DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES

FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022



The report accompanying this deliverable was issued by Warren Averett, LLC.

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INDEPENDENT AUDITORS' REPORT

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

Opinion

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, 2023 and 2022, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and related notes to the financial statements.

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, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Diocese and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Diocese's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether
 due to fraud or error, and design and perform audit procedures responsive to those risks.
 Such procedures include examining, on a test basis, evidence regarding the amounts and
 disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Diocese's internal control. Accordingly, no such
 opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Diocese's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control related matters that we identified during the audit.

Pensacola, Florida October 3, 2023

Warren averett, LLC

DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES STATEMENTS OF FINANCIAL POSITION JUNE 30, 2023 AND 2022

	2023	2022
ASSETS		
Cash and cash equivalents	\$ 18,941,861	\$ 48,284,857
Certificate of deposits	28,697,761	-
Investments	73,501,108	70,261,521
Beneficial interest in perpetual trust	953,874	943,114
Accounts receivable from related parties, net	1,538,401	333,680
Loans receivable from related parties, net	9,750,602	10,682,074
Prepaid expenses and other assets	1,917,318	1,219,964
Cash surrender value of life insurance policies	798,239	798,239
Land, buildings, improvements and equipment, net	17,632,959	18,057,688
Prepaid pension cost	1,893,533	1,742,942
TOTAL ASSETS	\$ 155,625,656	\$ 152,324,079
LIABILITIES AND NET A	ASSETS	
LIABILITIES		
Accounts payable and accrued liabilities	\$ 1,431,700	\$ 825,673
Deposits payable to related parties	57,359,340	55,139,529
Unearned revenue	7,515,441	10,058,180
Reserve for insurance losses	1,180,456	7,549,645
Total liabilities	67,486,937	73,573,027
NET ASSETS		
Without donor restrictions	79,354,750	70,147,210
With donor restrictions	8,783,969	8,603,842
Total net assets	88,138,719	78,751,052
TOTAL LIABILITIES AND NET ASSETS	\$ 155,625,656	\$ 152,324,079

DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Support and other revenue		
Parish assessments	\$ 2,701,054	\$ 2,750,287
Catholic Sharing Appeal	2,535,384	2,641,015
Contributions	27,555	58,188
Program revenue	424,067	624,092
Interest income	1,695,194	733,398
Insurance premiums	9,250,304	7,847,066
Other income, net	615,312	569,690
Gain on sale of property	2,481	177,980
Net assets released from restrictions	1,266,304	1,209,726
Total support, other revenue and net assets		
released from restrictions	18,517,655	16,611,442
Expenses		
Program expenses	12,881,199	13,277,154
Diocesan administration	2,928,577	2,594,005
Development expenses	539,158	408,469
Total expenses	16,348,934	16,279,628
Income from operating activities	2,168,721	331,814
Nonoperating activities		
Investment income (loss), net	5,466,473	(7,606,596)
Net claims income from Hurricane Michael	1,260,717	-
Pension related changes other than service cost	311,628	284,623
Total changes in nonoperating activities	7,038,818	(7,321,973)
CHANGES IN NET ASSETS WITHOUT		
DONOR RESTRICTIONS	9,207,539	(6,990,159)
NET ASSETS WITH DONOR RESTRICTIONS		
Support and other revenue – contributions	847,061	492,815
Investment income (loss), net	599,371	(949,862)
Net assets released from restrictions	(1,266,304)	(1,209,726)
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS	180,128	(1,666,773)
CHANGES IN NET ASSETS	9,387,667	(8,656,932)
NET ASSETS AT BEGINNING OF YEAR	78,751,052	87,407,984
NET ASSETS AT END OF YEAR	\$ 88,138,719	\$ 78,751,052

See notes to the financial statements.

DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2023

	Program Expenses								
	Ministry	Education Seminarians and Vocations	Self-Insurance Program	Deposit and Loan Activities	Plant Activities	Total Program	Development	Diocesan Administration	Total
Compensation and benefits	\$ 512,358	\$ 1,026,368	\$ 144,832	\$ 42,561	\$ -	\$ 1,726,119	\$ 201,857	\$ 1,824,383	\$ 3,752,359
Direct program expense	364,369	58,769	27,168	-	-	450,306	-	103,903	554,209
Subsidies	550,800	9,473	-	-	-	560,273	-	-	560,273
Computer hardware and software	3,457	116,986	-	2,000	-	122,443	3,880	129,427	255,750
Education and training	72,979	261,150	818	-	-	334,947	-	459	335,406
Office supplies, postage and dues	45,677	15,671	1,863	-	-	63,211	16,446	202,017	281,674
Media and advertising	4,119	-	-	-	-	4,119	-	5,136	9,255
Rentals and repairs	3,712	3,591	-	-	69,527	76,830	-	135,027	211,857
Services	180,000	25,603	15,950	17,493	3,952	242,998	311,257	146,670	700,925
Travel and conferences	18,344	41,186	10,021	-	-	69,551	1,987	48,834	120,372
Utilities and communications	19,470	4,592	1,054	-	23,860	48,976	3,201	134,224	186,401
Other	214,071	10,351	620	-	120,147	345,189	530	198,497	544,216
Insurance premiums and claims	-	-	7,300,039	-	-	7,300,039	-	-	7,300,039
Interest paid on deposits	-	-	-	1,026,572	-	1,026,572	-	-	1,026,572
Depreciation					509,626	509,626			509,626
Total expenses	\$ 1,989,356	\$ 1,573,740	\$ 7,502,365	\$ 1,088,626	\$ 727,112	\$ 12,881,199	\$ 539,158	\$ 2,928,577	\$ 16,348,934

DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2022

	Program Expenses					_			
	Ministry	Education Seminarians and Vocations	Self-Insurance Program	Deposit and Loan Activities	Plant Activities	Total Program	Development	Diocesan Administration	Total
Compensation and benefits	\$ 566,214	\$ 740,526	\$ 141,913	\$ 41,519	\$ -	\$ 1,490,172	\$ 176,334	\$ 1,618,302	\$ 3,284,808
Direct program expense	154,944	251,892	12,072	-	-	418,908	-	102,215	521,123
Subsidies	828,709	7,769	-	-	-	836,478	-	-	836,478
Computer hardware and software	5,241	101,833	-	2,221	-	109,295	3,792	118,751	231,838
Education and training	270,018	374,465	1,206	-	-	645,689	-	135	645,824
Office supplies, postage and dues	61,053	14,726	-	-	-	75,779	31,655	210,288	317,722
Media and advertising	8,689	208	-	-	-	8,897	1,250	3,995	14,142
Rentals and repairs	2,750	-	-	-	55,338	58,088	-	102,922	161,010
Services	68,840	59,722	12,922	16,707	894	159,085	191,209	181,364	531,658
Travel and conferences	13,744	33,482	9,183	-	-	56,409	1,354	32,424	90,187
Utilities and communications	19,310	6,428	1,055	-	22,887	49,680	2,683	124,222	176,585
Other	267,999	14,324	983	-	132,456	415,762	192	99,387	515,341
Insurance premiums and claims	-	-	7,470,318	-	-	7,470,318	-	-	7,470,318
Interest paid on deposits	-	-	-	970,279	-	970,279	-	-	970,279
Depreciation					512,315	512,315			512,315
Total expenses	\$ 2,267,511	\$ 1,605,375	\$ 7,649,652	\$ 1,030,726	\$ 723,890	\$ 13,277,154	\$ 408,469	\$ 2,594,005	\$ 16,279,628

DIOCESE OF PENSACOLA – TALLAHASSEE ADMINISTRATIVE OFFICES STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	\$ 9,387,667	\$ (8,656,932)
Depreciation	509,626	512,315
Gain on sale of property and equipment	(2,481)	(177,980)
Realized and unrealized loss (gains) on investments	(5,683,258)	9,412,645
Change in insurance loss reserve Decrease (increase) in:	(6,369,189)	6,899,190
Accounts receivable from related parties	(1,204,721)	(36,931)
Prepaid expenses and other assets	(697,354)	292,203
Priest pension plan (Increase) decrease in:	(150,591)	(45,643)
Accounts payable and accrued liabilities	606,027	175,263
Unearned revenue	(2,542,739)	(1,634,138)
Net cash provided by (used in) operating activities	(6,147,013)	6,739,992
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of land, buildings, improvements and equipment	(86,397)	(86,844)
Proceeds from sale of property and equipment	3,981	185,846
Collections on loans	1,556,323	3,938,692
New loans issued	(624,851)	(1,328,953)
Purchase of certificate of deposits	(28,697,761)	(05.570.000)
Purchase of investments	(60,069,636)	(35,572,868)
Proceeds from sale of investments	62,502,547	35,366,389
Net cash provided by (used in) in investing activities	(25,415,794)	2,502,262
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in deposits payable	2,219,811	5,724,198
Net cash provided by financing activities	2,219,811	5,724,198
NET INCREASE (DECREASE) IN CASH	(29,342,996)	14,966,452
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	48,284,857	33,318,405
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 18,941,861	\$ 48,284,857
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See notes to the financial statements.

