

**DIOCESE OF PALM BEACH, INC.**  
**REPORT ON AUDITS OF FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

# DIOCESE OF PALM BEACH, INC.

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## Report of Independent Auditors

To the Most Reverend Gerald M. Barbarito  
Bishop of the Diocese of Palm Beach  
Diocese of Palm Beach, Inc.  
Palm Beach Gardens, Florida

We have audited the accompanying financial statements of Diocese of Palm Beach, Inc. (a nonprofit organization) which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to financial statements.

### Management's Responsibility for the Financial Statements

The Diocese's 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.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 Diocese of Palm Beach, Inc. as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



## Other Matter

### Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis of the financial statements and is not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The supplementary information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

*Templeton & Company, LLP*

West Palm Beach, Florida  
October 30, 2019

**DIOCESE OF PALM BEACH, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2019 and 2018**

	2019	2018
<b>ASSETS</b>		
Cash and cash equivalents	\$ 25,692,293	\$ 22,065,220
Investments (Note 4)	45,057,184	38,505,965
Pledges and bequest receivable, net (Note 6)	13,965,556	2,210,526
Receivables from Diocesan entities, net (Note 5)	2,367,024	1,994,903
Other receivables	140,633	20,422
Other assets	2,065,419	1,816,736
Property and equipment, net (Note 8)	23,643,178	24,528,498
Total assets	\$ 112,931,287	\$ 91,142,270
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 2,298,835	\$ 2,834,355
Self-insurance reserves (Note 9)	1,318,932	1,054,896
Annuities payable	71,946	64,827
Deferred revenue	39,017	34,177
Post-employment benefit obligation (Note 10)	671,842	506,758
Guarantee of indebtedness reserve (Note 3)	2,245,917	2,571,250
Total liabilities	6,646,489	7,066,263
Commitments and contingencies (Notes 3, 9, 10, 12, 13 and 15)		
Net assets:		
Without donor restrictions	62,991,452	58,851,513
With donor restrictions (Note 16)	43,293,346	25,224,494
Total net assets	106,284,798	84,076,007
Total liabilities and net assets	\$ 112,931,287	\$ 91,142,270

See notes to financial statements.

**DIOCESE OF PALM BEACH, INC.**  
**STATEMENTS OF ACTIVITIES**  
**For the Years Ended June 30, 2019 and 2018**

	Year Ended June 30, 2019			Year Ended June 30, 2018		
	Without Donor	With Donor	Total	Without Donor	With Donor	Total
	Restrictions	Restrictions		Restrictions	Restrictions	
Support and revenue:						
Diocesan services appeal	\$ -	\$ 9,211,958	\$ 9,211,958	\$ -	\$ 9,078,719	\$ 9,078,719
Contributions and bequests	245,065	916,941	1,162,006	123,703	2,124,290	2,247,993
Cemetery care deposits	-	356,624	356,624	-	231,545	231,545
Program revenue	1,462,062	-	1,462,062	1,250,466	-	1,250,466
Self-insurance program revenue	5,152,573	-	5,152,573	5,019,781	-	5,019,781
Net investment return	2,011,933	2,031,668	4,043,601	1,715,835	977,513	2,693,348
Interest and dividend income	797,199	276,006	1,073,205	779,592	239,711	1,019,303
Special events, net of direct expenses	211,939	-	211,939	316,843	-	316,843
Rental income	204,000	-	204,000	204,000	-	204,000
Other income (expense), net	3,071	-	3,071	(3,033)	-	(3,033)
Net assets released from restrictions (Note 17)	11,047,572	(11,047,572)	-	10,748,337	(10,748,337)	-
<b>Total support and revenue</b>	<b>21,135,414</b>	<b>1,745,625</b>	<b>22,881,039</b>	<b>20,155,524</b>	<b>1,903,441</b>	<b>22,058,965</b>
Expenses:						
Program services:						
Pastoral	1,566,108	-	1,566,108	1,453,271	-	1,453,271
Religious personnel development	1,357,279	-	1,357,279	1,322,405	-	1,322,405
Catholic school and faith foundation support	3,616,963	-	3,616,963	2,892,111	-	2,892,111
Missions support	1,064,380	-	1,064,380	1,068,613	-	1,068,613
Self-insurance program	4,662,757	-	4,662,757	4,572,842	-	4,572,842
Social service programs	3,342,744	-	3,342,744	3,308,400	-	3,308,400
<b>Total program services</b>	<b>15,610,231</b>	<b>-</b>	<b>15,610,231</b>	<b>14,617,642</b>	<b>-</b>	<b>14,617,642</b>
Supporting services:						
Diocesan administration	3,462,947	-	3,462,947	3,396,690	-	3,396,690
Plant, facility and construction management	1,085,406	-	1,085,406	1,097,694	-	1,097,694
<b>Total expenses</b>	<b>20,158,584</b>	<b>-</b>	<b>20,158,584</b>	<b>19,112,026</b>	<b>-</b>	<b>19,112,026</b>
Increase in net assets before non-operating activities	976,830	1,745,625	2,722,455	1,043,498	1,903,441	2,946,939
Change in guarantee of indebtedness reserve	25,333	-	25,333	314,933	-	314,933
Contribution for Skaff Senior Housing Fund (Note 18)	-	16,323,227	16,323,227	-	-	-
Gain on sale of property (Note 8)	3,802,860	-	3,802,860	205,550	-	205,550
Change in post-employment benefit obligation	(165,084)	-	(165,084)	84,873	-	84,873
Contribution to Lay Pension Plan (Note 10)	(500,000)	-	(500,000)	(500,000)	-	(500,000)
<b>Increase in net assets</b>	<b>4,139,939</b>	<b>18,068,852</b>	<b>22,208,791</b>	<b>1,148,854</b>	<b>1,903,441</b>	<b>3,052,295</b>
<b>Net assets - beginning of year</b>	<b>58,851,513</b>	<b>25,224,494</b>	<b>84,076,007</b>	<b>57,702,659</b>	<b>23,321,053</b>	<b>81,023,712</b>
<b>Net assets - end of year</b>	<b>\$ 62,991,452</b>	<b>\$ 43,293,346</b>	<b>\$ 106,284,798</b>	<b>\$ 58,851,513</b>	<b>\$ 25,224,494</b>	<b>\$ 84,076,007</b>

See notes to financial statements.

