

**DIOCESE OF PALM BEACH, INC.**  
**REPORT ON AUDITS OF FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

# 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, 2020 and 2019, 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, 2020 and 2019, 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.



## **Emphasis of Matter – COVID-19**

As further discussed in Note 22, the Diocese of Palm Beach, Inc. is subject to the current economic health and conditions in the United States, including, the novel coronavirus (COVID-19) which was declared a global pandemic by the World Health Organization in March 2020. Management is currently assessing the impact of these conditions and continues to explore various options to minimize the financial impact, however the ultimate outcome is uncertain as of the date these financial statements were available to be issued. Our opinion is not modified with respect to this matter.

## **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 20, 2020

**DIOCESE OF PALM BEACH, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2020 and 2019**

	2020	2019
<b>ASSETS</b>		
Cash and cash equivalents	\$ 24,327,995	\$ 25,692,293
Investments (Note 4)	58,881,378	45,057,184
Pledges and bequest receivable, net (Note 6)	2,485,224	13,965,556
Receivables from Diocesan entities, net (Note 5)	3,121,638	2,367,024
Other receivables	101,201	140,633
Other assets	2,241,164	2,065,419
Property and equipment, net (Note 8)	23,216,447	23,643,178
Total assets	\$ 114,375,047	\$ 112,931,287
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,718,562	\$ 2,337,852
Self-insurance reserves (Note 9)	1,249,727	1,318,932
Annuities payable	160,555	71,946
Post-employment benefit obligation (Note 11)	652,347	671,842
Paycheck Protection Program Loan (Note 10)	1,091,460	-
Guarantee of indebtedness reserve (Note 3)	2,068,486	2,245,917
Total liabilities	6,941,137	6,646,489
Commitments and contingencies (Notes 3, 9, 11, 13, 14 and 16)		
Net assets:		
Without donor restrictions	63,046,465	62,991,452
With donor restrictions (Note 17)	44,387,445	43,293,346
Total net assets	107,433,910	106,284,798
Total liabilities and net assets	\$ 114,375,047	\$ 112,931,287

See notes to financial statements.

**DIOCESE OF PALM BEACH, INC.**  
**STATEMENTS OF ACTIVITIES**  
**For the Years Ended June 30, 2020 and 2019**

	Year Ended June 30, 2020			Year Ended June 30, 2019		
	Without Donor	With Donor	Total	Without Donor	With Donor	Total
	Restrictions	Restrictions		Restrictions	Restrictions	
Support and revenue:						
Diocesan services appeal	\$ -	\$ 9,180,867	\$ 9,180,867	\$ -	\$ 9,211,958	\$ 9,211,958
Contributions and bequests	267,435	840,495	1,107,930	245,065	916,941	1,162,006
Cemetery care deposits	-	233,701	233,701	-	356,624	356,624
Program revenue	1,161,721	-	1,161,721	1,462,062	-	1,462,062
Self-insurance program revenue	5,359,648	-	5,359,648	5,152,573	-	5,152,573
Net investment return	1,013,252	482,061	1,495,313	2,011,933	2,031,668	4,043,601
Interest and dividend income	807,313	311,359	1,118,672	797,199	276,006	1,073,205
Special events, net of direct expenses	258,395	-	258,395	211,939	-	211,939
Rental income	204,000	-	204,000	204,000	-	204,000
Other income, net	51,074	-	51,074	3,071	-	3,071
Net assets released from restrictions (Note 18)	<u>10,519,505</u>	<u>(10,519,505)</u>	<u>-</u>	<u>11,047,572</u>	<u>(11,047,572)</u>	<u>-</u>
Total support and revenue	<u>19,642,343</u>	<u>528,978</u>	<u>20,171,321</u>	<u>21,135,414</u>	<u>1,745,625</u>	<u>22,881,039</u>
Expenses:						
Program services:						
Pastoral	1,270,714	-	1,270,714	1,566,108	-	1,566,108
Religious personnel development	1,272,465	-	1,272,465	1,357,279	-	1,357,279
Catholic school and faith foundation support	3,380,859	-	3,380,859	3,616,963	-	3,616,963
Missions support	1,074,517	-	1,074,517	1,064,380	-	1,064,380
Self-insurance program	4,162,901	-	4,162,901	4,662,757	-	4,662,757
Social service programs	<u>3,371,686</u>	<u>-</u>	<u>3,371,686</u>	<u>3,342,744</u>	<u>-</u>	<u>3,342,744</u>
Total program services	14,533,142	-	14,533,142	15,610,231	-	15,610,231
Supporting services:						
Diocesan administration	3,364,369	-	3,364,369	3,462,947	-	3,462,947
Plant, facility and construction management	<u>1,086,745</u>	<u>-</u>	<u>1,086,745</u>	<u>1,085,406</u>	<u>-</u>	<u>1,085,406</u>
Total expenses	<u>18,984,256</u>	<u>-</u>	<u>18,984,256</u>	<u>20,158,584</u>	<u>-</u>	<u>20,158,584</u>
Increase in net assets before non-operating activities	658,087	528,978	1,187,065	976,830	1,745,625	2,722,455
Change in guarantee of indebtedness reserve	(122,569)	-	(122,569)	25,333	-	25,333
Contribution for Skaff Senior Housing Fund (Note 19)	-	565,121	565,121	-	16,323,227	16,323,227
Gain on sale of property (Note 8)	-	-	-	3,802,860	-	3,802,860
Change in post-employment benefit obligation	19,495	-	19,495	(165,084)	-	(165,084)
Contribution to Lay Pension Plan (Note 10)	<u>(500,000)</u>	<u>-</u>	<u>(500,000)</u>	<u>(500,000)</u>	<u>-</u>	<u>(500,000)</u>
Increase in net assets	55,013	1,094,099	1,149,112	4,139,939	18,068,852	22,208,791
Net assets - beginning of year	<u>62,991,452</u>	<u>43,293,346</u>	<u>106,284,798</u>	<u>58,851,513</u>	<u>25,224,494</u>	<u>84,076,007</u>
Net assets - end of year	<u>\$ 63,046,465</u>	<u>\$ 44,387,445</u>	<u>\$ 107,433,910</u>	<u>\$ 62,991,452</u>	<u>\$ 43,293,346</u>	<u>\$ 106,284,798</u>