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.

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., 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:

<u>Net Assets without Donor Restrictions</u> 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.

<u>Net Assets with Donor Restrictions</u> are subject to donor-imposed stipulations that may or will be met either by actions of the Diocese and/or the passage of time.

Revenue and Accounts Receivable

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. Contribution revenue is recognized when earned, and contributions are recognized when received or unconditionally pledged. Assessments and premiums are recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The performance obligations related to assessments and premiums are satisfied over time as the services are provided.

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 purchased within three months of maturity to be cash equivalents. The Diocese does not consider certificate of deposits to be highly liquid and intends to continually renew the certificate of deposits upon maturity until needed for operations. The certificate of deposits will not be considered cash equivalents.

Investments

Investments consist of various types of investments including equity, fixed income securities and other marketable securities. Investments with readily determinable fair values are recorded at fair value based on quoted market prices and other observable inputs, with realized and unrealized gains and losses being reported in the statements of activities. Investment earnings, including dividends and interest, are recognized as income when earned. Investment income and gains restricted by a donor are reported as increases in net assets without donor restrictions, if the restrictions are met in the reporting period in which the income and gains are recognized. Investment securities can be exposed to several risks, such as interest rate, market, and credit risks. The Diocese does not have any investments without a readily determinable fair value.

Cash Surrender Value of Life Insurance Policies

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

Beneficial Interest in Perpetual Trust

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

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.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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. Buildings and equipment are depreciated using the straight-line method over the useful lives as follows:

Buildings 30 years
Equipment 3 - 10 years
Furniture and fixtures 3 - 10 years
Vehicles 5 years

Deposits Payable

The Diocese maintains an investment program for the benefit of Diocesan parishes, schools and related entities. Deposits payable to related parties represent funds these entities have placed with the Diocese for investment purposes. Interest is paid at a rate of 1.5 - 3.0% depending on the type of deposit, and the deposits are payable on demand.

Unearned Revenue

Unearned revenue consists of advanced insurance proceeds, related to Hurricane Michael and Hurricane Sally recovery, that are unearned until reconstruction costs are incurred and insurance premium payments received in advance of satisfaction of the performance obligation to provide insurance coverage, which will be satisfied over time on a daily or a pro-rata basis as services are provided.

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 statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the program and supporting activities. Most expenses are charged directly to program services, development or administration based on specific identification. Accordingly, some costs have been allocated among the program, and supporting services benefited by allocations based on time and effort, occupancy costs or an average square footage basis.

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 accounting principles generally accepted in the United States of America.

Subsequent Events

The Diocese has evaluated events and transactions that occurred between June 30, 2023, and October 3, 2023, which is the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

2. CERTIFICATES OF DEPOSIT

As of June 30, 2023 and 2022, the Diocese had certificates of deposit at financial institutions totaling \$28,697,761 and \$0, respectively. The certificate of deposits are recorded at amortized costs, which approximates fair value. The deposits have an interest rate of 4.80% and maturity dates in July 2023. The certificates of deposit were renewed upon maturity.

Unrealized

3. INVESTMENTS

The Diocese's investments consist of the following:

		,	Jiliealizeu	
As of June 30, 2023:	 Cost	Gai	ins (Losses)	Fair Value
Corporate bonds	\$ 5,465,343	\$	(355,415)	\$ 5,109,928
Stocks	27,134,571		5,123,586	32,258,157
U.S. government securities	16,399,437		(1,203,095)	15,196,342
Mutual funds	 15,768,535		954,997	16,723,532
Total investments measured				
at fair value	64,767,886		4,520,073	69,287,959
Pooled investment fund,				
measured at net asset value	4,278,353		(65,204)	4,213,149
	\$ 69,046,239	\$	4,454,869	\$ 73,501,108
			Jnrealized	
<u>As of June 30, 2022:</u>	 Cost	Gai	ins (Losses)	Fair Value
Corporate bonds	\$ 4,798,344	\$	(429,605)	\$ 4,368,739
Stocks	20,408,441		1,732,914	22,141,355
U.S. government securities	15,326,987		(875,265)	14,451,722
Mutual funds	 23,385,966		2,135,501	 25,521,467
Total investments measured at fair value	63,919,738		2,563,545	66,483,283
Pooled investment fund,				
				3,778,238