**DIOCESE OF PALM BEACH, INC.**

**STATEMENTS OF FUNCTIONAL EXPENSES  
For the Years Ended June 30, 2019 and 2018**

	2019								
	Pastoral	Religious Personnel Development	Education and Faith Programs	Missions Support	Self-Insurance Program	Social Service Programs	Diocesan Administration	Plant, Facility and Construction	Total
Salaries, taxes and benefits	\$ 1,205,538	\$ 332,045	\$ 951,179	\$ 208,522	\$ -	\$ 1,022,814	\$ 2,238,358	\$ 541,301	\$ 6,499,757
Subsidies and donations	52,044	451,676	844,939	753,816	-	1,845,994	26,587	-	3,975,056
Educational programs	89,406	380,397	1,066,843	-	-	176,025	-	-	1,712,671
Insurance	12,331	15,390	9,356	128,910	5,320,325	13,231	26,316	52,390	5,578,249
Information technology and telecommunications	11,983	3,615	13,605	1,081	-	16,673	71,227	20,382	138,566
Utilities	8,270	2,740	4,394	775	-	13,103	11,824	3,709	44,815
Office, printing and postage	13,833	17,225	8,292	30,267	-	27,477	271,125	13,824	382,043
Other program and operating	31,523	58,146	130,737	29,114	-	20,640	6,149	3,655	279,964
Travel and meetings	11,819	25,003	15,214	25,399	-	20,051	59,305	10,183	166,974
Maintenance contracts and repairs	35,857	9,570	47,717	2,690	-	45,454	43,051	284,582	468,921
Depreciation	90,299	29,912	47,971	8,466	-	143,068	129,100	40,494	489,310
Professional and contract services	15,536	46,950	486,072	4,250	-	11,445	606,221	167,276	1,337,750
Interfund eliminations	(12,331)	(15,390)	(9,356)	(128,910)	(657,568)	(13,231)	(26,316)	(52,390)	(915,492)
	<u>\$ 1,566,108</u>	<u>\$ 1,357,279</u>	<u>\$ 3,616,963</u>	<u>\$ 1,064,380</u>	<u>\$ 4,662,757</u>	<u>\$ 3,342,744</u>	<u>\$ 3,462,947</u>	<u>\$ 1,085,406</u>	<u>\$ 20,158,584</u>
	2018								
	Pastoral	Religious Personnel Development	Education and Faith Programs	Missions Support	Self-Insurance Program	Social Service Programs	Diocesan Administration	Plant, Facility and Construction	Total
Salaries, taxes and benefits	\$ 1,100,805	\$ 367,035	\$ 824,408	\$ 212,530	\$ -	\$ 978,657	\$ 2,390,928	\$ 517,819	\$ 6,392,182
Subsidies and donations	51,704	351,274	574,842	769,713	-	1,849,435	20,480	-	3,617,448
Educational programs	90,590	396,304	1,080,928	-	-	178,495	300	-	1,746,617
Insurance	10,321	10,077	8,534	123,749	5,317,842	11,502	27,405	50,081	5,559,511
Telecommunications	13,272	7,352	11,709	1,449	-	13,414	77,307	9,537	134,040
Utilities	8,623	2,856	4,581	808	-	13,662	12,328	3,867	46,725
Office, printing and postage	16,305	20,650	10,058	29,918	-	45,633	270,863	28,756	422,183
Other program and operating	33,615	79,542	131,744	26,287	-	26,781	9,796	2,296	310,061
Travel and meetings	17,523	13,428	21,415	13,048	-	22,555	78,911	18,437	185,317
Maintenance contracts	30,322	8,290	46,745	2,211	-	37,369	38,848	325,206	488,991
Depreciation	84,526	27,999	44,905	7,924	-	133,921	120,846	37,905	458,026
Professional and contract services	5,986	47,675	140,776	4,725	-	8,478	376,083	153,871	737,594
Interfund eliminations	(10,321)	(10,077)	(8,534)	(123,749)	(745,000)	(11,502)	(27,405)	(50,081)	(986,669)
	<u>\$ 1,453,271</u>	<u>\$ 1,322,405</u>	<u>\$ 2,892,111</u>	<u>\$ 1,068,613</u>	<u>\$ 4,572,842</u>	<u>\$ 3,308,400</u>	<u>\$ 3,396,690</u>	<u>\$ 1,097,694</u>	<u>\$ 19,112,026</u>

**DIOCESE OF PALM BEACH, INC.**  
**STATEMENTS OF CASH FLOWS**  
**For the Years Ended June 30, 2019 and 2018**

	2019	2018
Cash flows from operating activities:		
Increase in net assets	\$ 22,208,791	\$ 3,052,295
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation	489,310	464,287
Gain on sale of property	(3,802,860)	(205,550)
Unrealized and realized gains on investments, net	(3,753,270)	(2,497,866)
Change in guarantee of indebtedness reserve	(325,333)	(614,933)
Contributions received for long-term purposes	(3,864,892)	-
Changes in operating assets and liabilities:		
Receivables from Diocesan entities	(372,121)	(61,846)
Pledges and bequest receivable	(11,755,030)	(1,230,776)
Other receivables	(120,211)	(4,624)
Other current assets	(248,683)	(250,291)
Accounts payable and accrued expenses	(535,520)	(340,842)
Self-insurance reserves	264,036	296,278
Annuities payable	7,119	(2,526)
Deferred revenue	4,840	7,724
Post-employment benefit obligation	165,084	(84,873)
Net cash used in operating activities	(1,638,740)	(1,473,543)
Cash flows from investing activities:		
Purchases of portfolio investments	(23,841,298)	(24,276,435)
Proceeds from sales of portfolio investments	21,043,349	24,760,227
Proceeds from sale of property	4,306,000	430,000
Purchases of property and equipment	(107,130)	(611,977)
Net cash provided by investing activities	1,400,921	301,815
Cash flows from financing activities:		
Contributions received for long-term purposes	3,864,892	-
Increase (decrease) in cash and cash equivalents	3,627,073	(1,171,728)
Cash and cash equivalents, beginning of year	22,065,220	23,236,948
Cash and cash equivalents, end of year	\$ 25,692,293	\$ 22,065,220

See notes to financial statements.



**DIOCESE OF PALM BEACH, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 1 – Description of Activities and Summary of Significant Accounting Policies**

The Diocese of Palm Beach, Inc. (the Diocese) is an operating entity of the Diocese of Palm Beach, a not-for-profit corporation existing under the laws of the State of Florida. There are no stockholders, directors or officers in The Diocese of Palm Beach, only the holder of the office of Bishop of Palm Beach (the Bishop). The Bishop holds title to all assets and is liable for all indebtedness of the Diocese of Palm Beach. The title to all assets and the responsibility for all indebtedness passes to the Bishop's successor in office rather than to his relatives or other customary heirs.

The accompanying financial statements of the Diocese do not include the accounts of the Diocese of Palm Beach that are affiliated with other Diocesan entities (e.g., parishes, schools, corporations). These financial statements also exclude the multi-employer pension and multi-employer health plan for the Diocese of Palm Beach and other Diocesan-related organizations and the assets and liabilities held by the Diocese of Palm Beach Savings Fund Trust (SFT) (see Note 3).

The Diocese serves five counties in the South Florida area and receives substantial financial support from parishioners through the Diocesan Service Appeal. Accordingly, the financial strength of the Diocese can vary based upon the economic health of the South Florida economy.

A summary of the significant accounting policies used to prepare the accompanying financial statements follows:

Basis of accounting and presentation

The Diocese financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles generally accepted in the United States of America (US GAAP), in accordance with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) FASB ASC Topic 958, *Not-for-Profit Entities*.

Net assets

The financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

*Net assets without donor restrictions*

Net assets without donor restrictions are resources available to support operations. The only limits on the use of these net assets are the broad limits resulting from the nature of the Diocese, the environment in which it operates, the purpose specified as the Diocese of Palm Beach, and any limits resulting from contractual arrangements with creditors or others that are entered into in the course of operations.

*Net assets with donor restrictions*

Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time period has passed. Other donor-imposed restrictions are perpetual in nature; the Diocese must continue to use the resources in accordance with the donor's instructions.

Liquidity

Assets are presented in the accompanying statements of financial position according to their nearness of conversion to cash and liabilities according to their nearness of their maturity and resulting use of cash.

