

2020

The Catholic Diocese of St. Augustine

Combined Financial Statements and Independent Auditor's Report

June 30, 2020

**COMBINED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR’S REPORT**

**THE CATHOLIC DIOCESE OF ST. AUGUSTINE
JACKSONVILLE, FLORIDA**

JUNE 30, 2020

TABLE OF CONTENTS

Independent Auditor’s Report	1-2
Combined Statement of Financial Position	3
Combined Statement of Activities.....	4
Combined Statement of Functional Expenses.....	5
Combined Statement of Cash Flows	6
Notes to Combined Financial Statements	7-18

INDEPENDENT AUDITOR'S REPORT

The Most Reverend Felipe de Jesus Estevez
Bishop of the Catholic Diocese of St. Augustine
Finance Council of the Catholic Diocese of St. Augustine
Jacksonville, Florida

We have audited the accompanying financial statements of The Catholic Diocese of St. Augustine and affiliates (the Diocese), which comprise the combined statement of financial position as of June 30, 2020, and the related combined statements of financial position, activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Diocese's preparation and fair presentation of the combined 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 Diocese'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 combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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An Independent Member of the BDO Alliance USA

The Most Reverend Felipe de Jesus Estevez
Bishop of the Catholic Diocese of St. Augustine
Finance Council of the Catholic Diocese of St. Augustine
Jacksonville, Florida

INDEPENDENT AUDITOR'S REPORT

Opinion

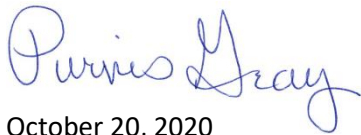
In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Diocese as of June 30, 2020, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As more fully described in Note 10 to the financial statements, the Diocese may be negatively impacted by the outbreak of a novel coronavirus (COVID-19), which was declared a global pandemic by the World Health Organization in March 2020. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Diocese's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 12, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it was derived.

A handwritten signature in blue ink, reading "Purvis Gray". The signature is written in a cursive style with a large initial "P".

October 20, 2020
Ocala, Florida

COMBINED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2020,
WITH COMPARATIVE TOTALS FOR JUNE 30, 2019
THE CATHOLIC DIOCESE OF ST. AUGUSTINE
JACKSONVILLE, FLORIDA

ASSETS

	<u>2020</u>	<u>2019</u>
Assets		
Cash and Cash Equivalents	\$ 10,475,150	\$ 9,664,312
Investments	56,082,220	47,171,720
Receivables:		
Parishes, Other Institutions, and Individuals	9,252,069	6,923,152
Savings and Loan - Loans Receivable	20,426,312	22,016,956
Total Receivables	<u>29,678,381</u>	<u>28,940,108</u>
Land, Buildings, and Equipment, at Cost Less		
Accumulated Depreciation	68,202,158	58,223,411
Other Assets	1,752,817	2,973,851
Total Assets	<u><u>166,190,726</u></u>	<u><u>146,973,402</u></u>
Liabilities		
Accounts Payable and Accrued Expenses	5,844,122	7,025,242
Savings and Loan - Deposits Payable	49,047,066	44,098,654
Notes Payable	23,135,310	16,393,142
Deferred Revenue	3,640,927	3,582,914
Escrow	115,388	189,323
Total Liabilities	<u><u>81,782,813</u></u>	<u><u>71,289,275</u></u>
Net Assets		
Net Assets Without Donor Restrictions	82,529,403	72,603,103
Net Assets With Donor Restrictions	1,878,510	3,081,024
Total Net Assets	<u><u>84,407,913</u></u>	<u><u>75,684,127</u></u>
Total Liabilities and Net Assets	<u><u>\$ 166,190,726</u></u>	<u><u>\$ 146,973,402</u></u>

See accompanying notes.

COMBINED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020,
WITH COMPARATIVE TOTALS FOR JUNE 30, 2019
THE CATHOLIC DIOCESE OF ST. AUGUSTINE
JACKSONVILLE, FLORIDA

