENSACOLA – TALLAHASSEE  
ADMINISTRATIVE OFFICES**

**CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**JUNE 30, 2018 AND 2017**

**DIOCESE OF PENSACOLA – TALLAHASSEE  
ADMINISTRATIVE OFFICES  
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JUNE 30, 2018 AND 2017**

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## INDEPENDENT AUDITORS' REPORT

To The Most Reverend William A. Wack, CSC  
Bishop of the Diocese of Pensacola – Tallahassee

We have audited the accompanying consolidated financial statements of the Diocese of Pensacola - Tallahassee Administrative Offices (the "Diocese") and subsidiary, which comprise the consolidated statement of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended, and related notes to the consolidated financial statements.

### **Management's Responsibility for the Consolidated 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.

### **Auditors' 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Diocese of Pensacola-Tallahassee Administrative Offices and subsidiary as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters****Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statement of financial position and consolidating statement of activities and changes in net assets, on pages 20 and 21 are presented for purposes of additional analysis and are not a required part of the financial statements. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual organizations, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Warren Averett, LLC*

Pensacola, Florida  
September 26, 2018

**DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2018 AND 2017**

<b>ASSETS</b>		
	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 22,207,309	\$ 24,808,350
Investments and beneficial interest in perpetual trust	49,774,945	47,915,006
Accounts receivable from related parties, net	303,347	423,786
Loans receivable from related parties, net	10,076,260	12,013,940
Prepaid expenses and other assets	597,072	604,889
Cash surrender value of life insurance policies	694,038	-
Land, buildings, improvements and equipment, net	18,626,296	19,373,638
Priest pension plan	1,811,360	712,558
Fox Trace Housing	1,140,996	1,173,461
<b>TOTAL ASSETS</b>	<b>\$105,231,623</b>	<b>\$107,025,628</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 1,064,436	\$ 507,255
Deposits payable to related parties	43,424,114	42,287,006
Deferred revenue	1,781,901	1,894,012
Reserve for insurance losses	1,072,761	779,482
Long-term debt	-	11,691,071
Total current liabilities	47,343,212	57,158,826
<b>NET ASSETS</b>		
Unrestricted net assets	49,840,875	42,145,527
Temporarily restricted net assets	6,919,452	6,639,222
Permanently restricted net assets	1,128,084	1,082,053
Total net assets	57,888,411	49,866,802
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$105,231,623</b>	<b>\$ 107,025,628</b>

See notes to the consolidated financial statements.

**DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES  
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018	Unrestricted	Temporarily Restricted	Permanently Restricted	2017
<b>Support and other revenue</b>								
Parish assessments	\$ 2,806,584	-	-	\$ 2,806,584	\$ 2,814,573	-	-	\$ 2,814,573
Catholic Sharing Appeal	2,761,986	-	-	2,761,986	2,785,344	-	-	2,785,344
Contributions	27,060	434,272	-	461,332	114,281	422,880	-	537,161
Program revenue	475,641	-	-	475,641	479,688	-	-	479,688
Investment income, net	2,965,463	544,475	46,031	3,555,969	3,696,991	991,153	1,980	4,690,124
Interest income	892,371	-	-	892,371	908,663	-	-	908,663
Insurance premiums	5,767,113	-	-	5,767,113	5,471,519	-	-	5,471,519
Other income, net	3,931,416	-	-	3,931,416	1,514,839	-	-	1,514,839
Total support and other revenue	19,627,634	978,747	46,031	20,652,412	17,785,898	1,414,033	1,980	19,201,911
Net assets released from restrictions:								
Satisfaction of program restrictions	698,517	(698,517)	-	-	723,722	(723,722)	-	-
<b>Total support, other revenue, and net assets released from restrictions</b>	20,326,151	280,230	46,031	20,652,412	18,509,620	690,311	1,980	19,201,911
<b>Functional expenses</b>								
Program expenses	1,874,994	-	-	1,874,994	2,125,779	-	-	2,125,779
Support services expenses	4,154,595	-	-	4,154,595	4,146,584	-	-	4,146,584
Other expenses								
Insurance premiums, claims and other costs	5,843,449	-	-	5,843,449	4,652,160	-	-	4,652,160
Interest	1,010,193	-	-	1,010,193	963,702	-	-	963,702
Net periodic pension cost	54,879	-	-	54,879	231,908	-	-	231,908
Depreciation	513,169	-	-	513,169	493,848	-	-	493,848
<b>Total expenses</b>	13,451,279	-	-	13,451,279	12,613,981	-	-	12,613,981
Excess of support, revenues, and net assets released from restrictions over expenses	6,874,872	280,230	46,031	7,201,133	5,895,639	690,311	1,980	6,587,930
Other changes in net assets								
Pension related changes other than net periodic pension cost	820,476	-	-	820,476	1,207,728	-	-	1,207,728
Total other changes in net assets	820,476	-	-	820,476	1,207,728	-	-	1,207,728
<b>CHANGES IN NET ASSETS</b>	7,695,348	280,230	46,031	8,021,609	7,103,367	690,311	1,980	7,795,658
<b>NET ASSETS AT BEGINNING OF YEAR</b>	42,145,527	6,639,222	1,082,053	49,866,802	35,042,160	5,948,911	1,080,073	42,071,144
<b>NET ASSETS AT END OF YEAR</b>	\$ 49,840,875	\$ 6,919,452	\$ 1,128,084	\$ 57,888,411	\$ 42,145,527	\$ 6,639,222	\$ 1,082,053	\$ 49,866,802