## DIocese OF PALM BEACH, INC.

### NOTES TO FINANCIAL STATEMENTS, CONTINUED

#### Note 1 – Description of Activities and Summary of Significant Accounting Policies, Continued

##### Revenue recognition

Support and revenue are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Billings to Diocesan entities for self-insurance program contributions are deferred and recognized as revenue ratably over the related policy period. Other support received in advance is recorded as deferred revenue. Gains and/or losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law.

The Diocesan Services Appeal (DSA) primarily funds the various ministries and outreach programs of the Diocese. DSA assessments are based on a standard formula which is substantially based on parish offertory income.

##### Contributions and bequest

Contributions, including unconditional promises to give (pledges), are recognized when the promise is received. Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met.

Contributions of assets other than cash are reported at their estimated fair value at the date of the gift. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fundraising activity. Amounts pledged are recorded as contributions of net assets with donor restrictions, if designated by the donors as such.

The Diocese reports non-cash contributions as net assets without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Contributions of long-lived assets with explicit restrictions that specify how the assets are to be used and contributions of cash or other assets that must be used to acquire long-lived assets are reported as restricted contributions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Diocese reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Unconditional promises to give (pledges) are recognized as contributions at fair value at the date the promises are received. Pledges receivable that are expected to be collected in less than one year are reported at net realizable value. Pledges that are expected to be collected in more than one year are recorded at fair value at the date of promise. The fair value is computed using a present value technique applied to anticipated cash flows. Amortization of the resulting discount is recognized as additional contribution revenue. The allowance for uncollectible pledges receivable is determined based on management's evaluation of the collectability of individual promises. Pledges that remain uncollected more than one year after their due dates are written off unless the donor indicates that payment is merely postponed. Contributions under split-interest agreements, including charitable remainder trusts and charitable gift annuities, for which the Diocese is the trustee or custodian are recorded at the fair value of the assets received, and a liability is recorded for the present value of the expected payments to be made to the beneficiaries (annuities payable). The Diocese distinguishes between pledges received for each net asset category in accordance with donor restrictions, if any.

##### Contributed services

Volunteers contribute significant services to the Diocese throughout the year, especially in the performance of certain program services. These volunteer services are not valued or recorded in the accompanying financial statements.

**DIOCESE OF PALM BEACH, INC.**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**Note 1 – Description of Activities and Summary of Significant Accounting Policies, Continued**

Cash and cash equivalents

Cash and cash equivalents include demand deposit and money market accounts, SFT deposits (see Note 3), and other highly-liquid investments with an original maturity of three months or less.

Receivables from Diocesan entities

Receivables from Diocesan entities are stated at the amount of the uncollected balance, less an allowance for doubtful accounts of \$365,003 as of each year ended June 30, 2019 and 2018. The allowance for doubtful accounts is increased by charges to income and decreased by charge-offs (net of recoveries). Management's periodic evaluation of the adequacy of the allowance is based on past experience and adverse financial situations for the parish or school that may affect the entity's ability to pay.

Investments

Investments are measured at fair value in the statements of financial position. Investments include marketable equity securities, U.S. government and municipal bonds, money market funds, and corporate bonds.

Investment income and realized gains and losses on investments are recognized upon realization. Unrealized gains and losses are recognized based on changes in fair values during the period. Net investment returns are reported in appropriate net asset classifications based upon the existence of donor restrictions, if any.

Investments are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in values of investments will occur in the near-term.

Property and equipment

Property and equipment is stated at cost if purchased or, if acquired by contribution, at the estimated fair market value on the date of contribution. All property and equipment is capitalized unless the asset has a value of less than \$5,000 in which case it is expensed in the period incurred. The Diocese provides for depreciation over the estimated useful lives of the related assets using the straight-line method. These estimated useful lives are summarized in the following table:

Land improvements	39 years
Buildings and improvements	25–40 years
Furniture and equipment	5–10 years

Property held for sale or future development is carried at the lower of cost or estimated fair value.

Annuities payable

Annuities payable represent amounts due to beneficiaries under various split-interest agreements in which the Diocese is the trustee or custodian. The related assets under these arrangements, totaling \$71,946 and \$67,117 at June 30, 2019 and 2018, respectively, are included in investments in the accompanying statements of financial position. The amounts due are calculated using discount rates ranging from 3.8% to 7.8% and the Internal Revenue Service's (IRS) life expectancy tables.

**DIOCESE OF PALM BEACH, INC.**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**Note 1 – Description of Activities and Summary of Significant Accounting Policies, Continued**

Self-insurance reserve

As more fully described in Note 9, the Diocese maintains a self-insurance program for property, general liability, and workers' and unemployment compensation insurance. Participating entities are charged premiums based upon the estimated costs of the programs, including insurance premiums paid for stop-loss coverage, self-insured claims expenses, and professional program administration. Self-insurance claim liabilities reflect the estimated costs (including estimated loss development and loss adjustment expense) for claims incurred under the various lines of coverage and are recorded at the estimated ultimate payment amounts. The liabilities relating to the property, general liability and workers' and unemployment compensation insurance policies are based on historical claims experience. These liabilities are calculated annually by an actuary and adjusted to the related calculation.

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 and accompanying notes. On an ongoing basis, the Diocese' management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The Diocese believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates. Significant items subject to such estimates include the guarantee of indebtedness reserve, self-insurance reserves, and estimate of the post-employment obligation.

Guarantees of indebtedness reserve

The Diocese is the guarantor of loans to parishes and other Diocesan entities by the SFT which approximated \$31,200,000 for 28 loans and \$32,500,000 for 32 loans as of June 30, 2019 and 2018, respectively. The Diocese annually reviews the financial projections of the parishes and other Diocesan entities to determine whether the loan obligations are able to be fulfilled. Based upon management's most recent review, the Diocese determined that a reserve liability for loan guarantees of \$2,245,917 and \$2,571,250 is necessary for these loans as of June 30, 2019 and 2018, respectively.

Income taxes

In an annually updated ruling, the Internal Revenue Service (IRS) ruled that agencies, instrumentalities, and educational, charitable, and religious institutions operated, supervised, or controlled by or in connection with the Roman Catholic Church in the United States, its territories or possessions appearing in "The Official Catholic Directory" are exempt from the federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code. The Diocese of Palm Beach is listed in "The Official Catholic Directory" and therefore is exempt from income tax. Accordingly, the accompanying financial statements reflect no provision for income taxes.

Long-lived assets

Management assesses the recoverability of its long-lived assets, which consist primarily of property and equipment with finite useful lives, whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

**DIOCESE OF PALM BEACH, INC.**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**Note 1 – Description of Activities and Summary of Significant Accounting Policies, Continued**

Fair value disclosures

The Diocese discloses the fair value of financial instruments for which it is practicable to estimate fair value. The fair value of the Diocese's cash and cash equivalents, investments, receivables, and liabilities approximate their carrying values.

Special events

Special events represent events undertaken to raise funds for the benefit of educational programs. Support from special events is reported net of the related expenses in the statements of activities as net assets with donor restrictions, or net assets without donor restrictions, as appropriate. Support is recognized in accordance with the Diocese's contributions policy and related expenses are recorded as incurred.

