

**THE DIOCESE OF PENSACOLA - TALLAHASSEE
ADMINISTRATIVE OFFICES**

FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

**THE DIOCESE OF PENSACOLA - TALLAHASSEE
ADMINISTRATIVE OFFICES
TABLE OF CONTENTS
JUNE 30, 2015 AND 2014**

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	4
Statements of Cash Flows	6
Notes to the Financial Statements	7

INDEPENDENT AUDITORS' REPORT

To 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, 2015 and 2014, and the related statements of activities and changes in net assets, and cash flows for the years 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.

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 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, 2015 and 2014, 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.

Warren Averett, LLC

Pensacola, Florida
October 7, 2015

THE DIOCESE OF PENSACOLA - TALLAHASSEE ADMINISTRATIVE OFFICES
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2015 AND 2014

ASSETS		
	2015	2014
ASSETS		
Cash and cash equivalents	\$ 18,307,800	\$ 29,341,904
Investments and beneficial interest in perpetual trust	41,093,233	26,077,285
Priest pension plan assets - cash and investments	8,837,341	8,583,241
Accounts receivable from related parties, net	526,150	562,207
Loans receivable from related parties, net	14,215,955	16,044,500
Prepaid expenses and other assets	793,046	889,948
Land, buildings, improvements and equipment, net	20,123,831	20,026,228
TOTAL ASSETS	\$ 103,897,356	\$ 101,525,313
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 660,968	\$ 763,465
Deposits payable to related parties	34,970,957	32,084,250
Deferred revenue	1,842,371	1,836,263
Reserve for insurance losses	727,323	1,054,477
Priest pension plan	8,833,911	8,452,262
Long-term debt	17,479,020	19,935,554
TOTAL LIABILITIES	64,514,550	64,126,271
NET ASSETS		
Unrestricted net assets	32,624,305	30,824,117
Temporarily restricted net assets	5,547,585	5,364,009
Permanently restricted net assets	1,210,916	1,210,916
Total net assets	39,382,806	37,399,042
TOTAL LIABILITIES AND NET ASSETS	\$ 103,897,356	\$ 101,525,313

See notes to the financial statements.

THE DIOCESE OF PENSACOLA - TALLAHASSEE ADMINISTRATIVE OFFICES
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	2015
Support and other revenue				
Parish assessments	\$ 2,713,692	\$ -	\$ -	\$ 2,713,692
Catholic Sharing Appeal	2,591,954	-	-	2,591,954
Contributions	15,932	484,525	-	500,457
Program revenue	522,430	-	-	522,430
Investment income, net	722,280	431,204	-	1,153,484
Interest income	1,108,075	-	-	1,108,075
Insurance premiums	5,602,538	-	-	5,602,538
Other income	439,546	-	-	439,546
Total support and other revenue	<u>13,716,447</u>	<u>915,729</u>	<u>-</u>	<u>14,632,176</u>
Net assets released from restrictions:				
Satisfaction of program restrictions	732,153	(732,153)	-	-
Total net assets released from restrictions	<u>732,153</u>	<u>(732,153)</u>	<u>-</u>	<u>-</u>
Functional expenses				
Program expenses	1,710,405	-	-	1,710,405
Support services expenses	3,629,733	-	-	3,629,733
Other expenses				
Insurance premiums, claims and other costs	4,846,313	-	-	4,846,313
Interest	1,481,251	-	-	1,481,251
Net periodic pension cost	104,193	-	-	104,193
Depreciation	495,589	-	-	495,589
Total expenses	<u>12,267,484</u>	<u>-</u>	<u>-</u>	<u>12,267,484</u>
Excess of support, revenues, and net assets released from restrictions over expenses	2,181,116	183,576	-	2,364,692
Other changes in net assets				
Pension related changes other than net periodic pension cost	(380,928)	-	-	(380,928)
Total other changes in net assets	<u>(380,928)</u>	<u>-</u>	<u>-</u>	<u>(380,928)</u>
CHANGES IN NET ASSETS	1,800,188	183,576	-	1,983,764
NET ASSETS AT BEGINNING OF YEAR	<u>30,824,117</u>	<u>5,364,009</u>	<u>1,210,916</u>	<u>37,399,042</u>
NET ASSETS AT END OF YEAR	<u>\$ 32,624,305</u>	<u>\$ 5,547,585</u>	<u>\$ 1,210,916</u>	<u>\$ 39,382,806</u>

See notes to the financial statements.