\$ 68,183,585

\$

2,077,936 \$

70,261,521

4. FAIR VALUE MEASUREMENTS

The Diocese's investments are reported at fair value, which is defined by Accounting Standards Codification Topic 820, *Fair Value Measurements* (ASC Topic 820), as the exchange price that would be received for an asset or liability in an orderly transaction between market participants on the measurement date. ASC Topic 820 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC Topic 820 describes three levels of inputs that may be used to measure fair value as follows:

<u>Level 1</u> – Inputs utilize quoted prices in active markets for identical assets or liabilities.

<u>Level 2</u> – Inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Level 2 inputs include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets in markets that are not active;
- Observable inputs other than quoted prices for the asset or liability;
- Inputs derived principally from, or corroborated by, observable market data by correlation or by other means.

<u>Level 3</u> – Inputs are unobservable data points for the asset and liability, and include situations where there is little, if any, market activity for the asset or liability.

The availability of observable inputs can vary from security to security and is affected by a wide variety of factors, including, for example, the type of security, whether the security is new and not yet established in the marketplace, the liquidity of markets, and other characteristics particular to the security. To the extent, the valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3.

The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety, is determined based on the lowest level of any input that is significant to the fair value measurement in its entirety.

The inputs or methodologies used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Changes in valuation technics may result in transfers in or out of an investment's assigned level described above.

4. FAIR VALUE MEASUREMENTS - CONTINUED

The following methods and assumptions were used to estimate the fair value for each class of investment, measured at fair value:

Stocks – Investments in stocks are measured at fair value using quoted market prices. They are classified as Level 1 as they are traded in an active market for which closing stock prices are readily available.

Mutual funds – Equity mutual funds are classified as Level 1 as they are traded in an active market for which closing prices are readily available.

Debt securities – Investments in debt securities are comprised of U.S. Treasury notes, mortgage-backed securities, and corporate bonds and notes. US Treasury notes are classified as Level 1 as they trade with sufficient frequency and volume to enable the Diocese to obtain pricing information on an ongoing basis. Mortgage-backed securities and corporate bonds and notes are classified as Level 2, as they are traded in an active market, and quoted prices are based on the value of similar underlying assets.

The pooled investment fund is an investment in the Mission Diocese Fund. Fair value of the pooled investment is estimated based on the net asset value, which is the proportionate share of ownership in the underlying net assets of the investment fund, which are reported at fair value.

The determination of where an asset or liability falls in the hierarchy requires significant judgment. The Diocese evaluates its hierarchy disclosures annually, and based on various factors, it is possible that an asset or liability may be classified differently from year-to-year. However, the Diocese expects that changes in classifications between levels will be rare.

While the Diocese believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The fair value hierarchy of the Diocese's investments, which are measured on a recurring basis at June 30, 2023 and 2022, is as follows:

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	Level 1	Level 2	Level 3	Total
Corporate bonds	\$ -	\$ 5,109,928	\$ -	\$ 5,109,928
Stocks	32,258,157	-	-	32,258,157
U.S. government securities	8,681,140	6,515,202	-	15,196,342
Mutual funds	16,723,532	-	-	16,723,532
Investments measured				
at NAV ⁽¹⁾				4,213,149
Total investments at fair value	\$ 57,662,829	\$ 11,625,130	\$ -	\$ 73,501,108

4. FAIR VALUE MEASUREMENTS - CONTINUED

2022

	Level 1	Level 2	Level 3	Total
Corporate bonds	\$ -	\$ 4,368,739	\$ -	\$ 4,368,739
Stocks	22,141,355	-	-	22,141,355
U.S. government securities	9,972,566	4,479,156	-	14,451,722
Mutual funds	25,521,467	-	-	25,521,467
Investments measured				
at NAV ⁽¹⁾				3,778,238
Total investments at fair value	\$ 57,635,388	\$ 8,847,895	<u>\$</u> _	\$ 70,261,521

⁽¹⁾ In accordance with Subtopic 820-10, certain investments that were measured at NAV per unit (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of financial position.

5. 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 statements of financial position, and the change in the fair value each year is included in the statements of activities and changes in net assets as a change in net assets with donor restrictions. 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, 2023 and 2022, the fair value of this trust measured at Level 3 was \$953,874 and \$943,114, respectively.