See notes to the consolidated financial statements.

**DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 8,021,609	\$ 7,795,658
Adjustments to reconcile change in net assets to net cash operating activities:		
Depreciation	513,169	493,848
Gain on sale of property and equipment	(3,008,711)	(707,829)
Realized and unrealized gains on investments	(2,231,255)	(3,587,099)
Change in insurance loss reserve	293,279	(57,582)
Decrease (increase) in:		
Accounts receivable	120,439	35,679
Prepaid expenses and other assets	7,817	(83,327)
Priest pension plan	(1,811,360)	(712,558)
Increase (decrease) in:		
Accounts payable and accrued liabilities	557,181	(40,754)
Deferred revenue	(112,111)	157,383
Priest pension plan	712,558	(726,896)
Net cash provided by operating activities	3,062,615	2,566,523
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of land, buildings, improvements and equipment	(282,308)	(214,788)
Proceeds from sale of property and equipment	3,557,657	823,315
Collections on loans	2,606,591	1,274,320
New loans issued	(668,911)	(1,609,797)
Net cash paid - Fox Trace Housing	-	(578,161)
Investment in cash surrender value of life insurance policies	(694,038)	-
Purchase of investments	(21,172,756)	(23,174,626)
Proceeds from sale of investments	21,544,072	20,930,498
Net cash provided by (used in) investing activities	4,890,307	(2,549,239)

See notes to the consolidated financial statements.

**DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES  
CONSOLIDATED STATEMENTS OF CASH FLOWS – CONTINUED  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in deposits payable	\$ 1,137,108	\$ 5,188,872
Payments on long-term debt	(11,691,071)	(970,157)
Net cash provided by (used in) financing activities	(10,553,963)	4,218,715
<b>NET INCREASE (DECREASE) IN CASH</b>	(2,601,041)	4,235,999
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	24,808,350	20,572,351
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	\$ 22,207,309	\$ 24,808,350
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest on debt	\$ 226,188	\$ 301,280
Debt forgiven in consideration for purchase of Fox Trace Housing	\$ -	\$ 642,345

See notes to the consolidated financial statements.



**DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**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.

**Principles of Consolidation**

In accordance with generally accepted accounting principles, the accompanying consolidated financial statements include the financial activities of the Diocese and its wholly owned subsidiary, Fox Trace Housing, Inc. (“Fox Trace”). All significant intercompany transactions have been eliminated in the accompanying consolidated financial statements.

**Subsidiary**

Fox Trace is a wholly owned not-for-profit subsidiary which was incorporated in the State of Florida in 2011. Fox Trace operates an affordable apartment complex in Panama City, Florida.

The Diocese and its wholly owned subsidiary are collectively referred to as the “Diocese” in the accompanying consolidated financial statements.

**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 consolidated financial statements include the assets, liabilities, net assets, and financial activities at the diocesan level of administration. The Catholic Foundation of Northwest Florida, Inc., Catholic Charities, 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 consolidated financial statements.

**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.

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.

**DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –  
CONTINUED**

**Basis of Presentation – Continued**

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.

**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, and 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.

**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 and the reserve for insurance losses. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

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

**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.

**Cash Surrender Value of Life Insurance Policies**

The Diocese is the owner and beneficiary of life insurance policies that cover the lives of certain priests. These life insurance policies have a cash surrender value which is reported on the statement of financial position at the surrender value provided to the Diocese by the insurance carrier.