Expense recognition and allocation

The cost of providing the Diocese' ministries and programs and other activities is summarized on a functional basis in the statements of activities and statements of functional expenses. Expenses that can be identified with a specific ministry or support service are charged directly to that ministry or support service. Costs common to multiple functions have been allocated among the various functions benefitted using a reasonable allocation method that is consistently applied, as follows:

- Depreciation, utilities, maintenance and related costs are allocated on a square foot basis dependent upon the ministry, programs and supporting activities occupying the space;

Management periodically evaluates the bases on which costs are allocated when new space or programs are added. Administration expenses include those costs that are not directly identifiable with any specific ministry or program, but which provide overall support and direction of the Diocese.

Reclassifications

Certain amounts in the 2018 financial statements were reclassified to conform to the presentation in the 2019 financial statements.

Change in accounting principles

The Diocese implemented FASB Accounting Standard Update (ASU) 2016-14, *Not-for-Profit Entities* (Topic 958), *Presentation of Financial Statements for Not-for-Profit Entities*, in the current year, applying the changes retrospectively. The new standard changes the following aspects of the financial statements:

- The temporarily and permanently restricted net assets classes have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The financial statements include disclosure about liquidity and availability of resources (Note 2).
- The statement of functional expenses was added for all periods presented in the accompanying financial statements along with related information regarding the allocation of certain expenses and the related accounting policy.

**DIOCESE OF PALM BEACH, INC.**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**Note 1 – Description of Activities and Summary of Significant Accounting Policies, Continued**

Change in accounting principles, continued

The changes had the following effect on net assets at July 1, 2017.

Net Asset Class	As Originally Presented	After Adoption of ASU 2016-14
Unrestricted net assets	\$ 57,702,659	\$ -
Temporarily restricted net assets	16,034,435	-
Permanently restricted net assets	7,286,618	-
Net assets without donor restrictions	-	57,702,659
Net assets with donor restrictions	-	<u>23,321,053</u>
Total	<u>\$ 81,023,712</u>	<u>\$ 81,023,712</u>

**Note 2 – Financial Assets and Liquidity Resources**

As of June 30, 2019, financial assets and liquidity resources available within one year for general expenditures, such as operating expenses were as follows:

Financial assets:	
Cash and cash equivalents	\$ 25,692,293
Investments	45,057,184
Pledges and bequest receivable, net	13,965,556
Receivables from Diocesan entities, net	2,367,024
Other receivables	<u>140,633</u>
Total financial assets	87,222,690
Less financial assets held to meet donor-imposed restrictions:	
Purpose-restricted net assets (Note 16)	(25,857,184)
Donor-restricted endowment (Note 16)	<u>(17,436,162)</u>
Total financial assets available for general operating expenditures within one year	<u>\$ 43,929,344</u>

The Diocese investments include donor-restricted funds and donor-restricted endowment funds. Income from donor-restricted funds is restricted for specific purposes and, therefore, is not available for general expenditure.

**Note 3 – Diocese of Palm Beach Savings Fund Trust – Guarantee of Indebtedness Reserve**

The Bishop guarantees loans made by SFT to certain Diocesan entities. During the years ended June 30, 2019 and 2018, the Diocese recorded changes to the reserve in the amount of \$25,333 and \$(314,933), respectively, based on its evaluation of collectability of certain of the underlying guaranteed loans. During the years ended June 30, 2019 and 2018, the Diocese made principal payments to the SFT for the reserved loans in the amount of \$300,000 in each year.

**DIOCESE OF PALM BEACH, INC.**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**Note 3 – Diocese of Palm Beach Savings Fund Trust – Guarantee of Indebtedness, Continued**

Summarized financial information for the SFT as of June 30, 2019 and 2018, and for the years then ended is presented below:

	<u>For the Year Ended June 30,</u>	
	<u>2019</u>	<u>2018</u>
Revenue	\$ 8,016,320	\$ 3,445,035
Cost and expenses	<u>2,935,346</u>	<u>3,861,890</u>
Increase (decrease) in net assets	<u>\$ 5,080,974</u>	<u>\$ (416,855)</u>
	<u>As of June 30,</u>	
	<u>2019</u>	<u>2018</u>
Assets:		
Cash and equivalents	\$ 14,990,996	\$ 9,894,347
Portfolio investments	110,549,036	106,289,993
Loans receivable and accruals	<u>33,637,977</u>	<u>35,007,700</u>
Total assets	<u>\$ 159,178,009</u>	<u>\$ 151,192,040</u>
Liabilities:		
Savings deposits – Diocesan entities	\$ 143,350,659	\$ 140,408,394
Accrued expenses	<u>22,439</u>	<u>59,709</u>
Total liabilities	143,373,098	140,468,103
Net assets – without donor restrictions	<u>15,804,911</u>	<u>10,723,937</u>
Total liabilities and net assets	<u>\$ 159,178,009</u>	<u>\$ 151,192,040</u>

Balances and transactions with SFT

The following is a summary of balances and transactions between the Diocese and SFT as of and for the years ended June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
For the year ended:		
Guarantee of indebtedness adjustment	<u>\$ 25,333</u>	<u>\$ (314,933)</u>
Program revenue – administrative fee	<u>\$ 106,000</u>	<u>\$ 125,000</u>
Interest income on savings deposits	<u>\$ 261,959</u>	<u>\$ 532,050</u>
At year end:		
Assets –		
Savings Fund Trust deposits (included in cash and cash equivalents)	<u>\$ 24,046,136</u>	<u>\$ 20,567,568</u>
Liabilities –		
Guarantee of indebtedness reserve	<u>\$ 2,245,917</u>	<u>\$ 2,571,250</u>

Credit facility

The Diocese guarantees a \$5,000,000 credit facility SFT has with a financial institution. There were no outstanding borrowings under the credit facility at June 30, 2019.

**DIOCESE OF PALM BEACH, INC.**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**Note 4 – Investments**

A summary of investments, by investment type, at June 30, 2019 and 2018 follows:

	<u>2019</u>	<u>2018</u>
Marketable equity securities	\$ 27,756,294	\$ 26,231,993
U.S. government and municipal bonds	10,718,411	6,235,438
Corporate bonds	3,168,097	5,953,004
Money market funds	3,314,028	-
Accrued interest and dividends receivable	<u>100,354</u>	<u>85,530</u>
Total	<u>\$ 45,057,184</u>	<u>\$ 38,505,965</u>

The following schedule summarizes the net investment return on investments for the years ended June 30, 2019 and 2018 and its classification in the accompanying statements of activities:

	<u>2019</u>	<u>2018</u>
Net investment income	\$ 290,331	\$ 195,482
Realized gains, net	1,802,869	1,372,615
Unrealized gains, net	<u>1,950,401</u>	<u>1,125,251</u>
Net investment return	<u>\$ 4,043,601</u>	<u>\$ 2,693,348</u>

**Note 5 – Receivables from Diocesan Entities**

Receivables from Diocesan entities are summarized as follows at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Diocesan services appeal	\$ 2,307,137	\$ 1,897,744
Self-insurance program billings, net of allowance (see Note 9)	<u>59,887</u>	<u>97,159</u>
Total Receivables from Diocesan Entities	<u>\$ 2,367,024</u>	<u>\$ 1,994,903</u>

**Note 6 – Pledges and Bequest Receivable, Net**

Pledge and bequest contributions consists of the Skaff Estate bequest (see Note 18) which is designated for the construction and operation of a Catholic senior housing facility; and scholarship endowments to be awarded to students attending Diocesan schools.