6. ACCOUNTS RECEIVABLE FROM RELATED PARTIES

Accounts receivable are summarized as follows:

	2023	2022
Catholic Sharing Appeal	\$ 274,116	\$ 344,149
Insurance premiums	1,110,193	51,119
Parish receivables	171,638	126,429
Other	 192,454	21,983
	1,748,401	543,680
Less allowance for doubtful accounts	 (210,000)	 (210,000)
	\$ 1,538,401	\$ 333,680

7. LOANS RECEIVABLE FROM RELATED PARTIES

Loans receivable from related parties are as follows:

	 2023	 2022
Loans receivable	\$ 9,825,602	\$ 10,757,074
Less allowance for doubtful accounts	 (75,000)	 (75,000)
	\$ 9,750,602	\$ 10,682,074

Annual maturities of loan receivables are as follows:

Year endingJune 30,	
2024	\$ 1,203,172
2025	1,096,815
2026	986,648
2027	951,898
Thereafter	 5,587,069
	 9,825,602

During the years ended June 30, 2023 and 2022, interest income totaling \$547,797 and \$645,014 was received from loans to related parties, respectively.

8. LAND, BUILDINGS, IMPROVEMENTS AND EQUIPMENT

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

	2023	2022
Land	\$ 9,523,279	\$ 9,523,279
Buildings and improvements	17,623,259	17,536,862
Equipment	648,207	648,207
Vehicles	177,850	199,914
Furniture and fixtures	734,393	734,393
	28,706,988	28,642,655
Less accumulated depreciation	(11,074,029)	(10,584,967)
	\$ 17,632,959	\$ 18,057,688

Depreciation expense was approximately \$510,000 and \$512,000 for the years ended June 30, 2023 and 2022, respectively.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of:

	 2023	 2022
Accounts payable	\$ 583,711	\$ 282,357
Second Collections payable	536,056	273,446
Catholic Sharing Appeal rebates	145,535	132,424
Accrued payroll and related items	 166,398	137,446
	\$ 1,431,700	\$ 825,673

10. LINE OF CREDIT

The Diocese has a \$5,000,000 line of credit with a bank, which matures in June 2025. The interest rate is the prime rate. There was no outstanding balance on the line of credit at June 30, 2023 and 2022. There were no draws on the line during either fiscal year.

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 and changes in net assets, 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 stop loss and aggregate re-insurance coverage from outside insurance carriers. During the years ended June 30, 2023 and 2022, the Diocese was responsible for costs up to \$125,000 per covered person with an aggregate annual maximum of \$1,000,000.

Property, General, Workers' Compensation and Loss Sharing Agreement

The Diocese and certain other dioceses within the state of Florida participate in the Ecclesiastical Province of Miami's (the EPM) self-insurance program to provide coverage for property, general liability and workers' compensation claims. Each participating diocese and their participating entities and affiliates are charged a pro-rata share of the EPM program's estimated claim costs, administration fees and policy premiums that are incurred in connection with the purchase of excess insurance coverage from outside carriers and management of the program.

Generally, amounts are recoverable from the excess insurance carriers under this program after a specified claim has exceeded a specified retention limit of \$250,000 for workers' compensation claims, \$25,000,000 for a "named windstorm" property claims, \$250,000 for all other perils and property claims, and \$250,000 for liability claims.

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.

In connection with the EPM program, the Diocese participates in an aggregate excess loss-sharing agreement. This agreement covers property, liability, workers' compensation and other self-insured losses and allows each participating diocese to share in each other's losses above an actuarially determined threshold thereby providing each of the participants with an additional layer of protection from abnormally large or catastrophic losses during any given claim year.

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. For the policy year beginning April 1, 2023, the Diocese's portion of the EPM's combined loss funds was approximately \$539,000. The Diocese is responsible for losses incurred up to the amount of its combined loss fund requirements. This actuarially determined amount was incorporated into the estimate of the self-insurance claims liability that is reported in the accompanying statement of financial position. The other participating dioceses share proportionately in the remaining losses based on their share of the total loss funds. If the total loss funds were exhausted, each diocese would be responsible for its losses in excess of its assigned portion.

12. HURRICANE EVENTS

On October 10, 2018, Hurricane Michael made landfall in the Panama City, Florida area causing catastrophic damage to the community. As a result of the storm, several parishes, schools and other related catholic entities were either severely damaged or completely destroyed.