See notes to financial statements.

**DIOCESE OF PALM BEACH, INC.**

**STATEMENTS OF FUNCTIONAL EXPENSES  
For the Years Ended June 30, 2020 and 2019**

	2020								
	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	\$ 1,043,039	\$ 329,649	\$ 973,142	\$ 219,883	\$ -	\$ 1,124,642	\$ 2,411,548	\$ 566,940	\$ 6,668,843
Subsidies and donations	32,450	405,001	707,936	763,169	-	1,846,813	37,937	-	3,793,306
Educational programs	1,326	358,006	1,231,035	-	-	139,238	-	-	1,729,605
Insurance	11,794	18,755	9,982	135,627	4,826,495	13,504	24,319	54,224	5,094,700
Information technology and telecommunications	9,364	2,869	10,036	839	-	13,918	63,156	21,165	121,347
Utilities	8,270	2,740	4,394	775	-	13,103	11,824	3,709	44,815
Office, printing and postage	11,928	17,371	9,474	44,050	-	20,870	254,796	20,717	379,206
Other program and operating	29,810	42,450	107,717	21,865	-	10,919	7,907	3,737	224,405
Travel and meetings	15,117	7,900	13,362	9,823	-	13,941	78,749	10,036	148,928
Maintenance contracts and repairs	28,859	8,421	39,731	2,299	-	38,852	41,840	274,357	434,359
Depreciation	90,501	29,978	48,078	8,484	-	143,387	129,388	40,584	490,400
Professional and contract services	50	68,080	235,954	3,330	-	6,003	327,224	145,500	786,141
Interfund eliminations	(11,794)	(18,755)	(9,982)	(135,627)	(663,594)	(13,504)	(24,319)	(54,224)	(931,799)
	<u>\$ 1,270,714</u>	<u>\$ 1,272,465</u>	<u>\$ 3,380,859</u>	<u>\$ 1,074,517</u>	<u>\$ 4,162,901</u>	<u>\$ 3,371,686</u>	<u>\$ 3,364,369</u>	<u>\$ 1,086,745</u>	<u>\$ 18,984,256</u>
	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>