Pledge contributions are reported net of an adjustment to net present value as of June 30, 2019 and 2018, as follows:

	<u>2019</u>	<u>2018</u>
Pledges and bequest due:		
In less than one year	\$ 12,755,335	\$ 794,000
In one to five years	<u>1,287,000</u>	<u>1,584,000</u>
	14,042,335	2,378,000
Less: present value discount	<u>(76,779)</u>	<u>(167,474)</u>
	<u>\$ 13,965,556</u>	<u>\$ 2,210,526</u>

The Diocese applies a discount rate ranging from 1.76% - 2.0% to its pledges with terms in excess of one year.



**DIOCESE OF PALM BEACH, INC.**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**Note 7 – Fair Value Measurements**

Accounting guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value is defined as the price that would be received to sell an asset or pay to transfer a liability in an orderly transaction between market participants at a measurement date. In determination of fair value, a fair value hierarchy was established which gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described more fully below:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date. The type of assets and liabilities included in Level 1 includes listed equities and listed debt instruments and derivatives.

Level 2 – Pricing inputs are other than quoted prices in active markets which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models and other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity. The inputs into the determination of fair value require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an asset or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Diocese assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The Diocese has determined the estimated fair value amounts presented in the accompanying financial statements using available market information and appropriate methodologies on a consistent basis. However, considerable judgement is required in interpreting market data to develop the estimates of fair value. The estimates presented in the accompanying financial statements are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimates fair value amounts. The Diocese bases these fair value estimates on relevant information available to them as of the end of each reporting period or at the time such amounts are recorded.

*Marketable equity securities* – consists of individual common stocks and mutual funds are valued at the closing price reported on active markets on which the individual securities are traded.

*U.S. government and municipal bonds* – fair values based on quoted prices for similar and municipal bonds assets in active markets; and inputs other than quoted prices, e.g. yield curves and interest rates.

*Corporate bonds* – corporate bonds are valued based on the last trade price of the fiscal year. When a bond has not been traded on the last day of the fiscal year, the price is obtained from an independent third party pricing company.

*Money market fund* – fair value is measured based on quoted market press for the money market fund. The money market fund always has net asset value of \$1.

**DIOCESE OF PALM BEACH, INC.**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**Note 7 – Fair Value Measurements, Continued**

The following table summarizes fair value measurements by level for assets and liabilities measured at fair value on a recurring basis applied by the Diocese as of June 30, 2019 and 2018:

	Fair Value Measurements at June 30, 2019			
	Level 1	Level 2	Level 3	Total
Investments:				
Marketable equity securities	\$ 27,756,294	\$ -	\$ -	\$ 27,756,294
U.S. government securities and municipal bonds	-	10,718,411	-	10,718,411
Corporate bonds	-	3,168,097	-	3,168,097
Money market funds	3,314,028	-	-	3,314,028
Accrued interest and dividends	-	100,354	-	100,354
Total investments	<u>\$ 31,070,322</u>	<u>\$ 13,986,862</u>	<u>\$ -</u>	<u>\$ 45,057,184</u>
Liabilities:				
Annuities payable	<u>\$ -</u>	<u>\$ (71,946)</u>	<u>\$ -</u>	<u>\$ (71,946)</u>
	Fair Value Measurements at June 30, 2018			
	Level 1:	Level 2:	Level 3:	Total
Investments:				
Marketable equity securities	\$ 26,231,993	\$ -	\$ -	\$ 26,231,993
U.S. government securities and municipal bonds	-	6,235,438	-	6,235,438
Corporate bonds	-	5,953,004	-	5,953,004
Accrued interest and dividends	-	85,530	-	85,530
Total investments	<u>\$ 26,231,993</u>	<u>\$ 12,273,972</u>	<u>\$ -</u>	<u>\$ 38,505,965</u>
Liabilities:				
Annuities payable	<u>\$ -</u>	<u>\$ (64,827)</u>	<u>\$ -</u>	<u>\$ (64,827)</u>

**Note 8 – Property and Equipment**

Property and equipment consists of the following at June 30, 2019 and 2018:

	2019	2018
Operating property and equipment:		
Land and land improvements	\$ 14,138,676	\$ 14,138,676
Buildings and improvements	14,912,183	14,867,886
Furniture and equipment	<u>2,324,988</u>	<u>2,426,282</u>
	31,375,847	31,432,844
Less: accumulated depreciation	<u>(9,163,555)</u>	<u>(8,802,886)</u>
Operating property and equipment, net	22,212,292	22,629,958
Property held for future development	1,430,886	1,430,886
Property held for sale	<u>-</u>	<u>467,654</u>
Total property and equipment, net	<u>\$ 23,643,178</u>	<u>\$ 24,528,498</u>

**DIOCESE OF PALM BEACH, INC.**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**Note 8 – Property and Equipment, Continued**

Included in land and land improvements are certain unimproved parcels that the Diocese may sell or use as sites for future churches. The Diocese sold certain buildings and improvements during the year ended June 30, 2019 and recognized a gain of approximately \$3,800,000 which is presented as a non-operating item in the accompanying statement of activities. Property held for future development consists of certain real property acquired for future development (see Note 18).

**Note 9 – Self-Insurance Reserves**

The Diocese of Palm Beach maintains a self-insurance plan for property, general liability, workers' compensation, personal injury, and unemployment compensation insurance for Diocesan entities. Under this program, each Diocesan entity is billed for self-insurance program contributions representing its share of the estimated costs of claims, administration fees and excess coverage insurance policy premiums.

The self-insurance plan includes an excess of loss insurance coverage purchased from outside insurance carriers. Generally, amounts are recoverable under this coverage after the amount of a specific claim has exceeded a specified retention limit. The self-insurance plan provides for an aggregate loss sharing arrangement (the arrangement) among many dioceses in the State of Florida for claims arising from automobile and workers' compensation matters.

The arrangement provides that each diocese will reimburse the other program participants for losses in a particular claim year that exceed an agreed-upon amount. The arrangement is designed to provide each of the participants with an additional layer of protection from abnormally large or catastrophic losses during a given claim year.

Provision has been made for the settlement of all incurred claims, both reported and unreported, for each open claim year. The self-insurance reserves represent the estimated total cost of claims incurred but not settled at June 30, 2019 and 2018. Reserve estimates for reported claims are primarily determined by evaluation of individual reported claims by the plan's third party administrator. Reserve estimates for claims incurred, but not reported, are based on prior experience and the advice of an independent actuarial consultant. The methods for making such estimates, and for establishing the resulting liabilities, are periodically reviewed and updated by management.

During the years ended June 30, 2019 and 2018, the Diocese received \$176,889 and \$55,158, respectively, of recoveries on claims that are included as a reduction of self-insurance program expense in the accompanying statements of activities.

**Note 10 – Employee Benefits**

Pension Plan

The Diocese participates in a multi-employer master retirement pension plan established by the Diocese of Palm Beach to provide retirement benefits for lay workers and religious personnel of Catholic organizations within the Diocese of Palm Beach. Because the computed value of the vested benefits and pension plan assets for the Diocese' participants cannot be separated from those of other Diocesan entities and affiliates participating in the pension plan, it is not possible to determine the portion of the excess or deficiency which may be attributable solely to the Diocese. During 2012, the Restated Pension Plan for Employees and Sisters and Brothers (Lay Plan) within the Diocese of Palm Beach was formally amended and, as of July 1, 2012, the accrual of benefits for all lay employees of the Lay Plan ceased and such benefits were frozen. Total retirement expense charged to the Diocese under the pension plan for the years ended June 30, 2019 and 2018 approximated \$341,000 and \$270,000, respectively. For both years ended June 30, 2019 and 2018, the Diocese contributed an additional \$500,000 to the Lay Pension Plan beyond the amount required which is separately presented in the statements of activities.

