

**DIOCESE OF PENSACOLA – TALLAHASSEE
ADMINISTRATIVE OFFICES**

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

JUNE 30, 2017 AND 2016

**DIOCESE OF PENSACOLA – TALLAHASSEE
ADMINISTRATIVE OFFICES
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JUNE 30, 2017 AND 2016**

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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, 2017, and the related consolidated statements of activities and changes in net assets, and cash flows for the year then ended, and related notes to the consolidated financial statements. We have also audited the accompanying financial statements of the Diocese which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the 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.

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 2017 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Diocese of Pensacola - Tallahassee Administrative Offices and subsidiary as of June 30, 2017, 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. Also, in our opinion, the 2016 financial statements present fairly, in all material respects, the financial position of the Diocese of Pensacola - Tallahassee Administrative Offices as of June 30, 2016 and the results of its operations and its cash flows for the year 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 financial statements as a whole. The consolidating statement of financial position and consolidating statement of activities and changes in net assets, on pages 19 and 20 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 companies, 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
October 17, 2017

DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

ASSETS	2017	2016
ASSETS	Consolidated	
Cash and cash equivalents	\$ 24,808,350	\$ 20,572,351
Investments and beneficial interest in perpetual trust	47,915,006	42,083,779
Accounts receivable from related parties, net	423,786	459,465
Loans receivable from related parties, net	12,013,940	12,320,808
Prepaid expenses and other assets	604,889	521,562
Land, buildings, improvements and equipment, net	19,373,638	19,721,139
Priest pension plan	712,558	-
Fox Trace Housing	1,173,461	-
TOTAL ASSETS	<u>\$107,025,628</u>	<u>\$ 95,679,104</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 507,255	\$ 548,009
Deposits payable to related parties	42,287,006	37,098,134
Deferred revenue	1,894,012	1,736,629
Reserve for insurance losses	779,482	837,064
Priest pension plan	-	726,896
Long-term debt	11,691,071	12,661,228
Total current liabilities	<u>57,158,826</u>	<u>53,607,960</u>
NET ASSETS		
Unrestricted net assets	42,145,527	35,042,160
Temporarily restricted net assets	6,639,222	5,948,911
Permanently restricted net assets	1,082,053	1,080,073
Total net assets	<u>49,866,802</u>	<u>42,071,144</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$107,025,628</u>	<u>\$ 95,679,104</u>

See notes to the consolidated financial statements.

DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Consolidated	Unrestricted	Temporarily Restricted	Permanently Restricted	2016
Support and other revenue								
Parish assessments	\$ 2,814,573	\$ -	\$ -	\$ 2,814,573	\$ 2,785,536	\$ -	\$ -	\$ 2,785,536
Catholic Sharing Appeal	2,785,344	-	-	2,785,344	2,712,884	-	-	2,712,884
Contributions	114,281	422,880	-	537,161	5,543	637,368	-	642,911
Program revenue	479,688	-	-	479,688	505,264	-	-	505,264
Investment income, net	3,696,991	991,153	1,980	4,690,124	1,165,598	524,019	(130,843)	1,558,774
Interest income	908,663	-	-	908,663	921,006	-	-	921,006
Insurance premiums	5,471,519	-	-	5,471,519	5,652,057	-	-	5,652,057
Other income	1,514,839	-	-	1,514,839	1,611,864	-	-	1,611,864
Total support and other revenue	17,785,898	1,414,033	1,980	19,201,911	15,359,752	1,161,387	(130,843)	16,390,296
Net assets released from restrictions:								
Satisfaction of program restrictions	723,722	(723,722)	-	-	760,061	(760,061)	-	-
Total support, other revenue, and net assets released from restrictions	18,509,620	690,311	1,980	19,201,911	16,119,813	401,326	(130,843)	16,390,296
Functional expenses								
Program expenses	2,125,779	-	-	2,125,779	1,479,092	-	-	1,479,092
Support services expenses	4,146,584	-	-	4,146,584	3,982,479	-	-	3,982,479
Other expenses								
Insurance premiums, claims and other costs	4,652,160	-	-	4,652,160	5,097,459	-	-	5,097,459
Interest	963,702	-	-	963,702	1,487,925	-	-	1,487,925
Net periodic pension cost	231,908	-	-	231,908	140,901	-	-	140,901
Depreciation	493,848	-	-	493,848	497,805	-	-	497,805
Total expenses	12,613,981	-	-	12,613,981	12,685,661	-	-	12,685,661
Excess of support, revenues, and net assets released from restrictions over expenses	5,895,639	690,311	1,980	6,587,930	3,434,152	401,326	(130,843)	3,704,635
Other changes in net assets								
Pension related changes other than net periodic pension cost	1,207,728	-	-	1,207,728	(1,016,297)	-	-	(1,016,297)
Total other changes in net assets	1,207,728	-	-	1,207,728	(1,016,297)	-	-	(1,016,297)
CHANGES IN NET ASSETS	7,103,367	690,311	1,980	7,795,658	2,417,855	401,326	(130,843)	2,688,338
NET ASSETS AT BEGINNING OF YEAR	35,042,160	5,948,911	1,080,073	42,071,144	32,624,305	5,547,585	1,210,916	39,382,806
NET ASSETS AT END OF YEAR	\$ 42,145,527	\$ 6,639,222	\$ 1,082,053	\$ 49,866,802	\$ 35,042,160	\$ 5,948,911	\$ 1,080,073	\$ 42,071,144