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total 2020	2019
Support and Revenues				
Contributions and Diocesan Assessments	\$ 14,168,222	\$ 302,053	\$ 14,470,275	\$ 14,366,930
School Tuition	5,370,962	-	5,370,962	3,966,394
Sales Revenue	512,904	-	512,904	528,936
Investment Income	5,042,684	-	5,042,684	5,467,913
Insurance Program	19,938,842	-	19,938,842	19,181,695
Program Services	2,672,177	-	2,672,177	2,111,827
Grants	1,781,654	-	1,781,654	242,004
Other Revenue	1,912,326	-	1,912,326	2,058,792
Total Support and Revenues	51,399,771	302,053	51,701,824	47,924,491
Releases from Restrictions	1,504,567	(1,504,567)	-	-
Expenses				
Program Expenses:				
Pastoral Services	6,376,887	-	6,376,887	5,578,617
Priests and Seminarians Education	9,350,784	-	9,350,784	8,621,832
Health and Social Services	793,418	-	793,418	1,598,765
Insurance Program	17,515,191	-	17,515,191	20,603,698
Other Diocesan Operations	3,618,549	-	3,618,549	3,852,890
Total Program Expenses	37,654,829	-	37,654,829	40,255,802
Management and General Fundraising	5,515,231	-	5,515,231	4,837,250
	974,298	-	974,298	1,347,339
Total Expenses	(44,144,358)	-	(44,144,358)	(46,440,391)
Change in Net Assets from Operations	8,759,980	(1,202,514)	7,557,466	1,484,100
Non-Operational Revenues and Expenses				
(Loss)/Gain on Sale of Assets	5,061	-	5,061	873,921
Transfer from Related Entities	1,161,259	-	1,161,259	281,780
Total Non-Operational Revenues and Expenses	1,166,320	-	1,166,320	1,155,701
Change in Net Assets	9,926,300	(1,202,514)	8,723,786	2,639,801
Net Assets, Beginning of Year	72,603,103	3,081,024	75,684,127	73,044,326
Net Assets, End of Year	\$ 82,529,403	\$ 1,878,510	\$ 84,407,913	\$ 75,684,127

See accompanying notes.

COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020
WITH COMPARATIVE TOTALS FOR JUNE 30, 2019
THE CATHOLIC DIOCESE OF ST. AUGUSTINE
JACKSONVILLE, FLORIDA

	Pastoral Services	Priests, Seminarians, and Education	Health and Social Services	Insurance Program	Other Operations	Management and General	Fundraising and Development	Total 2020	Total 2019
Expenses									
Salaries	\$ 2,259,196	\$ 3,853,477	\$ 540,276	\$ 108,492	\$ 1,275,583	\$ 1,317,095	\$ 249,761	\$ 9,603,880	\$ 8,674,141
Payroll Taxes and Benefits	606,501	1,066,301	153,965	244,496	925,807	322,848	62,648	3,382,566	2,970,335
Total Salaries and Related Expenses	2,865,697	4,919,778	694,241	352,988	2,201,390	1,639,943	312,409	12,986,446	11,644,476
Client Services	312,754	6,743	1,732	-	260,225	-	744	582,198	665,450
Subsidies to Parishes, Schools and Related Entities	570,424	995,000	-	398,027	93,617	-	-	2,057,068	2,251,989
Programs and Events	244,581	1,124,282	3,714	1,815	691,083	23,039	1,595	2,090,109	1,925,582
Donations	30,727	75	-	-	-	19,281	-	50,083	401,332
Licenses, Dues, and Fees	29,883	5,210	1,223	850	5,348	157,311	5,677	205,502	244,034
Information Technology	-	26,547	-	8,351	-	341,658	45,475	422,031	578,458
Insurance Expense	44,435	103,698	315	15,719,394	14,833	87,125	2,078	15,971,878	19,492,222
Legal and Professional	83,693	280,816	-	-	45,915	653,996	-	1,064,420	1,093,474
Meals	31,148	8,297	218	127	8,603	1,794	27	50,214	35,868
Provision for Loan Loss	-	(4,219)	-	(45,597)	(26,173)	6,904	-	(69,085)	(3,531)
Supplies	193,352	210,984	31,945	1,334	24,045	59,347	2,082	523,089	494,323
Repairs and Maintenance	374,321	182,590	3,237	510	36,112	175,217	-	771,987	958,140
Rent	37,867	8,829	36,502	1,188	39,925	4,340	-	128,651	173,546
Utilities	233,240	151,280	2,372	-	11,907	137,084	-	535,883	534,728
Interest Expense	13,994	813,630	-	-	-	883,647	-	1,711,271	1,037,393
Advertising	23,641	36,646	-	-	-	28,123	-	88,410	133,631
Fundraising and Development	221,250	1,130	-	-	-	-	593,548	815,928	906,371
Other Expenses	678,072	297,710	5,715	1,070,191	176,532	229,329	10,380	2,467,929	2,709,434
Depreciation	332,547	126,308	-	-	-	1,043,626	-	1,502,481	864,272
Total Expenses	\$ 6,376,887	\$ 9,350,784	\$ 793,418	\$ 17,515,191	\$ 3,618,549	\$ 5,515,231	\$ 974,298	\$ 44,144,358	\$ 46,440,391

See accompanying notes.