**DIOCESE OF PALM BEACH, INC.**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**Note 10 – Employee Benefits, Continued**

403(b) Plan

The Diocese maintains a defined contribution plan under section 403(b) of the IRC (403(b) Plan) which provides for employee contributions up to certain specified limits. The Diocese contributes 5% of the employees' salary and with an additional maximum 2% of the employees' elective deferrals into the 403(b) Plan. Total retirement expense charged to the Diocese under the 403(b) Plan for the years ended June 30, 2019 and 2018 approximated \$256,000 and \$249,000, respectively.

Health Plan

The Diocese participates in a major medical, comprehensive dental, long-term disability, life insurance, accidental death and dismemberment benefits plan through the Diocese of Palm Beach Health Plan Trust (the Trust), established by the Diocese of Palm Beach. Contributions to the Trust approximated \$883,000 and \$874,000 for the years ended June 30, 2019 and 2018, respectively.

Post-Employment Benefit Obligation

The Diocese provides certain post-employment benefits to former clergy to supplement their pension benefits and provide certain health and other insurance coverage. The Diocese records a post-employment benefit obligation for the estimated discounted future cost of the benefits and annually reviews the adequacy of the obligation. The post-employment benefit obligation is unfunded and calculated using the IRS life expectancy tables and a 5% discount rate. As of June 30, 2019 and 2018, the post-employment benefit obligation was \$671,842 and \$506,758, respectively.

**Note 11 – Special Events**

Special events revenue and related expenses for the years ended June 30, 2019 and 2018 includes the following:

	2019	2018
Event proceeds	\$ 339,194	\$ 440,265
Direct event expenses	127,255	123,422
Net	\$ 211,939	\$ 316,843

**Note 12 – Legal Proceedings**

The Diocese is a party to various litigation and other claims in the ordinary course of conducting its activities. The Diocese recognizes liabilities for legal proceedings when a loss is probable and estimable. In the event that a loss is probable and estimable within a range, the Diocese accrues the amount most likely to be incurred. Management does not believe that the outcome of these litigation matters will have a material impact on the financial condition of the Diocese. Accordingly, there is no accrual for legal proceedings at June 30, 2019 and 2018.

**Note 13 – Description of Leasing Arrangements**

As Lessee:

The Diocese is obligated under various operating equipment leases. Rent expense under all operating leases for the years ended June 30, 2019 and 2018 totaled \$26,960 and \$26,379, respectively.

**DIOCESE OF PALM BEACH, INC.**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**Note 13 – Description of Leasing Arrangements, Continued**

As Lessor:

The Diocese leases the use of its community ministry facilities located in Riviera Beach, Florida to the Catholic Charities of the Diocese of Palm Beach, Inc. (Catholic Charities), under a non-cancelable operating lease expiring in 2032 which automatically renews for successive one year terms. The Diocese, under the terms of the lease, will receive \$10 annually through 2032. As of June 30, 2019, the cost and related accumulated depreciation of the Diocese ministry facility and improvements made thereto amounted to \$3,337,681 and \$384,743, respectively. As of June 30, 2018, the cost and related accumulated depreciation of the Diocese ministry and improvements made thereto amounted to \$3,337,681 and \$335,066, respectively.

The Diocese annually budgets for substantial subsidies to Catholic Charities and therefore, only recognizes as a promise to give the operating lease commitment for the following year. Contributed use of facilities is included in the accompanying statements of activities under social service programs in the amount of \$204,000 for each of the years ended June 30, 2019 and 2018.

**Note 14 – Cemetery Care Agreement**

Funds for the continuous care of Our Lady Queen of Peace Cemetery (the Cemetery), a separately reporting Diocesan entity, are accumulated pursuant to a Perpetual Care and Maintenance Agreement, dated May 1, 1991 (the Agreement). Under the Agreement, the Cemetery remits 10% of its net cash receipts from sales of burial rights, entombment rights, and internment rights to the Diocese. The Cemetery may use related earnings and, if necessary, deposits for the perpetual care and upkeep of the Cemetery. The Cemetery care deposits and related earnings are recorded in net assets with donor restrictions in the accompanying statements of activities.

**Note 15 – Commitments**

The Diocese guarantees certain equipment leases entered into by various Diocesan entities. The aggregate amount of such guarantees approximated \$200,000 as of June 30, 2019. No amounts are recognized in the accompanying financial statements relating to these guarantees.

**Note 16 – Restricted Net Assets and Endowment**

The Diocese's endowment is established for the purposes expressed in the mission of the Diocese. The Diocese's endowment consists of donor-restricted endowment funds and, periodically, funds designated by the Finance Council to function as internally designated endowments. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Net assets with donor restrictions consist of the following at June 30, 2019 and 2018:

	2019	2018
Time and purpose restrictions:		
Diocesan services appeal	\$ 2,307,137	\$ 1,897,744
Education and scholarships (endowment)	4,868,372	6,020,542
Seminarian	705,655	810,580
Ministry and social services (endowment)	5,269,474	4,494,070
Cemetery care deposits and earnings (Note 14)	4,192,265	3,767,582
Skaff senior housing	18,652,127	938,660
Perpetual in nature:		
Seminary Burse Fund	5,676,986	5,676,986
Education Fund	1,621,330	1,621,330
	\$ 43,293,346	\$ 25,224,494

**DIOCESE OF PALM BEACH, INC.**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**Note 16 – Restricted Net Assets and Endowment, Continued**

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Diocese to retain as a fund of perpetual duration. Any losses are recorded as reductions in net assets with donor restrictions and restored with subsequent gains.

Interpretation of relevant law

The Diocese follows the State of Florida Prudent Management of Institutional Funds Act (FUPMIFA) which requires management to use reasonable care, skill and caution as exercised by a prudent investor in considering the investment management and expenditures of endowment funds, absent explicit donor stipulations to the contrary.

Return objectives and risk parameters

The Diocese has adopted investment and spending policies for its endowment assets that attempt to provide a predictable stream of funding to the programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Diocese must hold in perpetuity. Under this policy, as approved by the Finance Council, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of multiple benchmarks based on the type of investment while assuming a moderate to low level of investment risk and providing a necessary level of liquidity.

The Diocese expects its endowment funds, over time, to exceed the rate of return of specified investment benchmarks described in the endowment's investment policy. Actual returns in any given year may vary from these amounts.

Strategies employed to achieve objectives

To satisfy its long-term rate-of-return objectives, the Diocese relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Diocese targets a diversified allocation to achieve its long-term return objectives within prudent risk constraints.

Spending policy

The Diocese' policy is to appropriate amounts for distribution each year. Such amounts are determined by the Diocese' calculation for disbursements as determined by the application of the target spending rate to the moving average of the total market value of the endowment at the end of the previous twelve calendar quarters. The spending formula is applied annually. There is no distribution if the endowment market value is below the endowed corpus. The Diocese target spending rate is set at 4% and is applied to the total endowment market value using a total return approach. This is consistent with the objective to maintain the purchasing power of the endowment assets held to provide additional real growth through investment return.