See notes to the consolidated financial statements.

DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
	Consolidated	
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 7,795,658	\$ 2,688,338
Adjustments to reconcile change in net assets to net cash operating activities:		
Depreciation	493,848	497,805
Gain on sale of land	(707,829)	(986,199)
Realized and unrealized gains on investments	(3,587,099)	(478,328)
Change in insurance loss reserve	(57,582)	109,741
Decrease (increase) in		
Accounts receivable	35,679	66,685
Prepaid expenses and other assets	(83,327)	271,484
Priest pension plan	(712,558)	-
Increase (decrease) in		
Accounts payable and accrued liabilities	(40,754)	(112,959)
Deferred revenue	157,383	(105,742)
Priest pension plan	(726,896)	730,326
Net cash provided by operating activities	2,566,523	2,681,151
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of land, buildings, improvements and equipment	(214,788)	(286,350)
Proceeds from sale of land	823,315	1,177,436
Collections on loans	1,274,320	3,464,942
New loans issued	(1,609,797)	(1,569,795)
Net cash paid - Fox Trace Housing	(578,161)	-
Purchase of investments	(23,174,626)	(10,593,621)
Proceeds from sale of investments	20,930,498	10,081,403
Net cash provided by (used in) investing activities	(2,549,239)	2,274,015
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in deposits payable	5,188,872	2,127,177
Payments on long-term debt	(970,157)	(4,817,792)
Net cash provided by (used in) financing activities	4,218,715	(2,690,615)
NET INCREASE IN CASH	4,235,999	2,264,551
CASH AND CASH EQUIVALENTS, BEGINNING	20,572,351	18,307,800
CASH AND CASH EQUIVALENTS, ENDING	\$ 24,808,350	\$ 20,572,351
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest on debt	\$ 301,280	\$ 407,696
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, 2017 AND 2016

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 2017 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 accompany 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, 2017 AND 2016

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.

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.

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.

DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fair Value – Continued

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 (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.

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, 2017 AND 2016

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, 2017 and October 17, 2017, 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, 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)	<u>947,079</u>	<u>947,079</u>
	<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>

DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

2. INVESTMENTS – CONTINUED

As of June 30, 2016:	<u>Cost</u>	<u>Fair Value</u>
Corporate bonds	\$ 4,371,424	\$ 4,504,736
Corporate stocks	14,141,685	16,744,024
U.S. Government securities	8,691,471	8,879,362
Mutual funds	10,547,717	11,010,557
Beneficial interest in perpetual trust (Note 3)	910,224	945,100
	<u>\$ 38,662,521</u>	<u>\$ 42,083,779</u>

Investment return consisted of the following:

Interest and dividends	\$ 1,080,446
Realized and unrealized gains	478,328
	<u>\$ 1,558,774</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, 2017 and 2016, the fair value of this trust was \$947,079 and \$945,100, respectively.

