

**DIOCESE OF PENSACOLA – TALLAHASSEE  
ADMINISTRATIVE OFFICES**

**FINANCIAL STATEMENTS**

**JUNE 30, 2016 AND 2015**

**DIOCESE OF PENSACOLA – TALLAHASSEE  
ADMINISTRATIVE OFFICES  
TABLE OF CONTENTS  
JUNE 30, 2016 AND 2015**

---

<b>INDEPENDENT AUDITORS' REPORT</b>	<b>1</b>
<b>FINANCIAL STATEMENTS</b>	
Statements of Financial Position	2
Statements of Activities and Changes in Net Assets	3
Statements of Cash Flows	5
Notes to the Financial Statements	6

## 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 comprise the statements of financial position as of June 30, 2016 and 2015, 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, 2016 and 2015, 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 5, 2016

**DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2016 AND 2015**

	<b>ASSETS</b>	
	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 20,572,351	\$ 18,307,800
Investments and beneficial interest in perpetual trust	42,083,779	41,093,233
Priest pension plan assets - cash and investments	-	8,837,341
Accounts receivable from related parties, net	459,465	526,150
Loans receivable from related parties, net	12,320,808	14,215,955
Prepaid expenses and other assets	521,562	793,046
Land, buildings, improvements and equipment, net	<u>19,721,139</u>	<u>20,123,831</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 95,679,104</u></u>	<u><u>\$ 103,897,356</u></u>
 <b>LIABILITIES AND NET ASSETS</b>  		
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 548,009	\$ 660,968
Deposits payable to related parties	37,098,134	34,970,957
Deferred revenue	1,736,629	1,842,371
Reserve for insurance losses	837,064	727,323
Priest pension plan	726,896	8,833,911
Long-term debt	<u>12,661,228</u>	<u>17,479,020</u>
<b>TOTAL LIABILITIES</b>	<u>53,607,960</u>	<u>64,514,550</u>
<b>NET ASSETS</b>		
Unrestricted net assets	35,042,160	32,624,305
Temporarily restricted net assets	5,948,911	5,547,585
Permanently restricted net assets	<u>1,080,073</u>	<u>1,210,916</u>
Total net assets	<u>42,071,144</u>	<u>39,382,806</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 95,679,104</u></u>	<u><u>\$ 103,897,356</u></u>

See notes to the financial statements.

**DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016	Unrestricted	Temporarily Restricted	Permanently Restricted	2015
Support and other revenue								
Parish assessments	\$ 2,785,536	\$ -	\$ -	\$ 2,785,536	\$ 2,713,692	\$ -	\$ -	\$ 2,713,692
Catholic Sharing Appeal	2,712,884	-	-	2,712,884	2,591,954	-	-	2,591,954
Contributions	5,543	637,368	-	642,911	15,932	484,525	-	500,457
Program revenue	505,264	-	-	505,264	522,430	-	-	522,430
Investment income, net	1,165,598	524,019	(130,843)	1,558,774	722,280	431,204	-	1,153,484
Interest income	921,006	-	-	921,006	1,108,075	-	-	1,108,075
Insurance premiums	5,652,057	-	-	5,652,057	5,602,538	-	-	5,602,538
Other income	1,611,864	-	-	1,611,864	439,546	-	-	439,546
<b>Total support and other revenue</b>	<b>15,359,752</b>	<b>1,161,387</b>	<b>(130,843)</b>	<b>16,390,296</b>	<b>13,716,447</b>	<b>915,729</b>	<b>-</b>	<b>14,632,176</b>
Net assets released from restrictions:								
Satisfaction of program restrictions	760,061	(760,061)	-	-	732,153	(732,153)	-	-
<b>Total support, other revenue, and net assets released from restrictions</b>	<b>16,119,813</b>	<b>401,326</b>	<b>(130,843)</b>	<b>16,390,296</b>	<b>14,448,600</b>	<b>183,576</b>	<b>-</b>	<b>14,632,176</b>
Functional expenses								
Program expenses	1,479,092	-	-	1,479,092	1,710,405	-	-	1,710,405
Support services expenses	3,982,479	-	-	3,982,479	3,629,733	-	-	3,629,733
Other expenses								
Insurance premiums, claims and other costs	5,097,459	-	-	5,097,459	4,846,313	-	-	4,846,313
Interest	1,487,925	-	-	1,487,925	1,481,251	-	-	1,481,251
Net periodic pension cost	140,901	-	-	140,901	104,193	-	-	104,193
Depreciation	497,805	-	-	497,805	495,589	-	-	495,589
<b>Total expenses</b>	<b>12,685,661</b>	<b>-</b>	<b>-</b>	<b>12,685,661</b>	<b>12,267,484</b>	<b>-</b>	<b>-</b>	<b>12,267,484</b>
Excess of support, revenues, and net assets released from restrictions over expenses	3,434,152	401,326	(130,843)	3,704,635	2,181,116	183,576	-	2,364,692
Other changes in net assets								
Pension related changes other than net periodic pension cost	(1,016,297)	-	-	(1,016,297)	(380,928)	-	-	(380,928)
<b>Total other changes in net assets</b>	<b>(1,016,297)</b>	<b>-</b>	<b>-</b>	<b>(1,016,297)</b>	<b>(380,928)</b>	<b>-</b>	<b>-</b>	<b>(380,928)</b>
<b>CHANGES IN NET ASSETS</b>	<b>2,417,855</b>	<b>401,326</b>	<b>(130,843)</b>	<b>2,688,338</b>	<b>1,800,188</b>	<b>183,576</b>	<b>-</b>	<b>1,983,764</b>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<b>32,624,305</b>	<b>5,547,585</b>	<b>1,210,916</b>	<b>39,382,806</b>	<b>30,824,117</b>	<b>5,364,009</b>	<b>1,210,916</b>	<b>37,399,042</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 35,042,160</b>	<b>\$ 5,948,911</b>	<b>\$ 1,080,073</b>	<b>\$ 42,071,144</b>	<b>\$ 32,624,305</b>	<b>\$ 5,547,585</b>	<b>\$ 1,210,916</b>	<b>\$ 39,382,806</b>

See notes to the financial statements.

**DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 2,688,338	\$ 1,983,764
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	497,805	495,589
Gain on sale of land	(986,199)	-
Realized and unrealized gains on investments	(478,328)	(242,331)
Change in insurance loss reserve	109,741	(327,154)
Decrease (increase) in		
Accounts receivable	66,685	36,057
Prepaid expenses and other assets	271,484	96,902
Increase (decrease) in		
Accounts payable and accrued liabilities	(112,959)	(102,497)
Deferred revenue	(105,742)	6,108
Priest pension plan	730,326	381,649
	<u>2,681,151</u>	<u>2,328,087</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of land, buildings, improvements and equipment	(286,350)	(593,192)
Proceeds from sale of land	1,177,436	-
Collections on loans	3,464,942	2,139,154
New loans issued	(1,569,795)	(310,609)
Purchase of investments	(10,593,621)	(24,658,283)
Proceeds from sale of investments	10,081,403	9,630,566
	<u>2,274,015</u>	<u>(13,792,364)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in deposits payable	2,127,177	2,886,707
Payments on long-term debt	(4,817,792)	(2,456,534)
	<u>(2,690,615)</u>	<u>430,173</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	2,264,551	(11,034,104)
<b>CASH AND CASH EQUIVALENTS AT:</b>		
<b>BEGINNING OF YEAR</b>	<u>18,307,800</u>	<u>29,341,904</u>
<b>END OF YEAR</b>	<u>\$ 20,572,351</u>	<u>\$ 18,307,800</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest on debt	<u>\$ 407,696</u>	<u>\$ 472,694</u>

See notes to the financial statements.

**DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

---

**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.

**DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

---

**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 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.



**DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

---

**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% unless special circumstances warrant a lower 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 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.

**DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

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

**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.

**Events Occurring After the Reporting Date**

The Diocese has evaluated events and transactions that occurred between June 30, 2016 and October 5, 2016, 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, 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>

**DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**2. INVESTMENTS – CONTINUED**

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
Priest pension plan - cash and accrued interest	<u>370,407</u>	<u>370,407</u>
	<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	<u>8,837,341</u>
	<u>\$ 49,930,574</u>
Investment return consisted of the following:	
Interest and dividends	\$ 911,153
Realized and unrealized gains	<u>242,331</u>
	<u>\$ 1,153,484</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, 2016 and 2015, the fair value of this trust was \$945,100 and \$1,046,922, respectively.

**DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**4. ACCOUNTS RECEIVABLE FROM RELATED PARTIES**

Accounts receivable are summarized as follows:

	<u>2016</u>	<u>2015</u>
Catholic Sharing Appeal	\$ 475,828	\$ 322,411
Insurance premiums	19,443	70,682
Loss sharing agreement refund	106,632	123,976
Parish receivables	49,852	41,048
Other	17,710	178,033
	<u>669,465</u>	<u>736,150</u>
Less allowance for doubtful accounts	<u>(210,000)</u>	<u>(210,000)</u>
	<u>\$ 459,465</u>	<u>\$ 526,150</u>

**5. LOANS RECEIVABLE FROM RELATED PARTIES**

	<u>2016</u>	<u>2015</u>
Loans receivable	\$ 12,395,808	\$ 14,290,955
Less allowance for doubtful accounts	<u>(75,000)</u>	<u>(75,000)</u>
	<u>\$ 12,320,808</u>	<u>\$ 14,215,955</u>

Annual maturities of loan receivables are as follows:

<u>Year ending June 30,</u>	
2017	\$ 985,996
2018	999,286
2019	873,609
2020	812,034
Thereafter	<u>8,724,883</u>
	<u>\$ 12,395,808</u>

During the years ended June 30, 2016 and 2015, interest income totaling \$871,180 and \$1,049,529, respectively, was received from loans to related parties.

**DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

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

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

	<u>2016</u>	<u>2015</u>
Land	\$ 9,908,787	\$ 10,066,454
Buildings and improvements	16,348,779	16,139,199
Equipment	769,841	706,820
Vehicles	123,939	165,520
Furniture and fixtures	<u>727,238</u>	<u>727,239</u>
	27,878,584	27,805,232
Less accumulated depreciation	<u>(8,157,445)</u>	<u>(7,681,401)</u>
	<u>\$ 19,721,139</u>	<u>\$ 20,123,831</u>

Depreciation expense was \$497,805 and \$495,589 for the years ended June 30, 2016 and 2015 respectively.

**7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities consist of:

	<u>2016</u>	<u>2015</u>
Accounts payable	\$ 322,987	\$ 280,228
Second Collections payable	63,105	208,971
Catholic Sharing Appeal rebates	51,322	66,750
Accrued payroll and related items	<u>110,595</u>	<u>105,019</u>
	\$ 548,009	\$ 660,968

**8. LONG-TERM DEBT**

The Diocese owes \$9.3 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 \$3.3 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.

**DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**8. LONG-TERM DEBT – CONTINUED**

At June 30, 2016 and 2015, the balances owed totaled \$12,661,228 and \$17,479,020, respectively.

Year ending June 30

2017	\$ 973,479
2018	994,391
2019	<u>10,693,358</u>
	<u>\$ 12,661,228</u>

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

Temporarily restricted net assets are available for the following purposes:

	<b>2016</b>	<b>2015</b>
Education	\$ 5,074,566	\$ 4,815,694
Ministry and evangelization	742,167	597,931
Other	<u>132,178</u>	<u>133,960</u>
	<u>\$ 5,948,911</u>	<u>\$ 5,547,585</u>

Permanently restricted net assets, totaling \$1,080,073 at June 30, 2016, 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 \$86,551 and \$76,455 for the years ended June 30, 2016 and 2015 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 were transferred to a separate Trust during 2016, which enables the assets and liabilities to be netted in the statement of financial position as of June 30, 2016. Prior to transfer to the Trust, the assets and liabilities must be shown separately in the statement of financial position. The annual measurement date is June 30 for the pension benefits.

**DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**10. RETIREMENT PLANS – CONTINUED**

**Priests Pension Plan – Continued**

Participants are eligible for benefit 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, 2016 and 2015, there were 84 and 80 participants in the plan, respectively.