**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.

**DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –  
CONTINUED**

**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.

**Accounts Receivable**

The Diocese's accounts receivable are primarily due from Diocesan parishes for the Catholic Sharing Appeal, 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.

**Loans Receivable**

Loans receivable consist of amounts loaned to Diocesan parishes, schools, and related entities. Interest income is recognized monthly on outstanding loan balances at a current annual rate of 5.5% unless special circumstances warrant a different rate. Accounts are generally considered to be past due and delinquent 30 days after the monthly due date.

**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
Equipment	4 - 10 years
Furniture and fixtures	4 - 10 years
Vehicles	5 - 7 years

**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 a rate of 1.5 - 3% depending on the type of deposit and the deposits are payable on demand.

**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.

**DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**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.

**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. Fox Trace Housing, Inc. is covered under the Dioceses' exempt ruling. Accordingly, no provision for income taxes is included in the consolidated financial statements.

**Events Occurring After the Reporting Date**

The Diocese has evaluated events and transactions that occurred between June 30, 2018 and September 26, 2018, which is the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

**2. 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:

As of June 30, 2018:	<u>Cost</u>	<u>Fair Value</u>
Corporate bonds	\$ 7,952,227	\$ 7,772,032
Corporate stocks	16,836,192	20,787,259
U.S. Government securities	9,180,436	6,686,950
Mutual funds	9,506,625	13,577,331
Beneficial interest in perpetual trust (Note 3)	951,373	951,373
	<u>\$ 44,426,853</u>	<u>\$ 49,774,945</u>
Investment return consisted of the following:		
Interest and dividends		\$ 1,324,714
Realized and unrealized gains		<u>2,231,255</u>
		<u>\$ 3,555,969</u>

**DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**2. INVESTMENTS – CONTINUED**

As of June 30, 2017:	<u>Cost</u>	<u>Fair Value</u>
Corporate bonds	\$ 4,699,019	\$ 4,739,412
Corporate stocks	16,808,740	20,741,359
U.S. Government securities	9,447,645	9,403,276
Mutual funds	10,745,266	12,083,880
Beneficial interest in perpetual trust (Note 3)	947,079	947,079
	<u>\$ 42,647,749</u>	<u>\$ 47,915,006</u>
Investment return consisted of the following:		
Interest and dividends		\$ 1,103,025
Realized and unrealized gains		<u>3,587,099</u>
		<u>\$ 4,690,124</u>

**3. 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, 2018 and 2017, the fair value of this trust was \$951,373 and \$947,079, respectively.

**4. ACCOUNTS RECEIVABLE FROM RELATED PARTIES**

Accounts receivable are summarized as follows:

	<u>2018</u>	<u>2017</u>
Catholic Sharing Appeal	\$ 336,485	\$ 487,358
Insurance premiums	33,405	11,322
Parish receivables	63,964	110,469
Other	79,493	24,637
	<u>513,347</u>	<u>633,786</u>
Less allowance for doubtful accounts	<u>(210,000)</u>	<u>(210,000)</u>
	<u>\$ 303,347</u>	<u>\$ 423,786</u>

**DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**5. LOANS RECEIVABLE FROM RELATED PARTIES**

Loans receivable from related parties are as follows:

	<u>2018</u>	<u>2017</u>
Loans receivable	\$ 10,151,260	\$ 12,088,940
Less allowance for doubtful accounts	<u>(75,000)</u>	<u>(75,000)</u>
	<u>\$ 10,076,260</u>	<u>\$ 12,013,940</u>

Annual maturities of loan receivables are as follows:

<u>June 30,</u>	
2019	\$ 1,353,749
2020	1,171,311
2021	920,957
2022	742,752
Thereafter	<u>5,962,491</u>
	<u>\$ 10,151,260</u>

During the years ended June 30, 2018 and 2017, interest income totaling \$836,586 and \$861,570, respectively, was received from loans to related parties.

**6. LAND, BUILDINGS, IMPROVEMENTS AND EQUIPMENT**

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

	<u>2018</u>	<u>2017</u>
Land	\$ 9,501,086	\$ 9,910,775
Buildings and improvements	16,396,393	16,317,894
Equipment	660,395	659,395
Vehicles	162,122	124,044
Furniture and fixtures	<u>747,488</u>	<u>718,176</u>
	27,467,484	27,730,284
Less accumulated depreciation	<u>(8,841,188)</u>	<u>(8,356,646)</u>
	<u>\$ 18,626,296</u>	<u>\$ 19,373,638</u>

Depreciation expense was \$513,169 and \$493,848 for the years ended June 30, 2018 and 2017 respectively.

**DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities consist of:

	<u>2018</u>	<u>2017</u>
Accounts payable	\$ 641,957	\$ 247,540
Second Collections payable	239,873	104,035
Catholic Sharing Appeal rebates	78,521	50,992
Accrued payroll and related items	<u>104,085</u>	<u>104,688</u>
	<u>\$ 1,064,436</u>	<u>\$ 507,255</u>

**8. LONG-TERM DEBT**

At June 30, 2017, the Diocese owed \$8,534,011 on a fixed rate note and \$3,157,060 on a variable interest rate note which were paid in full during the year ended June 30, 2018. Both loans were secured by loans receivable from parishes and schools and certain deposit account balances.

**9. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes:

	<u>2018</u>	<u>2017</u>
Education	\$ 6,086,695	\$ 5,664,257
Ministry and evangelization	679,697	810,231
Other	<u>153,060</u>	<u>164,734</u>
	<u>\$ 6,919,452</u>	<u>\$ 6,639,222</u>

Permanently restricted net assets consist mainly of a beneficial interest in perpetual trust. Earnings are primarily available for seminarian support and priests' education.

**10. 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 \$92,617 and \$89,970 for the years ended June 30, 2018 and 2017 respectively.

**DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**10. RETIREMENT PLANS – CONTINUED**

**Priests Pension Plan**

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 a separate trust.

Participants are eligible for benefits at the age of sixty-five and ten years of credited service. The plan provides a benefit of \$54.14 per month for each year of credited service, with a maximum benefit of \$1,624.20 per month.

For the years ended June 30, 2018 and 2017, there were 80 participants in the plan.

The following tables set forth further information about the defined benefit pension plan as of and for the years ended as follows:

	<u><b>2018</b></u>	<u><b>2017</b></u>
Benefit obligation, beginning of year	\$ 9,303,942	\$ 9,639,396
Service cost	168,144	180,392
Interest cost	350,736	356,740
Amendments	175,118	-
Actuarial loss	(740,995)	(465,149)
Benefits paid	<u>(391,533)</u>	<u>(407,437)</u>
Benefit obligation, end of year	<u>\$ 8,865,412</u>	<u>\$ 9,303,942</u>
Fair value of plan assets, beginning of year	\$ 10,016,500	\$ 8,912,500
Actual return on plan assets	718,600	1,047,803
Employer contribution	333,205	463,634
Benefits paid	<u>(391,533)</u>	<u>(407,437)</u>
Fair value of plan assets, end of year	<u>\$ 10,676,772</u>	<u>\$ 10,016,500</u>
Fair value of plan assets at fair value	\$ (10,676,772)	\$ (10,016,500)
Projected benefit obligation	<u>8,865,412</u>	<u>9,303,942</u>
Net pension liability (asset)	<u>\$ (1,811,360)</u>	<u>\$ (712,558)</u>



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**10. RETIREMENT PLANS – CONTINUED**

**Priests Pension Plan – Continued**

Amounts recognized in the statement of financial position consist of:

	<u>2018</u>	<u>2017</u>
Priest pension plan net asset	\$ 1,811,360	\$ 712,558

Amounts recognized in the statement of activities consist of the following:

	<u>2018</u>	<u>2017</u>
Service cost	\$ 168,144	\$ 180,392
Interest cost	350,736	356,740
Expected return on assets	(691,956)	(617,918)
Amortization of unrecognized transition obligation	133,272	133,272
Amortization of unrecognized prior service cost	10,566	10,566
Amortization of unrecognized actuarial loss	84,117	168,856
Net periodic pension cost	<u>\$ 54,879</u>	<u>\$ 231,908</u>

Other changes in plan assets and benefit obligations previously recognized in changes in unrestricted net assets:

	<u>2018</u>	<u>2017</u>
Unrecognized transition obligation	\$ 666,366	\$ 799,638
Net prior service cost	280,772	116,220
Unrecognized actuarial net loss	<u>1,243,420</u>	<u>2,095,176</u>
Amounts previously recognized in unrestricted net assets, not yet recognized as periodic pension costs.	<u>\$ 2,190,558</u>	<u>\$ 3,011,034</u>

Amortization payments paid during fiscal year ended June 30, 2018:

Amortization of transition obligation	\$ 133,272
Amortization of net prior service cost	10,566
Amortization of net loss/(gain)	<u>84,117</u>
Total amortization payments	<u>\$ 227,955</u>

**DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES**  
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**10. RETIREMENT PLANS – CONTINUED**