4. ACCOUNTS RECEIVABLE FROM RELATED PARTIES

Accounts receivable are summarized as follows:

	<u>2017</u>	<u>2016</u>
Catholic Sharing Appeal	\$ 487,358	\$ 475,828
Insurance premiums	11,322	19,443
Loss sharing agreement refund	-	106,632
Parish receivables	110,469	49,852
Other	24,637	17,710
	<u>633,786</u>	<u>669,465</u>
Less allowance for doubtful accounts	<u>(210,000)</u>	<u>(210,000)</u>
	<u>\$ 423,786</u>	<u>\$ 459,465</u>

DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

5. LOANS RECEIVABLE FROM RELATED PARTIES

	2017	2016
Loans receivable	\$ 12,088,940	\$ 12,395,808
Less allowance for doubtful accounts	(75,000)	(75,000)
	\$ 12,013,940	\$ 12,320,808

Annual maturities of loan receivables are as follows:

Year ending June 30,			
2018		\$	1,017,892
2019			1,066,842
2020			1,018,271
2021			846,169
Thereafter			8,139,766
			\$ 12,088,940

During the years ended June 30, 2017 and 2016, interest income totaling \$861,570 and \$880,874, respectively, was received from loans to related parties.

6. LAND, BUILDINGS, IMPROVEMENTS AND EQUIPMENT

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

	2017	2016
Land	\$ 9,910,775	\$ 9,908,787
Buildings and improvements	16,317,894	16,348,779
Equipment	659,395	769,841
Vehicles	124,044	123,939
Furniture and fixtures	718,176	727,238
	27,730,284	27,878,584
Less accumulated depreciation	(8,356,646)	(8,157,445)
	\$ 19,373,638	\$ 19,721,139

Depreciation expense was \$493,848 and \$497,805 for the years ended June 30, 2017 and 2016 respectively.

DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of:

	2017	2016
Accounts payable	\$ 247,540	\$ 322,987
Second Collections payable	104,035	63,105
Catholic Sharing Appeal rebates	50,992	51,322
Accrued payroll and related items	104,688	110,595
	\$ 507,255	\$ 548,009

8. LONG-TERM DEBT

The Diocese owes \$8.5 million under a note which 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 \$7.7 million is due. Additionally, the Diocese owes \$3.2 million under a variable interest rate note based on the 30 day LIBOR rate that resets monthly, which 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. The loans are secured by loans receivable from parishes and schools and certain deposit account balances.

At June 30, 2017 and 2016, the balances owed totaled \$11,691,071 and \$12,661,228, respectively. Future maturities are as follows:

Year ending	
<u>June 30,</u>	
2018	\$ 994,392
2019	10,696,679
	\$ 11,691,071

DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

9. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2017</u>	<u>2016</u>
Education	\$ 5,664,257	\$ 5,074,566
Ministry and evangelization	810,231	742,167
Other	<u>164,734</u>	<u>132,178</u>
	<u>\$ 6,639,222</u>	<u>\$ 5,948,911</u>

Permanently restricted net assets, totaling \$1,082,053 at June 30, 2017, 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 \$89,970 and \$86,551 for the years ended June 30, 2017 and 2016 respectively.

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 \$53.08 per month for each year of credited service, with a maximum benefit of \$1,592.40 per month.

For the years ended June 30, 2017 and 2016, there were 80 and 84 participants in the plan, respectively.

DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

10. RETIREMENT PLANS – CONTINUED

Priests Pension Plan – Continued

The following tables set forth further information about the defined benefit pension plan as of and for the years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Benefit obligation, beginning of year	\$ 9,639,396	\$ 8,833,911
Service cost	180,392	142,718
Interest cost	356,740	380,262
Amendments	-	-
Actuarial loss	(465,149)	709,486
Benefits paid	<u>(407,437)</u>	<u>(426,981)</u>
Benefit obligation, end of year	<u>\$ 9,303,942</u>	<u>\$ 9,639,396</u>
Fair value of plan assets, beginning of year	\$ 8,912,500	\$ 8,837,341
Actual return on plan assets	1,047,803	75,268
Employer contribution	463,634	426,872
Benefits paid	<u>(407,437)</u>	<u>(426,981)</u>
Fair value of plan assets, end of year	<u>\$ 10,016,500</u>	<u>\$ 8,912,500</u>
Fair value of plan assets at fair value	\$ (10,016,500)	\$ (8,912,500)
Projected benefit obligation	<u>9,303,942</u>	<u>9,639,396</u>
Net pension liability (asset)	<u>\$ (712,558)</u>	<u>\$ 726,896</u>