On September 16, 2020, Hurricane Sally made landfall in the Pensacola, Florida area causing catastrophic damage to the community. As a result of the storm several parishes, schools and other catholic entities were severely damaged.

For the year ended June 30, 2022, the Diocese incurred approximately \$9.6 million in expenses and recognized \$9.6 million of insurance proceeds. Approximately \$7.5 million of advanced insurance proceeds are included in deferred revenue in the accompany statements of financial position.

12. HURRICANE EVENTS - CONTINUED

For the year ended June 30, 2023, the Diocese incurred approximately \$4.6 million in expenses and recognized \$5.9 million of insurance proceeds. Approximately \$1.2 million of advanced insurance proceeds are included in deferred revenue in the accompany statements of financial position.

During fiscal year ending June 30, 2024, the Diocese expects to incur approximately \$1.2 million in additional expenses for repairs. The Diocese does not expect to receive any additional insurance proceeds in relation to Hurricane Sally. To the extent the Diocese incurs additional expenses or receives additional insurance proceeds, these will be recognized when incurred.

13. LIFE INSURANCE POLICIES

The Diocese has life insurance policies insuring the lives of certain priests. The insurance policies are payable to the Diocese with a combined death benefit of \$9.9 million and a cash surrender value of approximately \$798,000, which is recorded as an asset on the accompanying statement of net position as of both June 30, 2023 and 2022.

14. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes:

	2023	 2022
Seminarian education	\$ 7,466,174	\$ 7,294,625
Ministry and evangelization	250,227	259,585
Hurricane relief	106,515	100,420
Not subject to appropriation of expenditure	955,374	943,114
Other	5,679	6,098
	\$ 8,783,969	\$ 8,603,842

During each fiscal year, the majority of net assets were released from donor restrictions by incurring expenses satisfying the purpose restriction of ministry and evangelization.

15. LIQUIDITY

The Diocese has a policy to manage its liquidity and reserves following three guiding principles: operating within a prudent range of financial stability, maintaining adequate liquidity to fund near-term operations, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

The following table reflects the Diocese's financial assets as of June 30, 2023 and 2022, reduced by amounts not available for general expenditures within one year.

	2023	2022
Cash and cash equivalents	\$ 18,941,861	\$ 48,284,857
Certificate of deposits	28,697,761	-
Investments	73,501,108	70,261,521
Loans receivable from related parties, net	9,750,602	10,682,074
Accounts receivable from related parties, net	1,538,401	333,680
Total financial assets	132,429,733	129,562,132
Less those unavailable for general expenditures within one year due to contractual or donor-imposed restrictions:		
Restricted by donor with time or purpose restrictions	(8,783,969)	(8,603,842)
Collections of long-term note receivables beyond one year	(8,622,430)	(9,410,124)
Deposits held for investment for related parties	(57,359,340)	(55,139,529)
Financial assets available to meet cash needs for expenditures within one year	\$ 57,663,994	\$ 56,408,637
experiationes within one year	Ψ 51,005,334	Ψ 30,700,031

16. RETIREMENT PLANS

Diocese of Pensacola - Tallahassee Priests' Pension Plan & Trust

The Diocese (the employer) has a non-contributory defined benefit pension plan (pension plan and trust) 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 65 and ten years of credited service. The plan provides a benefit of \$64.04 per month for each year of credited service, with a maximum benefit of \$1,921.11 per month.

16. RETIREMENT PLANS - CONTINUED

Diocese of Pensacola - Tallahassee Priests' Pension Plan & Trust - Continued

For the years ended June 30, 2023 and 2022, there were 81 and 83 participants in the plan, respectively.

The following tables set forth further information about the defined benefit pension plan:

	2023	2022
Benefit obligation at beginning of year	\$ 9,813,883	\$ 11,334,465
Service cost	161,037	238,980
Interest cost	448,125	316,878
Amendments	801,498	471,927
Actuarial loss (gain)	(479,118)	(1,880,050)
Benefits paid	(727,965)	(668,317)
Benefit obligation at end of year	\$ 10,017,460	\$ 9,813,883
Fair value of plan assets at beginning of year	\$ 11,556,825	\$ 13,031,764
Actual return on plan assets	800,344	(1,257,868)
Employer contribution	281,789	451,246
Benefits paid	(727,965)	(668,317)
Fair value of plan assets at end of year	\$ 11,910,993	\$ 11,556,825
Fair value of plan assets at end of year	\$ 11,910,993	\$ 11,556,825
Projected benefit obligation	(10,017,460)	(9,813,883)
Prepaid pension cost	\$ 1,893,533	\$ 1,742,942