**DIOCESE OF PALM BEACH, INC.**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**Note 16 – Restricted Net Assets and Endowment, Continued**

Changes in endowment net assets for the year ended June 30, 2019 follow:

Balance as of July 1, 2018	\$ 17,812,927
Net investment return:	
Investment return	1,326,196
Interest income	<u>107,033</u>
Total net investment return	<u>1,433,229</u>
Contributions	900,452
Appropriations for endowment expenditures	(1,639,805)
Transfers out of endowment	<u>(1,070,641)</u>
Balance as of June 30, 2019	<u>\$ 17,436,162</u>

**Note 17 – Net Assets Released From Restrictions**

During the years ended June 30, 2019 and 2018, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors, as follows:

	<u>2019</u>	<u>2018</u>
Diocesan services appeal	\$ 8,802,628	\$ 9,072,093
Education and scholarships	1,425,026	1,035,050
Program services	<u>819,918</u>	<u>641,194</u>
Total	<u>\$ 11,047,572</u>	<u>\$ 10,748,337</u>

**Note 18 – Skaff Senior Housing Fund**

During the year ended June 30, 2019, the Diocese was the recipient of a bequest approximating \$16,300,000. The bequest specified that the funds be used for a multi-unit facility, for Catholic senior citizens.

For the year ended June 30, 2019, the funds contributed by the donor, as well as prior contributions for the Catholic senior housing facility are included in the Skaff Senior Housing Fund. The net assets of the Skaff Senior Housing Fund are classified as net assets with donor restrictions until such funds are expended for the establishment of the Catholic senior housing facility.

The funds relating to the Catholic senior housing facility will remain in various investments and interest bearing accounts using prudent management of such funds.

**Note 19 – Agency Transactions**

The Diocese undertakes certain fundraising activities for which it receives gifts that the donor designates for another entity. These are considered agency transactions, not contributions to the Diocese. Upon receipt, the Diocese recognizes a liability to the designated beneficiary of the gift.

**DIOCESE OF PALM BEACH, INC.**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**Note 20 – Concentrations**

Financial instruments which potentially subject the Diocese to concentrations of credit risk include the Diocese's cash and cash equivalent accounts, SFT deposits, portfolio debt securities, and receivables from Diocesan entities. The Diocese places its cash and cash equivalents with high credit-quality financial institutions. Such balances may exceed the FDIC insurance limit. Management regularly monitors all of its deposits, investments and lending activities to limit its credit risk exposure. Cash and cash equivalents exceeded the FDIC insured limit by \$622,964 and \$188,036 as of June 30, 2019 and 2018, respectively. In addition, balances held in uninsured investment cash accounts totaled \$24,193,717 and \$21,694,357 as of June 30, 2019 and 2018, respectively.

The Diocese serves and receives substantial financial support from parishioners in the five county region of South and Central Florida. Accordingly, the financial strength of the Diocese is in large part reliant upon the general state of the local economy.

**Note 21 – Subsequent Events**

The Diocese evaluated its activities occurring subsequent to June 30, 2019 through October 30, 2019, the date on which the financial statements were available to be issued, for events that should be recorded in the financial statements or disclosed in the footnotes thereto.



## **SUPPLEMENTARY INFORMATION**

**DIOCESE OF PALM BEACH, INC.**  
**SCHEDULE OF FINANCIAL POSITION, BY FUND**  
**June 30, 2019**

	Operating Fund	Plant Fund	Self- Insurance Fund	Skaff Senior Housing Fund	Eliminating Entries	Total Combined
<b>ASSETS</b>						
Cash and cash equivalents	\$ 11,876,137	\$ -	\$ 12,745,738	\$ 1,070,418	\$ -	\$ 25,692,293
Investments	39,933,810	-	-	5,123,374	-	45,057,184
Pledges and bequest receivable, net	1,507,221	-	-	12,458,335	-	13,965,556
Receivables from Diocesan entities, net	2,307,137	-	59,887	-	-	2,367,024
Other receivables	140,633	-	-	-	-	140,633
Other assets	230,789	-	1,834,630	-	-	2,065,419
Property and equipment, net	-	23,643,178	-	-	-	23,643,178
Due from funds	2,817,086	-	-	109,026	(2,926,112)	-
<b>Total assets</b>	<b><u>\$ 58,812,813</u></b>	<b><u>\$ 23,643,178</u></b>	<b><u>\$ 14,640,255</u></b>	<b><u>\$ 18,761,153</u></b>	<b><u>\$ (2,926,112)</u></b>	<b><u>\$ 112,931,287</u></b>
<b>LIABILITIES AND NET ASSETS</b>						
Liabilities:						
Accounts payable and accrued expenses	\$ 2,041,753	\$ 83,968	\$ 192,680	\$ -	\$ (19,566)	\$ 2,298,835
Self-insurance reserves	-	-	1,318,932	-	-	1,318,932
Annuities payable	71,946	-	-	-	-	71,946
Deferred revenue	39,017	-	-	-	-	39,017
Post-employment benefit obligation	671,842	-	-	-	-	671,842
Guarantee of indebtedness reserve	2,245,917	-	-	-	-	2,245,917
Due to funds	-	2,906,546	-	-	(2,906,546)	-
<b>Total liabilities</b>	<b>5,070,475</b>	<b>2,990,514</b>	<b>1,511,612</b>	<b>-</b>	<b>(2,926,112)</b>	<b>6,646,489</b>
<b>Net assets</b>	<b><u>53,742,338</u></b>	<b><u>20,652,664</u></b>	<b><u>13,128,643</u></b>	<b><u>18,761,153</u></b>	<b><u>-</u></b>	<b><u>106,284,798</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 58,812,813</u></b>	<b><u>\$ 23,643,178</u></b>	<b><u>\$ 14,640,255</u></b>	<b><u>\$ 18,761,153</u></b>	<b><u>\$ (2,926,112)</u></b>	<b><u>\$ 112,931,287</u></b>

**DIOCESE OF PALM BEACH, INC.**  
**SCHEDULE OF FINANCIAL POSITION, BY FUND**  
**June 30, 2018**

	Operating Fund	Plant Fund	Self- Insurance Fund	Eliminating Entries	Total Combined
<b>ASSETS</b>					
Cash and cash equivalents	\$ 9,811,343	\$ -	\$ 12,253,877	\$ -	\$ 22,065,220
Investments	38,505,965	-	-	-	38,505,965
Pledges and bequest receivable, net	2,210,526	-	-	-	2,210,526
Receivables from Diocesan entities	1,897,744	-	97,159	-	1,994,903
Other receivables	20,422	-	-	-	20,422
Other assets	71,270	-	1,745,466	-	1,816,736
Property and equipment, net	-	24,528,498	-	-	24,528,498
Due from funds	6,681,341	-	-	(6,681,341)	-
	<u>6,681,341</u>	<u>-</u>	<u>-</u>	<u>(6,681,341)</u>	<u>-</u>
Total assets	<u>\$ 59,198,611</u>	<u>\$ 24,528,498</u>	<u>\$ 14,096,502</u>	<u>\$ (6,681,341)</u>	<u>\$ 91,142,270</u>
<b>LIABILITIES AND NET ASSETS</b>					
Liabilities:					
Accounts payable and accrued expenses	\$ 2,533,919	\$ 79,679	\$ 220,757	\$ -	\$ 2,834,355
Self-insurance reserves	-	-	1,054,896	-	1,054,896
Annuities payable	64,827	-	-	-	64,827
Deferred revenue	34,177	-	-	-	34,177
Post-employment benefit obligation	506,758	-	-	-	506,758
Guarantee of indebtedness reserve	2,571,250	-	-	-	2,571,250
Due to funds	-	6,681,341	-	(6,681,341)	-
	<u>-</u>	<u>6,681,341</u>	<u>-</u>	<u>(6,681,341)</u>	<u>-</u>
Total liabilities	5,710,931	6,761,020	1,275,653	(6,681,341)	7,066,263
Net assets	<u>53,487,680</u>	<u>17,767,478</u>	<u>12,820,849</u>	<u>-</u>	<u>84,076,007</u>
Total liabilities and net assets	<u>\$ 59,198,611</u>	<u>\$ 24,528,498</u>	<u>\$ 14,096,502</u>	<u>\$ (6,681,341)</u>	<u>\$ 91,142,270</u>