COMBINED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020,
WITH COMPARATIVE TOTALS FOR JUNE 30, 2019
THE CATHOLIC DIOCESE OF ST. AUGUSTINE
JACKSONVILLE, FLORIDA

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities		
Change in Net Assets	\$ 8,723,786	\$ 2,639,801
Adjustments to Reconcile Change in Net Assets to		
Net Cash Provided by (Used in) Operating Activities:		
Depreciation	1,502,481	864,272
Loss/(Gain) on Disposal of Assets	(5,061)	(873,921)
Transfer of Assets to (from) Related Entity	(2,416,145)	-
(Increase) Decrease in:		
Receivables, Net	(738,273)	4,901,607
Other Assets	1,639,996	(1,583,658)
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	(1,193,645)	347,972
S&L Deposits Payable	4,948,412	1,903,581
Deferred Revenue	58,013	538,929
Escrow	(73,935)	(445,735)
New Cash Provided by (Used in) Operations	<u>12,445,629</u>	<u>8,292,848</u>
Cash Flows from Investing Activities		
Purchase/Sale of Investments, Net	(8,851,088)	(1,261,084)
Proceeds from Sale of Fixed Assets	10,800	1,132,552
Purchase of Land, Buildings, and Equipment	(3,048,886)	(16,554,976)
Net Cash Provided by (Used in) Investing Activities	<u>(11,889,174)</u>	<u>(16,683,508)</u>
Cash Flows from Financing Activities		
Principal Repayment of Notes Payable	(610,425)	(1,913,489)
Debt Proceeds	756,352	7,494,209
Transfer of Assets from Related Entity	108,456	-
Net Cash Provided by (Used in) Financing Activities	<u>254,383</u>	<u>5,580,720</u>
Net Increase (Decrease) in Cash and Cash Equivalents	810,838	(2,809,940)
Cash and Cash Equivalents - Beginning of Year	<u>9,664,312</u>	<u>12,474,252</u>
Cash and Cash Equivalents - Ending of Year	<u>\$ 10,475,150</u>	<u>\$ 9,664,312</u>
<u>Supplemental Disclosure of Cash Flow Information</u>		
Cash Paid for Interest	<u>\$ 681,147</u>	<u>\$ 326,499</u>
Net Other Assets and Payables Transferred from Related Parties	<u>\$ 465,849</u>	<u>\$ -</u>
Transfer In from Related-Party - Property Plant and Equipment	<u>\$ 8,438,081</u>	<u>\$ 7,204,548</u>
Transfer in from Related-Party - Debt Associated with Transfer of Assets	<u>\$ (6,596,241)</u>	<u>\$ (7,204,548)</u>

See accompanying notes.

**NOTES TO COMBINED FINANCIAL STATEMENTS
THE CATHOLIC DIOCESE OF ST. AUGUSTINE
JACKSONVILLE, FLORIDA**

Note 1 - Summary of Significant Accounting Policies

Organization

The Catholic Diocese of St. Augustine (the Diocese) is a corporation sole recognized under the common-law doctrine by the State of Florida. There are no stockholders, directors, or officers in the Diocese. The Diocese is dedicated to spreading the Gospel through establishing, developing, and promoting all aspects of church ministries throughout North Florida. The Diocese is supported primarily through contributions and school tuition.

Program Information

- **Pastoral Services** - programs that support the needs of the faithful in many areas, such as Youth and Young Adult Ministry, Christian and Ministry Formation, Family Life, Human Life and Dignity, and Diocesan Cemeteries.
- **Priests, Seminarians, and Education** - provides for Vocations to the priesthood, seminarians, ongoing education for clergy, and Catholic education.
- **Health and Social Services** - provides support for Catholic Charities and other programs to promote social, justice, and multicultural issues.
- **Insurance Program** - Diocesan-wide property, general liability, worker's compensation, unemployment, and employee medical insurance.
- **Other Diocesan Operations** - activities that support other areas of Diocesan operations, such as Tribunal, Communications, Shared Services, and Archives.

Basis of Financial Statement Presentation

The combined financial statements include the assets, liabilities, net assets, and financial activities of the Central Financial Office, Savings and Loan Trust (S&L), Providence Center, Morning Star School, and Mission of Nombre De Dios. These entities are fiscally responsible to the Bishop of the Diocese and have not been separately incorporated. All significant transactions among entities included in the combined financial statements have been eliminated.

The accompanying financial statements exclude the assets, liabilities, net assets, and financial activity of the individual parishes, schools, Catholic Foundation of the Diocese of St. Augustine, assisted living facilities, various Diocesan employee benefit plans, and other organizations separately incorporated and authorized to operate independently. In addition, various Catholic religious orders, lay societies, and religious organizations, which operate within the Diocese and are not fiscally responsible to the Bishop, have not been included in the accompanying financial statements.

Financial statement presentation follows *Accounting Standards Codification (ASC) 958-205, Financial Statements of Not-For-Profit Organizations*. Under ASC 958-205, the Central Financial Office is required to report information regarding its financial position and activities as follows:

■ **Net Assets Without Donor Restrictions**

Net assets without donor restrictions represent resources derived from unrestricted contributions and regular operating revenues. These resources are used for transactions related to the general operation of the Diocese, and may be used at the discretion of the Bishop to meet current expenses for any purpose.