THE DIOCESE OF PENSACOLA - TALLAHASSEE ADMINISTRATIVE OFFICES
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS – CONTINUED
FOR THE YEAR ENDED JUNE 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014
Support and other revenue				
Parish assessments	\$ 2,564,943	\$ -	\$ -	\$ 2,564,943
Catholic Sharing Appeal	2,456,703	-	-	2,456,703
Contributions	4,181	351,167	-	355,348
Program revenue	492,795	-	-	492,795
Investment income, net	2,177,167	797,515	48,898	3,023,580
Interest income	1,151,649	-	-	1,151,649
Insurance premiums	5,586,202	-	-	5,586,202
Other income	777,288	-	-	777,288
Total support and other revenue	<u>15,210,928</u>	<u>1,148,682</u>	<u>48,898</u>	<u>16,408,508</u>
Net assets released from restrictions:				
Satisfaction of program restrictions	646,194	(646,194)	-	-
Total net assets released from restrictions	<u>646,194</u>	<u>(646,194)</u>	<u>-</u>	<u>-</u>
Functional expenses				
Program expenses	1,541,563	-	-	1,541,563
Support services expenses	2,993,052	-	-	2,993,052
Other expenses				-
Insurance premiums, claims and other costs	5,719,696	-	-	5,719,696
Interest	1,376,877	-	-	1,376,877
Net periodic pension cost	201,125	-	-	201,125
Depreciation	521,305	-	-	521,305
Total expenses	<u>12,353,618</u>	<u>-</u>	<u>-</u>	<u>12,353,618</u>
Excess of support, revenues, and net assets released from restrictions over expenses	3,503,504	502,488	48,898	4,054,890
Other changes in net assets				
Change in value of interest rate swap	12,375	-	-	12,375
Pension related changes other than net periodic pension cost	390,416	-	-	390,416
Total other changes in net assets	<u>402,791</u>	<u>-</u>	<u>-</u>	<u>402,791</u>
CHANGES IN NET ASSETS	3,906,295	502,488	48,898	4,457,681
NET ASSETS AT BEGINNING OF YEAR	<u>26,917,822</u>	<u>4,861,521</u>	<u>1,162,018</u>	<u>32,941,361</u>
NET ASSETS AT END OF YEAR	<u>\$ 30,824,117</u>	<u>\$5,364,009</u>	<u>\$1,210,916</u>	<u>\$37,399,042</u>

See notes to the financial statements.

THE DIOCESE OF PENSACOLA - TALLAHASSEE ADMINISTRATIVE OFFICES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,983,764	\$ 4,457,681
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	495,589	521,305
Realized and unrealized gains on investments	(242,331)	(2,367,400)
Change in insurance loss reserve	(327,154)	(2,456)
Change in interest rate swap	-	(12,375)
Decrease (increase) in		
Accounts receivable	36,057	(331,048)
Prepaid expenses and other assets	96,902	27,515
Increase (decrease) in		
Accounts payable and accrued liabilities	(102,497)	(34,807)
Deferred revenue	6,108	84,197
Priest pension plan	381,649	336,821
Net cash provided by operating activities	2,328,087	2,679,433
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of land, buildings, improvements and equipment	(593,192)	(35,509)
Collections on loans	2,139,154	2,061,280
New loans issued	(310,609)	(826,403)
Purchase of investments	(24,658,283)	(11,076,422)
Proceeds from sale of investments	9,630,566	9,000,744
Net cash used in investing activities	(13,792,364)	(876,310)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in deposits payable	2,886,707	4,319,538
Proceeds from notes payable	-	20,756,974
Payments on notes payable	(2,456,534)	(23,377,654)
Net cash provided by financing activities	430,173	1,698,858
NET INCREASE (DECREASE) IN CASH	(11,034,104)	3,501,981
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	29,341,904	25,839,923
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 18,307,800	\$ 29,341,904
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest on debt	\$ 472,694	\$ 463,789
Receipt of property in exchange for loan receivable	\$ -	\$ 273,346

See notes to the financial statements.

THE DIOCESE OF PENSACOLA - TALLAHASSEE ADMINISTRATIVE OFFICES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

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.

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

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.

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.

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.

THE DIOCESE OF PENSACOLA - TALLAHASSEE ADMINISTRATIVE OFFICES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

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

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, interest rate swap 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. 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.

THE DIOCESE OF PENSACOLA - TALLAHASSEE ADMINISTRATIVE OFFICES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

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

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 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.

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

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.

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.

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.