**Priests Pension Plan – Continued**

Amortization payments expected to be paid during fiscal year ended June 30, 2019:

Amortization of transition obligation	\$	133,272
Amortization of net prior service cost		24,037
Amortization of net loss/(gain)		<u>13,519</u>
Total amortization payments	<u>\$</u>	<u>170,828</u>

The following assumptions were used in accounting for the Pension Plan:

	<u>2018</u>	<u>2017</u>
Weighted-average assumption used to determine pension benefit obligations		
Discount rate	4.30%	3.85%
Weighted-average assumptions used to determine net periodic pension benefit costs		
Discount rate	3.85%	3.78%
Expected return on plan assets	7.00%	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 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 target allocations for plan assets are 53% equity securities, 42% debt securities, and 5% other investments.

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.

**DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES**  
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**10. RETIREMENT PLANS – CONTINUED**

**Priests Pension Plan – Continued**

The fair values of the Pension Plan assets by asset class are as follows:

Asset Category	June 30, 2018		June 30, 2017	
	Level 1*	%	Level 1*	%
Equity securities	\$ 5,488,646	51%	\$ 5,296,314	53%
Debt securities	4,895,213	46%	4,369,862	44%
Other	292,913	3%	350,324	3%
	<u>\$ 10,676,772</u>	<u>100%</u>	<u>\$ 10,016,500</u>	<u>100%</u>

\*Assets are valued at level 1 inputs as determined from quoted prices in active markets for identical assets.

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

2019	\$ 474,000
2020	524,000
2021	512,000
2022	551,000
2023	600,000
2024 - 2028	<u>3,009,000</u>
	<u>\$ 5,670,000</u>

The Diocese is not required to contribute to the plan for fiscal year ending June 30, 2019.

**11. 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 years ended June 30, 2018 and 2017, the Diocese was responsible for costs up to \$100,000 per covered person with an aggregate maximum of \$5,000,000.

**DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

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**11. 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.

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 2%. 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.

**12. FOX TRACE HOUSING**

On December 21, 2016, the Diocese acquired Fox Trace Housing, Inc. from Catholic Charities of Northwest Florida (Catholic Charities). The total purchase price of \$1,520,465 exceeded the book value of assets received \$1,372,678, and consisted of \$878,120 in cash and forgiveness of a \$642,345 note receivable from Catholic Charities. Fox Trace owns and operates an apartment complex in Panama City, Florida. In 2011, Fox Trace was provided with a donor-restricted contribution specifically for the purchase of the apartment complex. The Diocese has assumed responsibility for the restriction and if the building is ever sold, the proceeds are restricted for the support of affordable housing in Panama City. The prior year consolidated financial statements present activity of Fox Trace for the period from December 21, 2016 through June 30, 2017.

**13. LIFE INSURANCE POLICIES**

During the year ended June 30, 2018, the Diocese purchased 28 life insurance policies insuring the lives of certain priests. The insurance policies are payable to the Diocese with a combined death benefit of \$7,000,000 and a cash surrender value of \$694,038, which is recorded as an asset on the accompanying consolidated statement of net position. The Diocese paid initial fees of \$1,150,969 and premiums of \$43,934 during the year in relation to these policies.

**DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

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**14. 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 places its cash and investments in financial institutions and investment firms that are federally insured for \$250,000 and for \$500,000 under the Federal Deposit Insurance Corporation (FDIC) and the Securities Investors Protection Corporation (SIPC), respectively. At June 30, 2018 and 2017, the aggregate balances were in excess of the insurance and therefore, bear some risk since they are not collateralized. The Diocese has not experienced any losses on its cash or investments to date as related to the FDIC and SIPC insurance limits.

**SUPPLEMENTARY INFORMATION**

**DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES**  
**CONSOLIDATING STATEMENT OF FINANCIAL NET POSITION**  
**JUNE 30, 2018**

	<b>ASSETS</b>			
	<b>Diocese</b>	<b>Fox Trace</b>	<b>Eliminations</b>	<b>Total</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 21,771,367	\$ 435,942	\$ -	\$ 22,207,309
Investments and beneficial interest in perpetual trust	49,774,945	-	-	49,774,945
Accounts receivable from related parties, net	298,688	4,659	-	303,347
Loans receivable from related parties, net	10,076,260	-	-	10,076,260
Prepaid expenses and other assets	571,908	25,164	-	597,072
Cash surrender value of life insurance	694,038	-	-	694,038
Investment in ownership interest of Fox Trace Housing	1,603,052	-	(1,603,052)	-
Land, buildings, improvements and equipment, net	18,613,306	12,990	-	18,626,296
Priest pension plan	1,811,360	-	-	1,811,360
Fox Trace Housing	-	993,208	147,788	1,140,996
<b>TOTAL ASSETS</b>	<b>\$ 105,214,924</b>	<b>\$ 1,471,963</b>	<b>\$ (1,455,264)</b>	<b>\$ 105,231,623</b>