Amounts recognized in the statement of financial position at June 30, 2017 and 2016 consist of:

	<u>2017</u>	<u>2016</u>
Priest pension plan asset	<u>\$ 712,558</u>	<u>\$ -</u>
Priest pension plan liability	<u>\$ -</u>	<u>\$ 726,896</u>

DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

10. RETIREMENT PLANS – CONTINUED

Priests Pension Plan – Continued

Amounts recognized in the statement of activities at June 30, 2017 and 2016, consist of the following:

	<u>2017</u>	<u>2016</u>
Service cost	\$ 180,392	\$ 142,718
Interest cost	356,740	380,262
Expected return on assets	(617,918)	(611,701)
Amortization of unrecognized transition obligation	133,272	133,272
Amortization of unrecognized prior service cost	10,566	10,566
Amortization of unrecognized actuarial loss	168,856	85,784
Net periodic pension cost	<u>\$ 231,908</u>	<u>\$ 140,901</u>

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

	<u>2017</u>	<u>2016</u>
Unrecognized transition obligation	\$ 799,638	\$ 932,910
Net prior service cost	116,220	126,786
Unrecognized actuarial net loss	2,095,176	3,159,066
Amounts previously recognized in unrestricted net assets, not yet recognized as periodic pension costs.	<u>\$ 3,011,034</u>	<u>\$ 4,218,762</u>

Amortization payments paid during fiscal year ended June 30, 2017:

Amortization of transition obligation	\$ 133,272
Amortization of net prior service cost	10,566
Amortization of net loss/(gain)	168,856
Total amortization payments	<u>\$ 312,694</u>

Amortization payments expected to be 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)	84,117
Total amortization payments	<u>\$ 227,955</u>

DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

10. RETIREMENT PLANS – CONTINUED

Priests Pension Plan – Continued

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

	<u>2017</u>	<u>2016</u>
Weighted-average assumption used to determine pension benefit obligations		
Discount rate	3.85%	3.78%
Consumer price index	3.00%	3.00%
Weighted-average assumptions used to determine net periodic pension benefit costs		
Discount rate	3.78%	4.41%
Expected return on plan assets	7.00%	7.00%
Consumer price index	3.00%	3.00%

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 percent equity securities, 42 percent debt securities, and 5 percent 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.

The fair values of the Organization's Pension Plan assets at June 30, 2017 and 2016, by asset class are as follows:

Asset Category	<u>June 30, 2017</u>		<u>June 30, 2016</u>	
	<u>Level 1*</u>	<u>%</u>	<u>Level 1*</u>	<u>%</u>
Equity securities	\$ 5,296,314	53%	\$ 4,604,326	52%
Debt securities	4,369,862	44%	3,832,398	43%
Other	350,324	3%	475,776	5%
	<u>\$ 10,016,500</u>	<u>100%</u>	<u>\$ 8,912,500</u>	<u>100%</u>

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

DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

10. RETIREMENT PLANS – CONTINUED

Priests Pension Plan – Continued

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

2018	\$ 394,000
2019	453,000
2020	519,000
2021	508,000
2022	546,000
2023 - 2027	<u>3,054,000</u>
	<u><u>\$ 5,474,000</u></u>

The Diocese does not expect to contribute to the plan for fiscal year ending June 30, 2018.

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 year ended June 30, 2017 and 2016, the Diocese was responsible for costs up to \$100,000 per covered person with an aggregate maximum of \$3,472,064.

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.

DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

11. SELF-INSURANCE – CONTINUED

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 consolidated financial statements present activity of Fox Trace for the period from December 21, 2016 through June 30, 2017.

13. 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, 2017 and 2016, 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, 2017