**DIOCESE OF PALM BEACH, INC.**  
**STATEMENTS OF CASH FLOWS**  
**For the Years Ended June 30, 2020 and 2019**

	2020	2019
Cash flows from operating activities:		
Increase in net assets	\$ 1,149,112	\$ 22,208,791
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation	490,400	489,310
Gain on sale of property	(6,000)	(3,802,860)
Unrealized and realized gains on investments, net	(1,265,075)	(3,753,270)
Change in guarantee of indebtedness reserve	(177,431)	(325,333)
Contributions received for long-term purposes	(12,080,660)	(3,864,892)
Changes in operating assets and liabilities:		
Receivables from Diocesan entities	(754,614)	(372,121)
Pledges and bequest receivable	11,480,332	(11,755,030)
Other receivables	39,432	(120,211)
Other current assets	(175,745)	(248,683)
Accounts payable and accrued expenses	(619,290)	(530,680)
Self-insurance reserves	(69,205)	264,036
Annuities payable	88,609	7,119
Post-employment benefit obligation	(19,495)	165,084
Net cash used in operating activities	(1,919,630)	(1,638,740)
Cash flows from investing activities:		
Purchases of portfolio investments	(14,467,797)	(23,841,298)
Proceeds from sales of portfolio investments	1,908,678	21,043,349
Proceeds from sale of property	6,000	4,306,000
Purchases of property and equipment	(63,669)	(107,130)
Net cash provided by (used in) investing activities	(12,616,788)	1,400,921
Cash flows from financing activities:		
Proceeds from - Paycheck Protection Program Loan	1,091,460	-
Contributions received for long-term purposes	12,080,660	3,864,892
Net cash provided by financing activities	13,172,120	3,864,892
Increase (decrease) in cash and cash equivalents	(1,364,298)	3,627,073
Cash and cash equivalents, beginning of year	25,692,293	22,065,220
Cash and cash equivalents, end of year	\$ 24,327,995	\$ 25,692,293

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. 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

Transfers of cash or other assets or settlement of liabilities that are both voluntary and non-reciprocal are recognized as contributions. Contributions may be either conditional or unconditional. A contribution is considered conditional when the donor imposes both a barrier and a right of return. Conditional contributions are recognized as revenue on the date all donor-imposed barriers are overcome or explicitly waived by the donor. Barriers may include specific measurable outcomes, limitations on performance of an activity and other stipulations related to the contribution. A donor has a right of return of any assets transferred or a right of release of its obligations to transfer any assets in the event the Diocese fails to overcome one or more barriers. Assets received before the barrier is overcome are accounted for as deferred revenue.

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 assets other than cash are reported at their estimated fair value at the date of the gift. 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 the 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. Amounts pledged are recorded as contributions of net assets with donor restrictions, if designated by the donors as such. 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, 2020 and 2019. 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, certificates of deposit, and corporate bonds.

Investment income and realized gains and losses on investments are recognized upon realization. Purchased investments are recorded at cost and contributed investments are initially recorded at fair value on the date received. 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. The Diocese has an investment policy, utilizes management oversight, third party consultants and regularly reviews its investment portfolio to monitor these risks.

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 \$398,665 and \$240,781 at June 30, 2020 and 2019, 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 reserves

As more fully described in Note 9, the Diocese maintains self-insurance programs 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 \$30,900,000 for 34 loans and \$31,200,000 for 28 loans as of June 30, 2020 and 2019, 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 \$2,068,486 and \$2,245,917 is necessary for these loans as of June 30, 2020 and 2019, 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.

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 due to the short-term nature of their investments.

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

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

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 such as utilities, maintenance and related costs are allocated on a square footage 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 2019 financial statements were reclassified to conform to the presentation in the 2020 financial statements.

Change in accounting principles

During the year ended June 30, 2020, the Diocese adopted Accounting Standards Update 2018-08, *Not-for-Profit Entities (Topic 958) – Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 provides guidance in evaluating whether transactions should be accounted for as contributions or as an exchange transaction and determining whether a contribution is conditional or not. The adoption of ASU 2018-08 had no effect on the Diocese financial position and changes in net assets.

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

As of June 30, 2020, 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	\$ 24,327,995
Investments	58,881,378
Pledges and bequest receivable, net	2,485,224
Receivables from Diocesan entities, net	3,121,638
Other receivables	<u>101,201</u>
Total financial assets	88,917,436
Less financial assets held to meet donor-imposed restrictions:	
Purpose-restricted net assets (Note 17)	(27,485,433)
Donor-restricted endowment (Note 17)	<u>(16,902,012)</u>
Total financial assets available for general operating expenditures within one year	<u>\$ 44,529,991</u>

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

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

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, 2020 and 2019, the Diocese recorded changes to the reserve in the amount of \$122,569 and \$25,333, respectively, based on its evaluation of collectability of certain of the underlying guaranteed loans. During the years ended June 30, 2020 and 2019, the Diocese made principal payments to the SFT for the reserved loans in the amount of \$300,000 in each year.