NOTES TO COMBINED FINANCIAL STATEMENTS
THE CATHOLIC DIOCESE OF ST. AUGUSTINE
JACKSONVILLE, FLORIDA

■ **Net Assets With Donor Restrictions**

Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Diocese and/or the passage of time. When a restriction expires, with donor restricted assets are reclassified to without donor restrictions, and reported in the statement of activities as net assets released from restrictions.

Basis of Accounting

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America using the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Cash and Cash Equivalents

Cash and cash equivalents are comprised of checking and savings accounts, certificates of deposit, and money market accounts all subject to immediate withdrawal or with maturities of less than ninety days for reporting and cash flow purposes.

The Diocese places its cash and cash equivalents in financial institutions that are federally insured for \$250,000 under the Federal Deposit Insurance Corporation (FDIC). At June 30, 2020, 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 cash equivalents to date as related to the FDIC insurance limits.

Investments

Investments are professionally managed and represent corporate securities, mutual funds, and bonds reported at quoted market value at year-end. Increases or decreases in market value are reported as funds provided or expended.

Savings and Loan Fund

Accounts for the deposits and loans are made in the cooperative investment and lending program for the mutual benefit of the parishes and other organizations in the Diocese. Interest is paid to parishes quarterly on their deposits. Rates are reviewed quarterly and as of June 30, 2020, the rates were 1%. Interest is charged quarterly on loans made to parishes and others at rates up to 5% per annum for varying lengths of maturity. Loans receivable as of June 30, 2020, was \$20,426,312. Deposits payable as of June 30, 2020, was \$49,047,066.

The allowance for uncollectible loans is determined based on a review of the loan and balances and the financial condition of the related parishes and other organizations and is considered adequate to cover possible uncollectible loans at June 30, 2020.

Accounts Receivable - Parishes and Other Institutions

Accounts receivable from Parishes and other institutions include funds advanced by the Diocese in support of the Parishes' short-term loan needs, assessments levied but not yet paid, insurance premiums for the current policy year, and pledges to the Bishop's Annual Appeal, Guardian Schools, and capital campaigns. The allowance for uncollectible accounts is based on historical data of collectability of revenue types.

NOTES TO COMBINED FINANCIAL STATEMENTS
THE CATHOLIC DIOCESE OF ST. AUGUSTINE
JACKSONVILLE, FLORIDA

Land, Buildings, and Equipment

Land, buildings, and equipment acquisitions in excess of \$5,000 are capitalized at cost or, if acquired by gift, at fair market value at time of donation. The Diocese does not imply a time restriction on gifts of long-lived assets received.

Depreciation of buildings, land improvements, and equipment is provided over the estimated useful lives (ranging from 5 to 60 years) of the respective assets on a straight-line basis.

Deferred Revenue

Deferred revenue consists of insurance premium payments received in advance that relate to services to be rendered in a future period and are deferred and recognized as revenue in the period earned.

Revenue and Support

Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Student tuition and fees are recorded as revenue earned. Advance collections of tuition and fees are deferred until the period in which earned.

Allocation of Expenses

The costs of providing various programs and supporting activities of the Central Financial Office have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting activities.

Functional Expenses

Directly identifiable expenses are charged to programs and supporting services. Insurance expenses are allocated based on the value of the property held by the program. Management and General Expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Diocese.

Donated Services

The Diocese receives donated services for various ministries throughout the year. There is no clearly measurable basis to value these contributed services, the value of such services is not recorded in the accompanying financial statements.

Income Taxes

The Diocese is exempt from federal income tax under provisions of Section 501(c)(3) of the Internal Revenue Code. The Internal Revenue Service (IRS), in a 1946 group ruling, exempted all organizations listed in the Official Catholic Directory. The IRS has reaffirmed the group ruling annually. Accordingly, no provision for income tax is required.

NOTES TO COMBINED FINANCIAL STATEMENTS
THE CATHOLIC DIOCESE OF ST. AUGUSTINE
JACKSONVILLE, FLORIDA

Accounting principles generally accepted in the United States of America requires management to evaluate tax positions taken by the Diocese and recognize a tax liability if it has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Diocese and has concluded as of June 30, 2020, there were no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements.

The Diocese is subject to U.S. Federal and State income tax examinations for the previous three years.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions, primarily related to the collectability of receivables and the depreciable lives of buildings and improvements that affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

Risks and Uncertainties

The Diocese invests in various securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the *near-term* and such changes could materially affect the amounts reported in the balance sheet.