**DIOCESE OF PALM BEACH, INC.**  
**SCHEDULE OF ACTIVITIES, BY FUND**  
**For the Year Ended June 30, 2019**

	Operating Funds	Plant Fund	Self- Insurance Fund	Skaff Senior Housing Fund	Eliminating Entries	Combined
Support and revenue:						
Diocesan services appeal	\$ 9,211,958	\$ -	\$ -	\$ -	\$ -	\$ 9,211,958
Contributions and bequests	1,162,006	-	-	-	-	1,162,006
Cemetery care deposits	356,624	-	-	-	-	356,624
Program revenue	2,119,630	-	-	-	(657,568)	1,462,062
Self-insurance program revenue	-	-	5,410,497	-	(257,924)	5,152,573
Net investment return	3,705,465	-	-	338,136	-	4,043,601
Interest and dividend income	772,517	-	221,711	78,977	-	1,073,205
Special events, net of direct expenses	211,939	-	-	-	-	211,939
Rental income	204,000	-	-	-	-	204,000
Other income (expense), net	<u>1,160</u>	<u>6,000</u>	<u>(4,089)</u>	<u>-</u>	<u>-</u>	<u>3,071</u>
Total support and revenue	<u>17,745,299</u>	<u>6,000</u>	<u>5,628,119</u>	<u>417,113</u>	<u>(915,492)</u>	<u>22,881,039</u>
Expenses:						
Program services:						
Pastoral	1,578,439	-	-	-	(12,331)	1,566,108
Religious personnel development	1,372,669	-	-	-	(15,390)	1,357,279
Education and faith programs	3,626,319	-	-	-	(9,356)	3,616,963
Missions support	1,193,290	-	-	-	(128,910)	1,064,380
Self-insurance program	-	-	5,320,325	-	(657,568)	4,662,757
Social service programs	<u>3,355,975</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(13,231)</u>	<u>3,342,744</u>
Total program services	11,126,692	-	5,320,325	-	(836,786)	15,610,231
Supporting services:						
Diocesan administration	3,488,691	-	-	572	(26,316)	3,462,947
Plant, facility, and construction management	<u>214,122</u>	<u>923,674</u>	<u>-</u>	<u>-</u>	<u>(52,390)</u>	<u>1,085,406</u>
Total expenses	<u>14,829,505</u>	<u>923,674</u>	<u>5,320,325</u>	<u>572</u>	<u>(915,492)</u>	<u>20,158,584</u>
Increase (decrease) in net assets before non-operating activities						
	2,915,794	(917,674)	307,794	416,541	-	2,722,455
Change in guarantee of indebtedness reserve	25,333	-	-	-	-	25,333
Contribution for Skaff Senior Housing Fund	-	-	-	16,323,227	-	16,323,227
Gain on sale of property	-	3,802,860	-	-	-	3,802,860
Change in post-employment benefit obligation	(165,084)	-	-	-	-	(165,084)
Contribution to Lay Pension Plan	<u>(500,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(500,000)</u>
Increase in net assets	2,276,043	2,885,186	307,794	16,739,768	-	22,208,791
Net assets, beginning of year	53,487,680	17,767,478	12,820,849	-	-	84,076,007
Transfer to Skaff Senior Housing Fund	<u>(2,021,385)</u>	<u>-</u>	<u>-</u>	<u>2,021,385</u>	<u>-</u>	<u>-</u>
Net assets, end of year	<u>\$ 53,742,338</u>	<u>\$ 20,652,664</u>	<u>\$ 13,128,643</u>	<u>\$ 18,761,153</u>	<u>\$ -</u>	<u>\$ 106,284,798</u>

**DIOCESE OF PALM BEACH, INC.**  
**SCHEDULE OF ACTIVITIES, BY FUND**  
**For the Year Ended June 30, 2018**

	Operating Funds	Plant Fund	Self- Insurance Fund	Eliminating Entries	Combined
Support and revenue:					
Diocesan services appeal	\$ 9,078,719	\$ -	\$ -	\$ -	\$ 9,078,719
Contributions and bequests	2,247,993	-	-	-	2,247,993
Cemetery care deposits	231,545	-	-	-	231,545
Program revenue	1,995,466	-	-	(745,000)	1,250,466
Self-insurance program revenue	-	-	5,259,450	(239,669)	5,019,781
Net investment return	2,693,348	-	-	-	2,693,348
Interest and dividend income	701,130	-	318,173	-	1,019,303
Special events, net	316,843	-	-	-	316,843
Rental income	204,000	-	-	-	204,000
Other income (expense), net	4,759	(15,500)	7,708	-	(3,033)
Total support and revenue	<u>17,473,803</u>	<u>(15,500)</u>	<u>5,585,331</u>	<u>(984,669)</u>	<u>22,058,965</u>
Expenses:					
Program services:					
Bishop and pastoral leadership	1,463,592	-	-	(10,321)	1,453,271
Religious personnel development	1,332,482	-	-	(10,077)	1,322,405
Education and faith programs	2,898,645	-	-	(6,534)	2,892,111
Missions support	1,192,362	-	-	(123,749)	1,068,613
Self-insurance program	-	-	5,317,842	(745,000)	4,572,842
Social service programs	3,319,902	-	-	(11,502)	3,308,400
Total program services	10,206,983	-	5,317,842	(907,183)	14,617,642
Supporting services:					
Diocesan administration	3,424,095	-	-	(27,405)	3,396,690
Plant, facility, and construction management	175,331	972,444	-	(50,081)	1,097,694
Total expenses	<u>13,806,409</u>	<u>972,444</u>	<u>5,317,842</u>	<u>(984,669)</u>	<u>19,112,026</u>
Increase (decrease) in net assets before non-operating activities	3,667,394	(987,944)	267,489	-	2,946,939
Change in guarantee of indebtedness reserve	314,933	-	-	-	314,933
Gain on sale of property	-	205,550	-	-	205,550
Change in post-employment benefit obligation	84,873	-	-	-	84,873
Contributions to Lay Pension Plan	(500,000)	-	-	-	(500,000)
Increase (decrease) in net assets	3,567,200	(782,394)	267,489	-	3,052,295
Net assets, beginning of year	49,920,480	18,549,872	12,553,360	-	81,023,712
Net assets, end of year	<u>\$ 53,487,680</u>	<u>\$ 17,767,478</u>	<u>\$ 12,820,849</u>	<u>\$ -</u>	<u>\$ 84,076,007</u>