Summarized financial information for the SFT as of June 30, 2020 and 2019, and for the years then ended is presented below:

	For the Year Ended June 30,	
	2020	2019
Revenue	\$ 7,186,051	\$ 8,016,320
Cost and expenses	<u>3,436,503</u>	<u>2,935,346</u>
Increase in net assets	<u>\$ 3,749,548</u>	<u>\$ 5,080,974</u>
	As of June 30,	
	2020	2019
<b>Assets:</b>		
Cash and equivalents	\$ 21,896,803	\$ 14,990,996
Portfolio investments	117,301,656	110,549,036
Loans receivable and accruals	<u>32,866,268</u>	<u>33,637,977</u>
Total assets	<u>\$ 172,064,727</u>	<u>\$ 159,178,009</u>
<b>Liabilities:</b>		
Savings deposits – Diocesan entities	\$ 152,486,723	\$ 143,350,659
Accrued expenses	<u>23,545</u>	<u>22,439</u>
Total liabilities	152,510,268	143,373,098
Net assets – without donor restrictions	<u>19,554,459</u>	<u>15,804,911</u>
Total liabilities and net assets	<u>\$ 172,064,727</u>	<u>\$ 159,178,009</u>

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

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

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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
For the year ended:		
Guarantee of indebtedness adjustment	\$ <u>122,569</u>	\$ <u>25,333</u>
Program revenue – administrative fee	\$ <u>110,000</u>	\$ <u>106,000</u>
Interest income on savings deposits	\$ <u>311,359</u>	\$ <u>261,959</u>
At year end:		
Assets –		
Savings Fund Trust deposits (included in cash and cash equivalents)	\$ <u>23,585,138</u>	\$ <u>24,046,136</u>
Liabilities –		
Guarantee of indebtedness reserve	\$ <u>2,068,486</u>	\$ <u>2,245,917</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, 2020.

**Note 4 – Investments**

A summary of investments, by investment type, at June 30, 2020 and 2019 follows:

	<u>2020</u>	<u>2019</u>
Marketable equity securities	\$ 33,703,787	\$ 27,756,294
U.S. government and municipal bonds	11,055,040	10,718,411
Corporate bonds	4,061,807	3,168,097
Certificates of deposit	1,270,758	-
Money market funds	8,680,162	3,314,028
Accrued interest and dividends receivable	<u>109,824</u>	<u>100,354</u>
Total	\$ <u>58,881,378</u>	\$ <u>45,057,184</u>

The following schedule summarizes the net investment return on investments for the years ended June 30, 2020 and 2019 and its classification in the accompanying statements of activities:

	<u>2020</u>	<u>2019</u>
Net investment income	\$ 230,238	\$ 290,331
Realized gains, net	2,331,307	1,802,869
Unrealized gain (loss), net	<u>(1,066,232)</u>	<u>1,950,401</u>
Net investment return	\$ <u>1,495,313</u>	\$ <u>4,043,601</u>

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

**Note 5 – Receivables from Diocesan Entities**

Receivables from Diocesan entities are summarized as follows at June 30, 2020 and 2019:

	2020	2019
Diocesan services appeal	\$ 3,044,792	\$ 2,307,137
Self-insurance program billings, net of allowance (see Note 9)	76,846	59,887
Total Receivables from Diocesan Entities	\$ 3,121,638	\$ 2,367,024

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

Pledge and bequest contributions consists of the Skaff Estate bequest (see Note 19) which is designated for the acquisition 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, 2020 and 2019, as follows:

	2020	2019
Pledges and bequest due:		
In less than one year	\$ 1,536,796	\$ 12,755,335
In one to five years	990,000	1,287,000
	2,526,796	14,042,335
Less: present value discount	(41,572)	(76,779)
	\$ 2,485,224	\$ 13,965,556

The Diocese applies a discount rate of 2.2% to its pledges with terms in excess of one year.

**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.

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.



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

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

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 (Level 2 inputs).

*Money market funds* – 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.

*Certificates of deposit* – determined using the contractual cash flows, current market rates or certificates of deposit with a similar remaining time to maturity (Level 2 inputs). The Diocese intends to hold the certificates to their maturity.