Paycheck Protection Program

The Central Financial Office of the Diocese (the Central Office) received Paycheck Protection Program (PPP) loans during the COVID-19 pandemic. PPP loan funds were expended on expenses that the Central Office has determined is eligible for forgiveness and expects the entire amount of PPP loan funds to be forgiven and not require repayment. Therefore, the Central Office has applied ASC 958-605, *Contribution Accounting for Not-for-Profit Entities*, under which the funds are initially recorded as a refundable advance included in deferred revenue and recognized as grant revenue once the conditions of release (forgiveness) have been substantially met. See Note 10 for additional information on PPP loan funds received.

Prior Period Information

The financial statements include certain prior year summarized comparative information in total but not by fund classification. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Central Office's financial statements for the year ended June 30, 2019, from which the summarized information was derived.

Adoption of a New Accounting Standards

During the fiscal year ended June 30, 2020, the Diocese implemented Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08). This ASU clarifies and improves the scope of the accounting guidance for contributions received and contributions made. The clarifications and improved scope assist entities in evaluating whether transactions should be accounted for as contributions or as exchange transactions and determining whether a contribution is conditional. Implementation of this standard had no material effects on the Diocese financial statements.

NOTES TO COMBINED FINANCIAL STATEMENTS
THE CATHOLIC DIOCESE OF ST. AUGUSTINE
JACKSONVILLE, FLORIDA

Upcoming Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). ASU 2014-09 creates Topic 606, *Revenue from Contracts with Customers*, and supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*. ASU 2014-09 requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also specifies the accounting for some costs to obtain or fulfill a contract with a customer, and indicates an entity should disclose sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. ASU No. 2020-05, *Revenue from Contracts with Customers* (Topic 606) and *Leases* (Topic 842): *Effective Dates for Certain Entities*, deferred the effective date of ASU 2014-09. ASU 2014-09 is now effective for the Diocese beginning on July 1, 2020. The Diocese has not yet determined the impact on the financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement* (Topic 820) - *Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement* (ASU 2018-13). This guidance eliminates, modifies, and adds certain disclosures on fair value measurements. ASU 2018-13 is effective for the Diocese beginning on July 1, 2020. The Diocese has not yet determined the impact on the financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (ASU 2016-02). ASU 2016-02 requires a lessee to recognize a liability to make lease payments and an asset representing its right to use the underlying asset for the lease term in the statement of financial position for both operating and capital leases. ASU No. 2020-05, *Revenue from Contracts with Customers* (Topic 606) and *Leases* (Topic 842): *Effective Dates for Certain Entities*, deferred the effective date of ASU 2016-02. ASU 2016-02 is now effective for the Diocese beginning on July 1, 2022. The Diocese has not yet determined the impact on the financial statements.

Note 2 - Liquidity and Availability of Financial Assets

The following reflects the Diocese financial assets as of the balance sheet date, reduced by amounts not available for general use within one year of the balance sheet date because of contractual or donor-imposed restrictions. Amounts available include current assets available for expenditure in the following year. Amounts not available include items such as pledges receivable with a specified purpose, restricted net assets, amounts held in escrow, deposits payable and revenue received in advance and not available for general purposes.

Financial Assets at Year-End*	\$ 96,235,751
Less Those Unavailable for General Expenditures within One Year Due to:	
Diocesan Savings Accounts Due on Demand to Entities and Affiliates	(49,047,066)
Contractual or Donor Imposed Restrictions:	
Restricted by Donor with Time or Purpose Restrictions	<u>(1,878,510)</u>
Financial Assets Available to Meet Cash Needs for Expenditures within One Year	<u><u>\$ 45,310,175</u></u>

*Total assets, less non-financial assets (i.e. property and equipment, prepaids, inventory and other non-liquid assets).

**NOTES TO COMBINED FINANCIAL STATEMENTS
THE CATHOLIC DIOCESE OF ST. AUGUSTINE
JACKSONVILLE, FLORIDA**

Note 3 - Investments

Investments as of June 30, 2020, are summarized as follows:

	Fair Value
Money Markets	\$ 2,261,512
Bonds: Corporate and U.S. Agencies	24,518,202
Equities	6,770,116
Mutual Funds – Equities	11,486,597
Mutual Funds – Bonds	11,045,793
Total	\$ 56,082,220

Investment earnings consisted of the following for the year ended June 30, 2020:

Interest Income	\$ 3,104,757
Net Realized and Unrealized Gains (Losses)	1,937,927
Total	\$ 5,042,684

Note 4 - Fair Value Measurements

Authoritative guidance establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- **Level 1**—Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Diocese has the ability to access.
- **Level 2**—Inputs to the valuation methodology include: 1) quoted prices for similar assets or liabilities in active markets; 2) quoted prices for identical or similar assets or liabilities in inactive markets; 3) inputs other than quoted prices that are observable for the assets; and 4) inputs that are derived principally from, or corroborated by, observable market data by correlation or other means. If the asset has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- **Level 3**—Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The assets' fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

At June 30, 2020, the Diocese's marketable U.S. debt, corporate debt, and corporate equity securities were its only financial instruments required to be recorded at fair value. These securities were valued based upon the closing price reported on the active market on which the individual securities are traded or upon quoted market prices for similar assets in active markets.