THE DIOCESE OF PENSACOLA - TALLAHASSEE ADMINISTRATIVE OFFICES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Events Occurring After the Reporting Date

The Diocese has evaluated events and transactions that occurred between June 30, 2015 and October 7, 2015, which is the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

Prior Year Reclassifications

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

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, 2015:

	<u>Cost</u>	<u>Fair Value</u>
Corporate bonds	\$ 6,042,752	\$ 6,029,214
Corporate stocks	17,039,978	20,825,493
U.S. Government securities	10,670,666	10,697,244
Mutual funds	10,493,105	10,961,294
Beneficial interest in perpetual trust (Note 3)	910,224	1,046,922
Cash and accrued interest	370,407	370,407
	<u>\$ 45,527,132</u>	<u>\$ 49,930,574</u>

These amounts are reported in the financial statements as follows:

Investments and beneficial interest in perpetual trust	\$ 41,093,233
Priest pension plan assets - cash and investments	8,837,341
	<u>\$ 49,930,574</u>

Investment return consisted of the following:

Interest and dividends	\$ 911,153
Realized and unrealized gains	242,331
	<u>\$ 1,153,484</u>

THE DIOCESE OF PENSACOLA - TALLAHASSEE ADMINISTRATIVE OFFICES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

2. INVESTMENTS – CONTINUED

As of June 30, 2014:	Cost	Fair Value
Corporate bonds	\$ 4,791,180	\$ 4,821,148
Corporate stocks	12,121,882	16,429,311
U.S. Government securities	9,508,667	9,522,675
Mutual funds	1,702,505	2,119,581
Beneficial interest in perpetual trust (Note 3)	902,629	1,060,270
Cash and accrued interest	707,541	707,541
	\$ 29,734,404	\$ 34,660,526

These amounts are reported in the financial statements as follows:

Investments and beneficial interest in perpetual trust	\$ 26,077,285
Priest pension plan assets - cash and investments	8,583,241
	\$ 34,660,526
Investment return consisted of the following:	
Interest and dividends	\$ 656,180
Realized and unrealized gains	2,367,400
	\$ 3,023,580

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, 2015 and 2014, the fair value of this trust was \$1,046,922 and \$1,060,270, respectively.

THE DIOCESE OF PENSACOLA - TALLAHASSEE ADMINISTRATIVE OFFICES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

4. ACCOUNTS RECEIVABLE

Accounts receivable are summarized as follows:

	2015	2014
Catholic Sharing Appeal	\$ 322,411	\$ 190,067
Insurance premiums	70,682	209,358
Loss sharing agreement refund	123,976	206,019
Parish receivables	41,048	94,410
Other	178,033	72,353
	736,150	772,207
Less allowance for doubtful accounts	(210,000)	(210,000)
	\$ 526,150	\$ 562,207

5. LOANS RECEIVABLE

	2015	2014
Loans receivable	\$ 14,290,955	\$ 16,119,500
Less allowance for doubtful accounts	(75,000)	(75,000)
	\$ 14,215,955	\$ 16,044,500

Annual maturities of loan receivables are as follows:

<u>Year ending June 30,</u>			
2016		\$	1,130,947
2017			978,988
2018			1,005,961
2019			865,858
Thereafter			10,309,201
			\$ 14,290,955

During the years ended June 30, 2015 and 2014, interest income totaling \$1,049,529 and \$1,110,708, respectively, was received from loans to related parties.

THE DIOCESE OF PENSACOLA - TALLAHASSEE ADMINISTRATIVE OFFICES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

6. LAND, BUILDINGS, IMPROVEMENTS AND EQUIPMENT

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

	2015	2014
Land	\$ 10,066,454	\$ 10,073,586
Buildings and improvements	16,139,199	15,578,833
Equipment	706,820	704,578
Vehicles	165,520	163,115
Furniture and fixtures	727,239	727,238
	27,805,232	27,247,350
Less accumulated depreciation	(7,681,401)	(7,221,122)
	\$ 20,123,831	\$ 20,026,228

Depreciation expense was \$495,589 and \$521,305 for the years ended June 30, 2015 and 2014 respectively.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of:

	2015	2014
Accounts payable	\$ 280,228	\$ 408,726
Second Collections payable	208,971	141,682
Catholic Sharing Appeal rebates	66,750	104,752
Accrued payroll and related items	105,019	108,305
	\$ 660,968	\$ 763,465

8. LONG-TERM DEBT

In July 2013, the Diocese paid off an 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 \$13.6 million is due. The swap agreement termination note payable totaling \$3,856,974 bears interest at the 30 day LIBOR rate which resets monthly, 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.

THE DIOCESE OF PENSACOLA - TALLAHASSEE ADMINISTRATIVE OFFICES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

8. LONG-TERM DEBT – CONTINUED

At June 30, 2015 and 2014, the balance of both notes payable totaled \$17,479,020 and \$19,935,554, respectively, and was secured by loans receivable and unrestricted deposits.