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, 2020 and 2019:

	Fair Value Measurements at June 30, 2020			
	Level 1	Level 2	Level 3	Total
<b>Investments:</b>				
Marketable equity securities	\$ 33,703,787	\$ -	\$ -	\$ 33,703,787
U.S. government and municipal bonds	-	11,055,040	-	11,055,040
Corporate bonds	-	4,061,807	-	4,061,807
Certificates of deposit	-	1,270,758	-	1,270,758
Money market funds	8,680,162	-	-	8,680,162
Accrued interest and dividends	-	109,824	-	109,824
<b>Total investments</b>	<b><u>\$ 42,383,949</u></b>	<b><u>\$ 16,497,429</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 58,881,378</u></b>
<b>Liabilities:</b>				
Annuities payable	<u>\$ -</u>	<u>\$ (160,555)</u>	<u>\$ -</u>	<u>\$ (160,555)</u>

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

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

	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	<u>-</u>	<u>100,354</u>	<u>-</u>	<u>100,354</u>
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>

**Note 8 – Property and Equipment**

Property and equipment consists of the following at June 30, 2020 and 2019:

	2020	2019
Operating property and equipment:		
Land and land improvements	\$ 15,569,563	\$ 15,569,563
Buildings and improvements	14,912,183	14,912,183
Furniture and equipment	<u>2,356,331</u>	<u>2,324,987</u>
	32,838,077	32,806,733
Less: accumulated depreciation	<u>(9,621,630)</u>	<u>(9,163,555)</u>
Total property and equipment, net	<u>\$ 23,216,447</u>	<u>\$ 23,643,178</u>

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.

**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 these programs, 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.

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

**Note 9 – Self-Insurance Reserves, Continued**

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, 2020 and 2019. 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, 2020 and 2019, the Diocese received \$764,909 and \$176,889, respectively, of recoveries on claims that are included as a reduction of self-insurance program expense in the accompanying statements of activities.

**Note 10 – Paycheck Protection Program Loan**

On May 4, 2020, the Diocese received loan proceeds in the amount of \$1,091,460 under the Paycheck Protection Program (PPP) from a financial institution. The PPP Loan, as established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act), is designed to be a direct incentive for qualifying employers to keep their workers on payroll due to the COVID-19 pandemic and its far reaching economic disruption. The U.S. Small Business Association (SBA) will forgive the loan if eligible expenses are incurred over the period specified in the SBA and US Treasury's PPP guidance.

The PPP Loan, which is in the form of a promissory note, matures in five years from the date of funding, May 4, 2025, and bears interest at a rate of 1.00% per annum, payable monthly, commencing six months from the PPP Loan (issuance date May 4, 2020). The PPP Loan may be prepaid by the Diocese at any time prior to maturity with no prepayment penalties. The PPP Loan is uncollateralized.

The Diocese may apply for loan forgiveness from the lender and SBA based on satisfying the requirements of the PPP forgiveness. As part of the requirements for loan forgiveness, at least sixty-percent (60%) of the forgiven amount must consist of eligible payroll expenses with the remainder, if applicable, consisting of non-payroll costs such as mortgage interest, rent, and utilities.

Loan forgiveness includes other factors such as maintaining compensation levels through the specified period, as well as, employee retention. As of June 30, 2020, the Diocese continued to satisfy the requirements for application for loan forgiveness. As such, the Diocese has not classified the PPP Loan proceeds as a conditional contribution.

The application for loan forgiveness is contingent upon the formal application being approved by the lender and accepted by the SBA. Until the PPP Loan is forgiven, partially or in full, the Diocese has elected to record the PPP Loan as a liability, as of June 30, 2020. No assurance can be given that the Diocese will obtain forgiveness of the PPP Loan in whole or in part.

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

**Note 11 – 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, 2020 and 2019 approximated \$343,000 and \$341,000, respectively. For both years ended June 30, 2020 and 2019, 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.

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, 2020 and 2019 approximated \$282,000 and \$256,000, 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 \$935,000 and \$883,000 for the years ended June 30, 2020 and 2019, 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, 2020 and 2019, the post-employment benefit obligation was \$652,347 and \$671,842, respectively.

**Note 12 – Special Events**

Special events revenue and related expenses for the years ended June 30, 2020 and 2019 includes the following:

	2020	2019
Event proceeds	\$ 395,270	\$ 339,194
Direct event expenses	136,875	127,255
Net	\$ 258,395	\$ 211,939

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

**Note 13 – 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, 2020 and 2019.

**Note 14 – 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, 2020 and 2019 totaled \$27,511 and \$26,960, respectively.

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, 2020, the cost and related accumulated depreciation of the Diocese ministry facility and improvements made thereto amounted to \$3,337,681 and \$443,185, respectively. As of June 30, 2019, the cost and related accumulated depreciation of the Diocese ministry and improvements made thereto amounted to \$3,337,681 and \$384,743, 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, 2020 and 2019.

