

CATHOLIC DIOCESE OF WILMINGTON, INC.

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

JUNE 30, 2019 AND 2018

CATHOLIC DIOCESE OF WILMINGTON, INC.
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Independent Auditors' Report

To the Board of Trustees
Catholic Diocese of Wilmington, Inc.

We have audited the accompanying financial statements of Catholic Diocese of Wilmington, Inc. (a nonprofit organization), which comprise the statements of assets, liabilities, and net assets - modified cash basis as of June 30, 2019 and 2018, and the related statements of support, revenue, and expenses - modified cash basis and cash flows - modified cash basis for the years then ended, the statement of functional expenses - modified cash basis for the year ended June 30, 2019, 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 the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 audits 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.

To the Board of Trustees
Catholic Diocese of Wilmington, Inc.

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 assets, liabilities, and net assets of Catholic Diocese of Wilmington, Inc. as of June 30, 2019 and 2018, and its support, revenue, and expenses, and cash flows for the years then ended in accordance with the modified cash basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Note 1 of the financial statements discloses the significant differences between the modified cash basis of accounting implemented by Catholic Diocese of Wilmington, Inc. and accounting principles generally accepted in the United States of America. Included among the differences is that the organization does not establish accruals under Financial Accounting Standards Board Accounting Standards Codification (ASC) 715, *Defined Benefit Plans - Pension*, for employee pension liabilities. Our opinion is not modified with respect to this matter.

Belfint, Lyons & Shuman, P.A.

January 21, 2020
Wilmington, Delaware

CATHOLIC DIOCESE OF WILMINGTON, INC.
STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2019

	<u>Net Assets Without Donor Restrictions</u>			Net Assets With Donor Restrictions	<u>Total</u>
	<u>General</u>	<u>Designated</u>	<u>Total</u>	<u>Total</u>	
ASSETS					
Cash and Cash Equivalents	\$ 2,803,804	\$ 187,800	\$ 2,991,604	\$ -	\$ 2,991,604
Pooled Investments	5,292,740	11,452,827	16,745,567	12,444,956	29,190,523
Other Investments	-	193,695	193,695	-	193,695
Other Assets	-	-	-	58,009	58,009
Pledges Receivable (Net)	49,919	-	49,919	-	49,919
Accounts Receivable (Net)	3,505,677	4,314,409	7,820,086	-	7,820,086
Notes Receivable	60,297	-	60,297	-	60,297
Real Estate	770,340	-	770,340	-	770,340
Assets Held for Affiliates	-	-	-	29,555,284	29,555,284
TOTAL ASSETS	<u>\$ 12,482,777</u>	<u>\$ 16,148,731</u>	<u>\$ 28,631,508</u>	<u>\$ 42,058,249</u>	<u>\$ 70,689,757</u>
LIABILITIES					
Bank Note Payable	\$ 6,108,490	\$ -	\$ 6,108,490	\$ -	\$ 6,108,490
Other Liabilities	1,441,912	722,550	2,164,462	-	2,164,462
Assets Owed to Affiliates	-	-	-	29,555,284	29,555,284
Fair Value of Interest Rate Swap	10,415	-	10,415	-	10,415
TOTAL LIABILITIES	<u>7,560,817</u>	<u>722,550</u>	<u>8,283,367</u>	<u>29,555,284</u>	<u>37,838,651</u>
NET ASSETS					
Net Assets Without Donor Restrictions	4,921,960	15,426,181	20,348,141	-	20,348,141
Net Assets With Donor Restrictions	-	-	-	12,502,965	12,502,965
TOTAL NET ASSETS	<u>4,921,960</u>	<u>15,426,181</u>	<u>20,348,141</u>	<u>12,502,965</u>	<u>32,851,106</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 12,482,777</u>	<u>\$ 16,148,731</u>	<u>\$ 28,631,508</u>	<u>\$ 42,058,249</u>	<u>\$ 70,689,757</u>

The accompanying notes are an integral part of these financial statements.

CATHOLIC DIOCESE OF WILMINGTON, INC.
STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2018