The following tables set forth further information about the Organization’s defined benefit pension plan as of and for the years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Benefit obligation, beginning of year	\$ 8,833,911	\$ 8,452,262
Service cost	142,718	152,146
Interest cost	380,262	350,682
Amendments	-	137,352
Actuarial loss	709,486	186,654
Benefits paid	(426,981)	(445,185)
Benefit obligation, end of year	<u>\$ 9,639,396</u>	<u>\$ 8,833,911</u>
Fair value of plan assets, beginning of year	\$ 8,837,341	\$ 8,583,241
Actual return on plan assets	75,268	341,713
Employer contribution	426,872	357,572
Benefits paid	(426,981)	(445,185)
Fair value of plan assets, end of year	<u>\$ 8,912,500</u>	<u>\$ 8,837,341</u>
Fair value of plan assets at fair value	\$ (9,639,396)	\$ (8,833,911)
Projected benefit obligation	<u>8,912,500</u>	<u>8,837,341</u>
Net pension liability (asset)	<u>\$ (726,896)</u>	<u>\$ 3,430</u>

Amounts recognized in the statement of financial position at June 30, 2016 and 2015 consist of:

	<u>2016</u>	<u>2015</u>
After the creation of the Trust		
Priest pension plan liability	<u>\$ (726,896)</u>	<u>\$ -</u>
Prior to the creation of the Trust		
Priest pension plan assets - cash and investments	<u>\$ -</u>	<u>\$ 8,837,341</u>
Priest pension plan liability	<u>\$ -</u>	<u>\$ (8,833,911)</u>

**DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**10. RETIREMENT PLANS – CONTINUED**

**Priests Pension Plan – Continued**

Amounts recognized in the statement of activities at June 30, 2016 and 2015, consist of the following:

	<u>2016</u>	<u>2015</u>
Service cost	\$ 142,718	\$ 152,146
Interest cost	380,262	350,682
Expected return on assets	(611,701)	(586,461)
Amortization of unrecognized transition obligation	133,272	133,272
Amortization of unrecognized prior service cost	10,566	-
Amortization of unrecognized actuarial loss	85,784	54,554
Net periodic pension cost	<u>\$ 140,901</u>	<u>\$ 104,193</u>

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

	<u>2016</u>	<u>2015</u>
Unrecognized transition obligation	\$ 932,910	\$ 1,066,182
Net prior service cost	126,786	137,352
Unrecognized actuarial net loss	3,159,066	1,998,931
Amounts previously recognized in unrestricted net assets, not yet recognized as periodic pension cost	<u>\$ 4,218,762</u>	<u>\$ 3,202,465</u>

Amortization payments paid during fiscal year ended June 30, 2016:

Amortization of transition obligation	\$ 133,272
Amortization of net prior service cost	10,566
Amortization of net loss/(gain)	85,784
Total amortization payments	<u>\$ 229,622</u>

Amortization payments expected to be 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>



**DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**10. RETIREMENT PLANS – CONTINUED**

**Priests Pension Plan – Continued**

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

	<u>2016</u>	<u>2015</u>
Weighted-average assumption used to determine pension benefit obligations		
Discount rate	3.78%	4.41%
Consumer price index	3.00%	3.00%
Weighted-average assumptions used to determine net periodic pension benefit cost		
Discount rate	4.41%	4.26%
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, 2016 and 2015 by asset class are as follows:

<u>Asset Category</u>	<u>June 30, 2016</u>		<u>June 30, 2015</u>	
	<u>Level 1*</u>	<u>%</u>	<u>Level 1*</u>	<u>%</u>
Equity securities	\$ 4,604,326	52%	\$ 4,717,843	53%
Debt securities	3,832,398	43%	3,749,091	42%
Other	475,776	5%	370,407	4%
	<u>\$ 8,912,500</u>	<u>100%</u>	<u>\$ 8,837,341</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 FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

---

**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:

2017	\$ 430,000
2018	438,000
2019	492,000
2020	553,000
2021	539,000
2022 - 2026	<u>3,092,000</u>
	<u><u>\$ 5,544,000</u></u>

The Diocese does not expect to contribute to the plan for fiscal year ending June 30, 2017.

**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, 2016 and 2015, the Diocese was responsible for costs up to \$100,000 per covered person with an aggregate maximum of \$5,000,000.

*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 FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

---

**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. RELATED PARTIES**

The Diocese paid approximately \$104,000 and \$92,000 in legal fees for the years ended June 30, 2016 and 2015 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.

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, 2016 and 2015, 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.