**Note 15 – 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 16 – 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, 2020. No amounts are recognized in the accompanying financial statements relating to these guarantees.

**Note 17 – 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.

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

**Note 17 – Restricted Net Assets and Endowment, Continued**

Net assets with donor restrictions consist of the following at June 30, 2020 and 2019:

	2020	2019
Time and purpose restrictions:		
Diocesan services appeal	\$ 3,044,792	\$ 2,307,137
Education and scholarships (endowment)	4,494,438	4,868,372
Seminarian	614,080	705,655
Ministry and social services (endowment)	5,109,258	5,269,474
Cemetery care deposits and earnings (Note 15)	4,513,270	4,192,265
Skaff senior housing	19,313,291	18,652,127
Perpetual in nature:		
Seminary Burse Fund	5,676,986	5,676,986
Education Fund	1,621,330	1,621,330
	\$ 44,387,445	\$ 43,293,346

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.

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

**Note 17 – Restricted Net Assets and Endowment, Continued**

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.

Changes in endowment net assets for the year ended June 30, 2020 follow:

Balance as of July 1, 2019	<u>\$ 17,436,162</u>
Net investment return:	
Net investment return	747,929
Contributions	840,445
Appropriations for endowment expenditures	<u>(2,122,524)</u>
Balance as of June 30, 2020	<u>\$ 16,902,012</u>

**Note 18 – Net Assets Released From Restrictions**

During the years ended June 30, 2020 and 2019, 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>2020</u>	<u>2019</u>
Diocesan services appeal	\$ 8,443,212	\$ 8,802,628
Education and scholarships	1,023,214	1,425,026
Program services	<u>1,053,079</u>	<u>819,918</u>
Total	<u>\$ 10,519,505</u>	<u>\$ 11,047,572</u>

**Note 19 – 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 Catholic senior housing.

For the years ended June 30, 2020 and 2019, the funds contributed by the donor, as well as prior contributions for Catholic senior housing 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. The funds relating to Catholic senior housing will remain in various investments and interest-bearing accounts using prudent management of such funds until such funds are expended for Catholic senior housing.

**Note 20 – 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 21 – 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 \$459,095 and \$622,964 as of June 30, 2020 and 2019, respectively. In addition, balances held in uninsured investment accounts totaled \$22,583,049 and \$24,193,717 as of June 30, 2020 and 2019, 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 22 – Significant Uncertainties – COVID-19**

On January 30, 2020, the World Health Organization (WHO) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the COVID-19 outbreak) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

As a result of worldwide reporting of COVID-19 infections, certain national, state, and local governmental authorities have issued stay-at-home orders, proclamations and/or directives aimed at minimizing the spread of COVID-19. Additionally, more restrictive proclamations and/or directives may be issued in the future. As a result, certain ministries, services, programs and administrative operations of the Diocese have been periodically disrupted.

In addition to implementing protective guidelines and protocols, the Diocese considered and implemented preventative and protection measures recommended by the Centers for Disease Control and Prevention (CDC), a United States federal agency under the Department of Health. These protocols are aimed at providing a safe environment for certain ministries, programs and operations to be carried out by Diocesan personnel during the course of the COVID-19 pandemic.

The ultimate impact of the COVID-19 pandemic on the operations of the Diocese is unknown and will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration of the COVID-19 outbreak, new information which may emerge concerning the severity of the COVID-19 pandemic, and any additional preventative and protective actions that governments, or the Diocese, may direct, which may result in an extended period of operational disruption. Any resulting financial impact cannot be reasonably estimated at this time but could be anticipated to have a material adverse impact on the operations, financial position, and results of operations of the Diocese for fiscal year 2021.