<u>Year ending June 30</u>	
2016	\$ 804,570
2017	821,038
2018	837,939
2019	<u>15,015,473</u>
	<u>\$ 17,479,020</u>

9. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2015</u>	<u>2014</u>
Education	\$ 4,815,694	\$ 4,675,958
Ministry and evangelization	597,931	557,238
Other	<u>133,960</u>	<u>130,813</u>
	<u>\$ 5,547,585</u>	<u>\$ 5,364,009</u>

Permanently restricted net assets, totaling \$1,210,916 at June 30, 2015, 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 \$76,455 and \$72,441 for the years ended June 30, 2015 and 2014 respectively.

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.

THE DIOCESE OF PENSACOLA - TALLAHASSEE ADMINISTRATIVE OFFICES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

10. RETIREMENT PLANS — CONTINUED

The pension plan is overfunded at June 30, 2015 and 2014, and consists of the following components:

	<u>2015</u>	<u>2014</u>
Projected benefit obligation	\$ (8,833,911)	\$ (8,452,262)
Fair value of plan assets	8,837,341	8,583,241
Funded status	<u>\$ 3,430</u>	<u>\$ 130,979</u>

The accumulated benefit obligation at June 30, 2015 and 2014 was \$8,833,911 and \$8,452,262, respectively.

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

	<u>2015</u>	<u>2014</u>
Benefit obligation, beginning of year	\$ 8,452,262	\$ 8,115,441
Service cost	152,146	148,862
Interest cost	350,682	357,324
Amendments	137,352	-
Actuarial loss	186,654	290,676
Benefits paid	(445,185)	(460,041)
Benefit obligation, end of year	<u>\$ 8,833,911</u>	<u>\$ 8,452,262</u>
Fair value of plan assets, beginning of year	\$ 8,583,241	\$ 7,345,197
Actual return on plan assets	341,713	986,153
Employer contribution	357,572	711,932
Benefits paid	(445,185)	(460,041)
Fair value of plan assets, end of year	<u>\$ 8,837,341</u>	<u>\$ 8,583,241</u>

THE DIOCESE OF PENSACOLA - TALLAHASSEE ADMINISTRATIVE OFFICES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

10. RETIREMENT PLANS—CONTINUED

The components of net periodic pension cost, recognized in the Statement of Activities at June 30, 2015 and 2014, consist of the following:

	<u>2015</u>	<u>2014</u>
Service cost	\$ 152,146	\$ 148,862
Interest cost	350,682	357,324
Expected return on assets	(586,461)	(514,596)
Amortization of unrecognized transition obligation	133,272	133,272
Amortization of unrecognized actuarial loss	54,554	76,263
Net periodic benefit cost	<u>\$ 104,193</u>	<u>\$ 201,125</u>

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

	<u>2015</u>	<u>2014</u>
Unrecognized transition obligation	\$ 1,066,182	\$ 1,199,454
Net prior service cost	137,352	-
Unrecognized actuarial net loss	1,998,931	1,622,083
	<u>\$ 3,202,465</u>	<u>\$ 2,821,537</u>

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 \$187,826.

The following are weighted-average assumptions used to determine benefit obligations at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Discount rate	4.41%	4.26%

The following are weighted-average assumptions used to determine net periodic benefit cost for the year ended June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Discount rate	4.26%	4.53%
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 OF PENSACOLA - TALLAHASSEE ADMINISTRATIVE OFFICES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

10. RETIREMENT PLANS—CONTINUED

The pension plan actual asset allocations at June 30, 2015 and 2014 by asset category are as follows:

<u>Asset Category</u>	<u>2015</u>	<u>2014</u>
Equity securities	53%	51%
Debt securities	42%	41%
Other	5%	8%
	<u>100%</u>	<u>100%</u>

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

2016	\$ 421,000
2017	438,000
2018	446,000
2019	499,000
2020	559,000
2021 - 2025	<u>3,010,000</u>
	<u>\$5,373,000</u>

The Diocese does not expect to contribute to the plan for fiscal year ending June 30, 2016.

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, 2015 and 2014, the Diocese was responsible for costs up to \$100,000 per covered person with an aggregate maximum of \$3,065,894.

THE DIOCESE OF PENSACOLA - TALLAHASSEE ADMINISTRATIVE OFFICES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

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.

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 2.6%. 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. RELATED PARTIES

The Diocese paid approximately \$92,000 and \$121,000 in legal fees for the years ended June 30, 2015 and 2014 to a law firm of which one of the partners serves on the Diocese's Finance Committee.

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.

Financial instruments that potentially subject the Diocese to significant concentrations of credit risk principally consist of cash and investments. 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, 2015 and 2014, 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.