NOTES TO COMBINED FINANCIAL STATEMENTS
THE CATHOLIC DIOCESE OF ST. AUGUSTINE
JACKSONVILLE, FLORIDA

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Diocese believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of this financial instrument could result in a different fair value measurement at the reporting date.

	Market Value	Fair Value Measurement at June 30, 2020		
		Level 1	Level 2	Level 3
Money Market	\$ 2,261,512	\$ 2,261,512	\$ -	\$ -
Bonds: Corporate and U.S. Agencies	24,518,202	-	24,518,202	-
Equities	6,770,116	6,770,116	-	-
Mutual Funds - Equities	11,486,597	11,486,597	-	-
Mutual Funds - Bonds	<u>11,045,793</u>	<u>11,045,793</u>	-	-
Total	\$ 56,082,220	\$ 31,564,018	\$ 24,518,202	\$ -

Note 5 - Receivables, Parishes, and Other Institutions

Loans receivable in the Savings and Loan fund include \$20,426,312 of loans made to parishes and schools. Other Diocesan receivables include \$9,252,069 of loans made to other organizations or donor pledges to provide funding for capital projects and in some cases for operational expenses. The loans accrue interest at rates up to 5% per annum at varying lengths of maturity.

At June 30, 2020, the receivables consisted of the following categories:

Parish and Related	\$ 25,384,378
Assessments and Premiums	3,027,394
Pledges - Bishops Annual Stewardship Appeal	634,261
Pledges - Guardian of Dreams - Operations	784,600
Pledges - Guardian of Dreams - Capital Campaign	495,843
Pledges - Morning Star	135,372
Accrued Interest Receivable	850,232
Mission of Nombre De Dios - Customer Receivables	<u>15,009</u>
	31,327,089
Allowances for Doubtful Accounts	(1,585,352)
Discount to Present Value	<u>(63,356)</u>
Total	\$ 29,678,381

Pledges Receivable

Pledges receivable listed above represent unconditional promises to give and are due as follows at June 30, 2020:

Due in Less than One Year	\$ 1,341,376
Due Between One and Five Years	388,700
Due in Greater than Five Years	<u>320,000</u>
	2,050,076
Discounts to Present Value at 2.00%	<u>(63,356)</u>
Total	\$ 1,986,720

**NOTES TO COMBINED FINANCIAL STATEMENTS
THE CATHOLIC DIOCESE OF ST. AUGUSTINE
JACKSONVILLE, FLORIDA**

Note 6 - Land, Buildings, and Equipment

At June 30, 2020, fixed assets consisted of the following:

Land	\$ 23,051,669
Land Improvements	6,245,217
Buildings and Improvements	39,116,156
Furnishings and Equipment	1,969,914
Construction in Progress	<u>5,621,471</u>
	76,004,427
(Less Accumulated Depreciation)	<u>(7,802,269)</u>
Total	<u>\$ 68,202,158</u>

Depreciation expense was \$1,502,480 for the year ended June 30, 2020.

Note 7 - Notes Payable

The Diocese has a revolving, unsecured working capital line of credit priced at LIBOR + 1.50% with an available balance of \$2,000,000 and an outstanding balance of \$0 at June 30, 2020.

Long-term debt at June 30, 2020, consists of the following:

	<u>Balance Owed</u>	<u>Current Portion</u>
Note Payable, Guardian Construction, 3.00%, \$13,895 Monthly Principal and Interest, with a Balloon Payment of \$392,785 in December 2021	\$ 606,508	\$ 150,606
Master Loan, Phase II Mission Nombre de Dios Improvement Project, Interest Rate is LIBOR + 1.60% Annual Principal Payments of \$500,000, with Remaining Balance Due February 2024	5,827,561	500,000
Note Payable, St. Anne Construction, 5.20% \$52,522 Principal and Interest, with a Balloon Payment of \$807,323 in October 2033	6,430,174	303,050
Note Payable, Wildlight Development, 3.99% Interest-Only Until December 2020, then \$60,891 Monthly Principal and Interest	7,800,000	245,432
Non-Interest-Bearing Note Payable, Christ the King, has a Face Amount of \$3,440,000 and an Implied Interest Rate of 2.45% (discounted by \$968,933), with \$10,000 Monthly Principal and Interest	<u>2,471,067</u>	<u>60,244</u>
Total	<u>\$ 23,135,310</u>	<u>\$ 1,259,332</u>