**Note 23 – Subsequent Events**

The Diocese evaluated its activities occurring subsequent to June 30, 2020 through October 20, 2020, 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, 2020**

	Operating Fund	Plant Fund	Self- Insurance Fund	Skaff Senior Housing Fund	Eliminating Entries	Total Combined
<b>ASSETS</b>						
Cash and cash equivalents	\$ 9,941,466	\$ -	\$ 13,384,440	\$ 1,002,089	\$ -	\$ 24,327,995
Investments	41,512,972	-	-	17,368,406	-	58,881,378
Pledges and bequest receivable, net	1,542,428	-	-	942,796	-	2,485,224
Receivables from Diocesan entities, net	3,044,792	-	76,846	-	-	3,121,638
Other receivables	101,201	-	-	-	-	101,201
Other assets	100,352	-	2,140,812	-	-	2,241,164
Property and equipment, net	-	23,216,447	-	-	-	23,216,447
Due from other funds	3,398,806	-	-	-	(3,398,806)	-
<b>Total assets</b>	<b><u>\$ 59,642,017</u></b>	<b><u>\$ 23,216,447</u></b>	<b><u>\$ 15,602,098</u></b>	<b><u>\$ 19,313,291</u></b>	<b><u>\$ (3,398,806)</u></b>	<b><u>\$ 114,375,047</u></b>
<b>LIABILITIES AND NET ASSETS</b>						
Liabilities:						
Accounts payable and accrued expenses	\$ 1,510,259	\$ 68,583	\$ 139,774	\$ -	\$ (54)	\$ 1,718,562
Self-insurance reserves	-	-	1,249,727	-	-	1,249,727
Annuities payable	160,555	-	-	-	-	160,555
Post-employment benefit obligation	652,347	-	-	-	-	652,347
Guarantee of indebtedness reserve	2,068,486	-	-	-	-	2,068,486
Paycheck Protection Program Loan	1,091,460	-	-	-	-	1,091,460
Due to other funds	-	3,365,072	-	33,680	(3,398,752)	-
<b>Total liabilities</b>	<b>5,483,107</b>	<b>3,433,655</b>	<b>1,389,501</b>	<b>33,680</b>	<b>(3,398,806)</b>	<b>6,941,137</b>
<b>Net assets</b>	<b><u>54,158,910</u></b>	<b><u>19,782,792</u></b>	<b><u>14,212,597</u></b>	<b><u>19,279,611</u></b>	<b><u>-</u></b>	<b><u>107,433,910</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 59,642,017</u></b>	<b><u>\$ 23,216,447</u></b>	<b><u>\$ 15,602,098</u></b>	<b><u>\$ 19,313,291</u></b>	<b><u>\$ (3,398,806)</u></b>	<b><u>\$ 114,375,047</u></b>

**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 other funds	2,817,086	-	-	109,026	(2,926,112)	-
<b>Total assets</b>	<b>\$ 58,812,813</b>	<b>\$ 23,643,178</b>	<b>\$ 14,640,255</b>	<b>\$ 18,761,153</b>	<b>\$ (2,926,112)</b>	<b>\$ 112,931,287</b>
<b>LIABILITIES AND NET ASSETS</b>						
Liabilities:						
Accounts payable and accrued expenses	\$ 2,080,770	\$ 83,968	\$ 192,680	\$ -	\$ (19,566)	\$ 2,337,852
Self-insurance reserves	-	-	1,318,932	-	-	1,318,932
Annuities payable	71,946	-	-	-	-	71,946
Deferred revenue	-	-	-	-	-	-
Post-employment benefit obligation	671,842	-	-	-	-	671,842
Guarantee of indebtedness reserve	2,245,917	-	-	-	-	2,245,917
Due to other 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>53,742,338</b>	<b>20,652,664</b>	<b>13,128,643</b>	<b>18,761,153</b>	<b>-</b>	<b>106,284,798</b>
<b>Total liabilities and net assets</b>	<b>\$ 58,812,813</b>	<b>\$ 23,643,178</b>	<b>\$ 14,640,255</b>	<b>\$ 18,761,153</b>	<b>\$ (2,926,112)</b>	<b>\$ 112,931,287</b>