	<b>LIABILITIES AND NET ASSETS</b>			
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 1,047,737	\$ 16,699	\$ -	\$ 1,064,436
Deposits payable to related parties	43,424,114	-	-	43,424,114
Deferred revenue	1,781,901	-	-	1,781,901
Reserve for insurance losses	1,072,761	-	-	1,072,761
Total current liabilities	47,326,513	16,699	-	47,343,212
<b>NET ASSETS</b>				
Unrestricted net assets	49,840,875	462,056	(462,056)	49,840,875
Temporarily restricted net assets	6,919,452	993,208	(993,208)	6,919,452
Permanently restricted net assets	1,128,084	-	-	1,128,084
Total net assets	57,888,411	1,455,264	(1,455,264)	57,888,411
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 105,214,924</b>	<b>\$ 1,471,963</b>	<b>\$ (1,455,264)</b>	<b>\$ 105,231,623</b>

See independent auditors' report.

**DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES  
CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2018**

	Diocese			Fox Trace			Consolidated Total
	Unrestricted	Temporarily	Permanently	Unrestricted	Temporarily	Eliminations	
		Restricted	Restricted		Restricted		
<b>Support and Other Revenue:</b>							
Parish assessments	\$ 2,806,584	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,806,584
Catholic Sharing Appeal	2,761,986	-	-	-	-	-	2,761,986
Contributions	27,060	434,272	-	-	-	-	461,332
Program revenue	475,641	-	-	-	-	-	475,641
Investment income, net	2,965,463	544,475	46,031	-	-	-	3,555,969
Interest income	892,371	-	-	-	-	-	892,371
Insurance premiums	5,767,113	-	-	169,238	-	-	5,767,113
Other income, net	3,818,025	-	-	169,238	(55,847)	(55,847)	3,931,416
Total support and other revenue	19,514,243	978,747	46,031	169,238	(55,847)	(55,847)	20,652,412
Net assets released from restrictions:							
Satisfaction of program restrictions	698,517	(698,517)	-	32,465	(32,465)	-	-
<b>Total support, other revenue, and net assets released from restrictions</b>	<b>20,212,760</b>	<b>280,230</b>	<b>46,031</b>	<b>201,703</b>	<b>(32,465)</b>	<b>(55,847)</b>	<b>20,652,412</b>
<b>Functional expenses:</b>							
Program expenses	1,761,603	-	-	113,391	-	-	1,874,994
Support services expenses	4,154,595	-	-	-	-	-	4,154,595
Other expenses							
Insurance premiums, claims and other costs	5,843,449	-	-	-	-	-	5,843,449
Interest	1,010,193	-	-	-	-	-	1,010,193
Net periodic pension cost	54,879	-	-	-	-	-	54,879
Depreciation	513,169	-	-	-	-	-	513,169
<b>Total expenses</b>	<b>13,337,888</b>	<b>-</b>	<b>-</b>	<b>113,391</b>	<b>-</b>	<b>-</b>	<b>13,451,279</b>
Excess of support, revenues, and net assets released from restrictions over expenses	6,874,872	280,230	46,031	88,312	(32,465)	(55,847)	7,201,133
Other changes in net assets							
Pension related changes other than net periodic pension cost	820,476	-	-	-	-	-	820,476
Total other changes in net assets	820,476	-	-	-	-	-	820,476
<b>CHANGES IN NET ASSETS</b>	<b>7,695,348</b>	<b>280,230</b>	<b>46,031</b>	<b>88,312</b>	<b>(32,465)</b>	<b>(55,847)</b>	<b>8,021,609</b>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<b>42,145,527</b>	<b>6,639,222</b>	<b>1,082,053</b>	<b>373,744</b>	<b>1,025,673</b>	<b>(1,399,417)</b>	<b>49,866,802</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 49,840,875</b>	<b>\$ 6,919,452</b>	<b>\$ 1,128,084</b>	<b>\$ 462,056</b>	<b>\$ 993,208</b>	<b>\$ (1,455,264)</b>	<b>\$ 57,888,411</b>

See independent auditors' report.