Note 8 - Retirement and Other Post-Retirement Benefits

Priests' and Lay Employees' Benefit Plans

The Diocese participates in non-contributory, defined benefit pension plans administered by the Diocese for qualifying lay employees and Diocesan priests employed at the various parishes, schools, and agencies throughout the entire Diocese. For the purposes of the combined financial statements, these pension plans are considered to be multi-employer plans as defined under ASC 715, *Compensation-Retirement Benefits*, because financial activity of parishes and other entities of the Diocese that contribute to these

NOTES TO COMBINED FINANCIAL STATEMENTS
THE CATHOLIC DIOCESE OF ST. AUGUSTINE
JACKSONVILLE, FLORIDA

plans is not included in these combined financial statements. There are no separate valuations of plan benefits or segregation of plan assets specifically for the individual entities participating in the plan. The plans are not subject to Employee Retirement Income Security Act of 1974 funding requirements.

The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers; b) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be required to be borne by the remaining participating employers; and c) if the Diocese chooses to stop participating in one of its multi-employer plans, it may be required to pay a withdrawal liability to the plan. Neither plan has implemented or has pending any funding improvement plans or rehabilitation plans, nor has the Diocese been required to pay any surcharges to the plan and does not have future minimum funding requirements.

The Defined Benefit Pension Plan for the Priests of the Diocese of St. Augustine (the Priests' Plan) covers the priests of the Diocese who have completed one year of service and are at least 25 years old. Vesting is 6% after nine years of service, and increases 6% for every year of service thereafter. However, participants are 100% vested after attaining age 65 and completing at least nine years of service. The Diocese's funding policy is to make contributions at a fixed amount of \$9,000 per priest per year, which meets the minimum actuarially computed scheduled contribution requirements. Contributions are intended to provide not only for benefits attributed to service to-date, but also for those expected to be earned in the future. The pension expense for the Diocese's combined financial statements for the Priests' Plan is based on payroll costs and was \$261,000 for 2020. The Diocese contributed 40% of total contributions to the Priests' Plan by all Diocesan entities, including parishes, schools, and affiliated entities.

The Defined Benefit Pension Plan of the Diocese of St. Augustine (the Lay Plan) provides benefits based primarily on compensation and employee's years of service. Vesting is 100% upon completion of five years of service or upon attaining age 65. The Diocese's funding policy is to make contributions at a level percentage of salary that meets the actuarially computed scheduled contribution, currently 7.25% of the employees' annual salary. Contributions are intended to provide not only for benefits attributed to service to-date, but also for those expected to be earned in the future. The pension for the Diocese combined financial statements for the Lay Plan is based on payroll costs and was \$510,570 for 2020. The Diocese contributed 11% of total contributions to the plan by all Diocesan entities, including parishes, schools, and affiliated entities.

The following presents information about the Diocese's multi-employer pension plans from the most recently available actuarial reports as of June 30, 2020:

<u>Plan Name</u>	<u>Priests' Plan</u>	<u>Lay Plan</u>
Employer Number	010-379-B	013-200-G
	<u>2020</u>	<u>2020</u>
Fair Value Assets	\$ 13,282,200	\$ 112,640,058
Projected Benefit Obligation	(19,921,137)	(178,767,661)
Unfunded Projected Benefit Obligation	(6,638,937)	(66,127,603)
Funded Status	65% - 80%	Less than 65%

NOTES TO COMBINED FINANCIAL STATEMENTS
THE CATHOLIC DIOCESE OF ST. AUGUSTINE
JACKSONVILLE, FLORIDA

Other Post-Retirement Benefits

The Diocese participates in a multi-employer other post-employment benefit program for the provision of housing and other benefits for retired priests, sponsored by the Diocese. Because the computed value of the vested benefits for the Diocese's participants cannot be segregated from those of other Diocesan entities and affiliates participating in the program, it is not possible to determine the portion of the liability which may be attributable solely to the Diocese. The program costs have been paid by the Priest Housing Fund; however, the funds are not restricted to the program. The program is not provided under a formal plan and can be amended or terminated by the Diocese at any time. Under the program, a priest Housing Allowance of \$1,000 is paid each month to all retired priests who are not residing in Diocesan provided housing. Housing allowances paid for the year ended June 30, 2020, for retired priests was \$500,400.

Note 9 - Self-Insurance

The Diocese is self-insured for property and general liability, workers' compensation, unemployment compensation insurance, and employee group insurance. The Diocese assess each participating parish, school, and related entity their share of the estimated cost 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.

A reserve for insurance losses of \$1,231,129 has been recorded for claims incurred but not reported. The amount of reserve is estimated based on an actuarial valuation of losses. Any adjustments to the reserve are reflected in the provision for insurance losses in the year such adjustments occur.