**DIOCESE OF PALM BEACH, INC.**  
**SCHEDULE OF ACTIVITIES, BY FUND**  
**For the Year Ended June 30, 2020**

	Operating Funds	Plant Fund	Self- Insurance Fund	Skaff Senior Housing Fund	Eliminating Entries	Combined
<b>Support and revenue:</b>						
Diocesan services appeal	\$ 9,180,867	\$ -	\$ -	\$ -	\$ -	\$ 9,180,867
Contributions and bequests	1,107,930	-	-	-	-	1,107,930
Cemetery care deposits	233,701	-	-	-	-	233,701
Program revenue	1,825,315	-	-	-	(663,594)	1,161,721
Self-insurance program revenue	-	-	5,627,853	-	(268,205)	5,359,648
Net investment return	1,632,700	-	-	(137,387)	-	1,495,313
Interest and dividend income	753,281	-	274,667	90,724	-	1,118,672
Special events, net of direct expenses	258,395	-	-	-	-	258,395
Rental income	204,000	-	-	-	-	204,000
Other income (expense), net	22,892	20,253	7,929	-	-	51,074
Total support and revenue	<u>15,219,081</u>	<u>20,253</u>	<u>5,910,449</u>	<u>(46,663)</u>	<u>(931,799)</u>	<u>20,171,321</u>
<b>Expenses:</b>						
<b>Program services:</b>						
Pastoral	1,282,508	-	-	-	(11,794)	1,270,714
Religious personnel development	1,291,220	-	-	-	(18,755)	1,272,465
Education and faith programs	3,390,841	-	-	-	(9,982)	3,380,859
Missions support	1,210,144	-	-	-	(135,627)	1,074,517
Self-insurance program	-	-	4,826,495	-	(663,594)	4,162,901
Social service programs	3,385,190	-	-	-	(13,504)	3,371,686
Total program services	<u>10,559,903</u>	<u>-</u>	<u>4,826,495</u>	<u>-</u>	<u>(853,256)</u>	<u>14,533,142</u>
<b>Supporting services:</b>						
Diocesan administration	3,388,688	-	-	-	(24,319)	3,364,369
Plant, facility, and construction management	250,844	890,125	-	-	(54,224)	1,086,745
<b>Total expenses</b>	<u>14,199,435</u>	<u>890,125</u>	<u>4,826,495</u>	<u>-</u>	<u>(931,799)</u>	<u>18,984,256</u>
Increase (decrease) in net assets before non-operating activities	1,019,646	(869,872)	1,083,954	(46,663)	-	1,187,065
Change in guarantee of indebtedness reserve	(122,569)	-	-	-	-	(122,569)
Contribution for Skaff Senior Housing Fund	-	-	-	565,121	-	565,121
Change in post-employment benefit obligation	19,495	-	-	-	-	19,495
Contribution to Lay Pension Plan	(500,000)	-	-	-	-	(500,000)
Increase (decrease) in net assets	416,572	(869,872)	1,083,954	518,458	-	1,149,112
Net assets, beginning 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>
Net assets, end of year	<u>\$ 54,158,910</u>	<u>\$ 19,782,792</u>	<u>\$ 14,212,597</u>	<u>\$ 19,279,611</u>	<u>\$ -</u>	<u>\$ 107,433,910</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
<b>Support and revenue:</b>						
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	211,939	-	-	-	-	211,939
Rental income	204,000	-	-	-	-	204,000
Other income (expense), net	1,160	6,000	(4,089)	-	-	3,071
<b>Total support and revenue</b>	<b>17,745,299</b>	<b>6,000</b>	<b>5,628,119</b>	<b>417,113</b>	<b>(915,492)</b>	<b>22,881,039</b>
<b>Expenses:</b>						
<b>Program services:</b>						
Bishop and pastoral leadership	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	3,355,975	-	-	-	(13,231)	3,342,744
<b>Total program services</b>	<b>11,126,692</b>	<b>-</b>	<b>5,320,325</b>	<b>-</b>	<b>(836,786)</b>	<b>15,610,231</b>
<b>Supporting services:</b>						
Diocesan administration	3,488,691	-	-	572	(26,316)	3,462,947
Plant, facility, and construction management	214,122	923,674	-	-	(52,390)	1,085,406
<b>Total expenses</b>	<b>14,829,505</b>	<b>923,674</b>	<b>5,320,325</b>	<b>572</b>	<b>(915,492)</b>	<b>20,158,584</b>
<b>Increase (decrease) in net assets before non-operating activities</b>	<b>2,915,794</b>	<b>(917,674)</b>	<b>307,794</b>	<b>416,541</b>	<b>-</b>	<b>2,722,455</b>
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)
Contributions to Lay Pension Plan	(500,000)	-	-	-	-	(500,000)
<b>Increase in net assets</b>	<b>2,276,043</b>	<b>2,885,186</b>	<b>307,794</b>	<b>16,739,768</b>	<b>-</b>	<b>22,208,791</b>
<b>Net assets, beginning of year</b>	<b>51,466,295</b>	<b>17,767,478</b>	<b>12,820,849</b>	<b>2,021,385</b>	<b>-</b>	<b>84,076,007</b>
<b>Net assets, end of year</b>	<b>\$ 53,742,338</b>	<b>\$ 20,652,664</b>	<b>\$ 13,128,643</b>	<b>\$ 18,761,153</b>	<b>\$ -</b>	<b>\$ 106,284,798</b>