ASSETS				
ASSETS	Diocese	Fox Trace	Eliminations	Total
Cash and cash equivalents	\$ 24,459,266	\$ 349,084	\$ -	\$ 24,808,350
Investments and beneficial interest in perpetual trust	47,915,006	-	-	47,915,006
Accounts receivable from related parties, net	420,917	2,869	-	423,786
Loans receivable from related parties, net	12,013,940	-	-	12,013,940
Prepaid expenses and other assets	580,787	24,102	-	604,889
Investment in ownership interest of Fox Trace Housing	1,547,205	-	(1,547,205)	-
Land, buildings, improvements and equipment, net	19,359,659	13,979	-	19,373,638
Priest pension plan	712,558	-	-	712,558
Fox Trace Housing	-	1,025,673	147,788	1,173,461
TOTAL ASSETS	\$ 107,009,338	\$ 1,415,707	\$ (1,399,417)	\$107,025,628
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable and accrued liabilities	\$ 490,965	\$ 16,290	\$ -	\$ 507,255
Deposits payable to related parties	42,287,006	-	-	42,287,006
Deferred revenue	1,894,012	-	-	1,894,012
Reserve for insurance losses	779,482	-	-	779,482
Long-term debt	11,691,071	-	-	11,691,071
Total current liabilities	57,142,536	16,290	-	57,158,826
NET ASSETS				
Unrestricted net assets	42,145,527	373,744	(373,744)	42,145,527
Temporarily restricted net assets	6,639,222	1,025,673	(1,025,673)	6,639,222
Permanently restricted net assets	1,082,053	-	-	1,082,053
Total net assets	49,866,802	1,399,417	(1,399,417)	49,866,802
TOTAL LIABILITIES AND NET ASSETS	\$ 107,009,338	\$ 1,415,707	\$ (1,399,417)	\$ 107,025,628

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, 2017

	Diocese			Fox Trace			Eliminations	Consolidated Total	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted			Total
Support and Other Revenue:									
Parish assessments	\$ 2,814,573	\$ -	\$ -	\$ 2,814,573	\$ -	\$ -	\$ -	\$ 2,814,573	
Catholic Sharing Appeal	2,785,344	-	-	2,785,344	-	-	-	2,785,344	
Contributions	114,281	422,880	-	537,161	-	-	-	537,161	
Program revenue	479,688	-	-	479,688	-	-	-	479,688	
Investment income, net	3,696,991	991,153	1,980	4,690,124	-	-	-	4,690,124	
Interest income	908,663	-	-	908,663	-	-	-	908,663	
Insurance premiums	5,471,519	-	-	5,471,519	-	-	-	5,471,519	
Other income	1,453,811	-	-	1,453,811	87,767	-	87,767	(26,739)	1,514,839
Total support and other revenue	17,724,870	1,414,033	1,980	19,140,883	87,767	-	87,767	(26,739)	19,201,911
Net assets released from restrictions:									
Satisfaction of program restrictions	723,722	(723,722)	-	-	12,115	(12,115)	-	-	-
Total support, other revenue, and net assets released from restrictions	18,448,592	690,311	1,980	19,140,883	99,882	(12,115)	87,767	(26,739)	19,201,911
Functional expenses:									
Program expenses	2,064,751	-	-	2,064,751	61,028	-	61,028	-	2,125,779
Support services expenses	4,146,584	-	-	4,146,584	-	-	-	-	4,146,584
Other expenses									
Insurance premiums, claims and other costs	4,652,160	-	-	4,652,160	-	-	-	-	4,652,160
Interest	963,702	-	-	963,702	-	-	-	-	963,702
Net periodic pension cost	231,908	-	-	231,908	-	-	-	-	231,908
Depreciation	493,848	-	-	493,848	-	-	-	-	493,848
Total expenses	12,552,953	-	-	12,552,953	61,028	-	61,028	-	12,613,981
Excess of support, revenues, and net assets released from restrictions over expenses	5,895,639	690,311	1,980	6,587,930	38,854	(12,115)	26,739	(26,739)	6,587,930
Other changes in net assets									
Pension related changes other than net periodic pension cost	1,207,728	-	-	1,207,728	-	-	-	-	1,207,728
Total other changes in net assets	1,207,728	-	-	1,207,728	-	-	-	-	1,207,728
CHANGES IN NET ASSETS	7,103,367	690,311	1,980	7,795,658	38,854	(12,115)	26,739	(26,739)	7,795,658
NET ASSETS AT BEGINNING OF YEAR	35,042,160	5,948,911	1,080,073	42,071,144	334,890	1,037,788	1,372,678	(1,372,678)	42,071,144
NET ASSETS AT END OF YEAR	\$ 42,145,527	\$ 6,639,222	\$ 1,082,053	\$ 49,866,802	\$ 373,744	\$ 1,025,673	\$ 1,399,417	\$ (1,399,417)	\$ 49,866,802

See independent auditors' report.