Amounts recognized in the statements of activities and changes in net assets consist of the following:

	2023	2022
Service cost	\$ 161,037	\$ 238,980
Interest cost	448,125	316,878
Expected return on assets	(682,237)	(777,951)
Amortization of unrecognized transition obligation	133,278	133,272
Amortization of unrecognized prior service cost	91,827	52,500
Amortization of unrecognized actuarial loss	 31,766	6,494
Net periodic pension cost (benefit)	\$ 183,796	\$ (29,827)

16. RETIREMENT PLANS - CONTINUED

Diocese of Pensacola - Tallahassee Priests' Pension Plan & Trust - Continued

Accounting principles generally accepted in the United States of America require that an employer disaggregate the service cost component from the other components of net pension benefit cost and report the service cost component in the same statements of activities and changes in net assets line item as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the statements of activities and changes in net assets separately from the service cost component and outside a subtotal of changes in net assets from operations, if one is presented. The service cost amount for the priests' pension plan is recorded in ministry program expenses. Other components of net benefit cost are included in pension related changes other than service costs in nonoperating changes in net assets on the statements of activities and changes in net assets.

Other changes in plan assets and benefit obligations previously recognized in changes in net assets without donor restrictions:

		2023		2022
Unrecognized transition obligation	\$	-	\$	133,278
Net prior service cost		1,664,455		954,784
Unrecognized actuarial net loss		907,878		1,536,869
Amounts previously recognized in net assets without donor restrictions, not yet recognized as periodic pension cost	\$	2,572,333	\$	2,624,931
Amortization payments paid during fiscal year:				
Amortization of transition obligation			\$	133,272
Amortization of net prior service cost			Ψ	91,827
Amortization of net loss				31,766
			•	256,865
Total amortization payments			Ψ	230,003
Amortization payments expected to be paid during fiscal year e	ended	June 30, 2024	4:	
Amortization of transition obligation			\$	-
Amortization of net prior service cost				153,481
Amortization of net gain				(21,786)
Total amortization payments			\$	131,695

16. RETIREMENT PLANS - CONTINUED

Diocese of Pensacola – Tallahassee Priests' Pension Plan & Trust – Continued

The following assumptions were used in accounting for the plan:

	2023	2022
Weighted-average assumption used to determine pension benefit obligations	E 240/	4 740/
Discount rate	5.21%	4.74%
Weighted-average assumptions used to determine net periodic pension benefit costs		
Discount rate	4.74%	2.88%
Expected return on plan assets	6.00%	6.00%

The discount rate will fluctuate depending on the rate at which pension obligations can be effectively settled. The assumption for the expected return on plan assets for pension purposes is the average rate of earnings expected on the funds invested to provide for benefits included in the projected benefit obligation. The Pension Plan's Board of Trustee'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 44% equity securities, 52% debt securities and 4% other investments. The investment policy is periodically reviewed by the Pension Plan's Board of Trustees 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 Pension Plan assets by asset class are as follows:

		June 30, 2023			June 30, 2022		
Asset Category		Level 1* %		Level 1*		%	
Equity securities	\$	5,009,020	42%	\$	4,504,549	39%	
Debt securities		6,463,977	54%		6,750,204	58%	
Other		437,996	4%		302,072	3%	
	\$	11,910,993	100%	\$	11,556,825	100%	

^{*}Assets are valued at Level 1 inputs, as determined from quoted prices in active markets for identical assets.

16. RETIREMENT PLANS - CONTINUED

Diocese of Pensacola - Tallahassee Priests' Pension Plan & Trust - Continued

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

2024	\$ 760,000
2025	764,000
2026	763,000
2027	756,000
2028	732,000
2029 - 2033	3,704,000
	\$ 7,479,000

The Diocese, as an employer, is not required to contribute to the plan and trust for fiscal year ending June 30, 2024.

Lay Employees - 401(k) Plan

The Diocese has a defined contribution plan that covers all lay employees aged 20½ 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 \$127,892 and \$109,105 for the years ended June 30, 2023 and 2022, respectively.

17. COMMITMENTS AND CONTINGENCIES

Credit Risk

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, 2023 and 2022, 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.