Employee Group Insurance

Substantially all employees of the Diocese and affiliated parishes, schools, and related entities are provided health benefits through an insurance plan administered by the Diocese. Premiums, recorded within insurance premium revenue in the accompanying statement of activities, are billed monthly to participating entities for the estimated share of costs. As part of this self-insurance program, the Diocese purchases excess insurance coverage from outside insurance carriers.

Property, General, Worker's Compensation, and Loss Sharing Agreement

The self-insurance plan for property, general liability, and workers' compensation participates in an aggregate excess loss sharing arrangement (sharing arrangement) with three other dioceses in the State of Florida. Each participating diocese is assigned a loss fund, which represents the maximum amount of losses the diocese will be responsible for in any one claim year. The loss sharing agreement provides that each diocese will be reimbursed by the other participants for the aggregate losses during the claim year in excess of the loss fund. Reimbursements are collected from the other dioceses based on their proportionate share of the total loss fund. Once the total loss fund has been depleted, additional claims are recoverable from an outside carrier from which excess insurance coverage was purchased. The purpose of the loss sharing agreement is to protect the participating dioceses from exceptionally large or catastrophic losses. The estimated unpaid losses payable at June 30, 2020, for the sharing agreement is \$565,508.

**NOTES TO COMBINED FINANCIAL STATEMENTS
THE CATHOLIC DIOCESE OF ST. AUGUSTINE
JACKSONVILLE, FLORIDA**

Note 10 - Contingencies and Other Commitments

Guarantee

The Diocese is contingently liable for several mortgages obtained on behalf of certain parishes totaling \$13,093,530 as of June 30, 2020.

Litigation

The Diocese, along with the entities fiscally responsible to the Bishop of the Diocese, is involved in legal proceedings from time to time. Legal counsel has advised the Diocese that the potential loss resulting from any current proceedings will fall within the insurance coverage limits.

Paycheck Protection Program

During the year, many entities within the Diocese were granted individual loans totaling \$2,035,400, which includes funds received by Central Financial Office (Central Administrative Office, Early Learning Centers and Marywood), Morning Star School, and Mission of Nombre De Dios, pursuant to the PPP under Division A, Title I of the CARES Act, which was enacted March 27, 2020. PPP provided for loans to quality businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after eight to twenty-four weeks as long as the Central Office uses the loan proceeds for eligible purposes, including payroll, benefits, rent, and utilities and maintains its payroll levels. As of June 30, 2020, \$62,011 is reported as deferred revenue.

COVID-19

In December 2019, COVID-19 emerged and has subsequently spread worldwide. The World Health Organization has declared COVID-19 a pandemic resulting in federal, state, and local governments and private entities mandating various restrictions, including travel restrictions, restrictions on public gatherings, stay at home orders and advisories, and quarantining of people who may have been exposed to the virus. After close monitoring and responses and guidance from federal, state, and local governments, in an effort to mitigate the spread of COVID-19, effective in late March 2020, the Diocese closed its parishes, schools, and many offices for at least 8 weeks, or significantly reduced occupancy and attendance. Masses and school instruction were offered with only limited attendance or live-streamed, while many other operations ceased. The Diocese resumed many operations and continues to monitor developments, including government requirements and recommendations at the national, state, and local level to evaluate the possibility of ongoing continued restrictions.

The Diocese has modified operations to adapt to the restricted environment, including instituting cost reducing measures. As noted above, the Diocese received funding under the PPP program and anticipates full forgiveness of those funds. While financial markets experienced a temporary decline many of the financial asset values had recovered by June 30, 2020.

At this point, we cannot reasonably estimate the duration and severity of this pandemic, which could have a material adverse impact on our results of operations, financial position, and cash flows.

**NOTES TO COMBINED FINANCIAL STATEMENTS
THE CATHOLIC DIOCESE OF ST. AUGUSTINE
JACKSONVILLE, FLORIDA**

Note 11 - Net Assets With Donor Restriction

Net assets with donor restrictions consist of the following at June 30, 2020:

Priest's Education and Missionary Burse	\$ 418,575
Guardian Schools Campaign Fund	809,419
Wellness Program	155,000
Morning Start Capital Fund	127,324
Mission of Nombre De Dios- Historic Chapel Campaign	95,703
Other	<u>272,489</u>
Total	<u>\$ 1,878,510</u>

Note 12 - Related-Party Transactions

During the year ended June 30, 2020, the Central Office transferred \$1,618,278 to various related parties to supplement their budget, including Catholic Charities, various Catholic schools, and other Diocesan ministries.

The Diocese also has deposits and loans in the S&L as disclosed in Note 1, loans to related entities as disclosed in Note 5, administers the self-insurance programs as disclosed in Note 9, and has guaranteed loans for related parties, which are disclosed as contingent liabilities in Note 10.

Note 13 - Subsequent Events

The Diocese evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through October 20, 2020, the date the financial statements were available to be issued.