	Net Assets Without Donor Restrictions			Net Assets With Donor Restrictions	Total
	General	Designated	Total		
ASSETS					
Cash and Cash Equivalents	\$ 2,072,738	\$ 585,381	\$ 2,658,119	\$ -	\$ 2,658,119
Pooled Investments	6,664,218	11,560,964	18,225,182	12,636,826	30,862,008
Other Investments	-	1,297,215	1,297,215	-	1,297,215
Other Assets	5,000	-	5,000	58,009	63,009
Pledges Receivable (Net)	178,428	-	178,428	-	178,428
Accounts Receivable (Net)	2,642,913	3,190,993	5,833,906	-	5,833,906
Notes Receivable	60,237	-	60,237	-	60,237
Real Estate	770,340	-	770,340	-	770,340
Fair Value of Interest Rate Swap	93,232	-	93,232	-	93,232
Assets Held for Affiliates	-	-	-	31,310,705	31,310,705
TOTAL ASSETS	<u>\$ 12,487,106</u>	<u>\$ 16,634,553</u>	<u>\$ 29,121,659</u>	<u>\$ 44,005,540</u>	<u>\$ 73,127,199</u>
LIABILITIES					
Bank Note Payable	\$ 7,055,827	\$ -	\$ 7,055,827	\$ -	\$ 7,055,827
Other Liabilities	749,420	886,979	1,636,399	-	1,636,399
Assets Owed to Affiliates	-	-	-	31,310,705	31,310,705
TOTAL LIABILITIES	<u>7,805,247</u>	<u>886,979</u>	<u>8,692,226</u>	<u>31,310,705</u>	<u>40,002,931</u>
NET ASSETS					
Net Assets Without Donor Restrictions	4,681,859	15,747,574	20,429,433	-	20,429,433
Net Assets With Donor Restrictions	-	-	-	12,694,835	12,694,835
TOTAL NET ASSETS	<u>4,681,859</u>	<u>15,747,574</u>	<u>20,429,433</u>	<u>12,694,835</u>	<u>33,124,268</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 12,487,106</u>	<u>\$ 16,634,553</u>	<u>\$ 29,121,659</u>	<u>\$ 44,005,540</u>	<u>\$ 73,127,199</u>

The accompanying notes are an integral part of these financial statements.

CATHOLIC DIOCESE OF WILMINGTON, INC.
STATEMENT OF SUPPORT, REVENUE, AND EXPENSES - MODIFIED CASH BASIS
YEAR ENDED JUNE 30, 2019

	<u>Net Assets Without Donor Restrictions</u>			<u>Net Assets With Donor Restrictions</u>	
	<u>General</u>	<u>Designated</u>	<u>Total</u>	<u>Restrictions</u>	<u>Total</u>
REVENUE AND OTHER SUPPORT					
Assessments	\$ 4,480,150	\$ -	\$ 4,480,150	\$ -	\$ 4,480,150
Annual Appeal	4,595,243	-	4,595,243	-	4,595,243
Pooled Investment Income - Net	101,368	259,736	361,104	289,886	650,990
Other Investment Income - Net	11,404	5,624	17,028	2,841	19,869
Collections	87,637	126,130	213,767	-	213,767
Contributions	162,463	12,780	175,243	394,472	569,715
Priests' Insurance Premiums	-	1,615,168	1,615,168	-	1,615,168
Lay Employee Insurance Premiums	-	11,398,985	11,398,985	-	11,398,985
Property and Liability and Other Insurance Premiums	-	2,213,555	2,213,555	-	2,213,555
Other Program Fees	783,997	-	783,997	-	783,997
Change in Value of Interest Rate Swap	(103,647)	-	(103,647)	-	(103,647)
Net Assets Released from Restrictions	879,069	-	879,069	(879,069)	-
TOTAL REVENUE AND OTHER SUPPORT	<u>10,997,684</u>	<u>15,631,978</u>	<u>26,629,662</u>	<u>(191,870)</u>	<u>26,437,792</u>
EXPENSES					
Assistance to Catholic Charities	755,388	-	755,388	-	755,388
Catholic Education	1,389,811	-	1,389,811	-	1,389,811
Communication	151,850	-	151,850	-	151,850
Distributions					
Education Fund	-	678,232	678,232	-	678,232
Other Funds	-	836,770	836,770	-	836,770
Clergy Pension	-	1,198,660	1,198,660	-	1,198,660
Assistance to Diocesan Agencies	590,767	-	590,767	-	590,767
Program Expenses for Restricted Purposes	61,807	-	61,807	-	61,807
Pastoral Services	399,470	-	399,470	-	399,470

The accompanying notes are an integral part of these financial statements.

CATHOLIC DIOCESE OF WILMINGTON, INC.
STATEMENT OF SUPPORT, REVENUE, AND EXPENSES - MODIFIED CASH BASIS - CONTINUED
YEAR ENDED JUNE 30, 2019

	<u>Net Assets Without Donor Restrictions</u>			<u>Net Assets With Donor Restrictions</u>	<u>Total</u>
	<u>General</u>	<u>Designated</u>	<u>Total</u>		
EXPENSES - CONTINUED					
Administration (Including Bad Debts)	\$ 1,999,381	\$ 315,124	\$ 2,314,505	\$ -	\$ 2,314,505
Capital Expenditures	137,598	-	137,598	-	137,598
Development	651,924	-	651,924	-	651,924
Finance	1,176,707	-	1,176,707	-	1,176,707
Priests' Insurance Expense	-	2,115,778	2,115,778	-	2,115,778
Lay Employee Insurance Expense	-	9,801,854	9,801,854	-	9,801,854
Lay Employee Benefits	2,448,186	-	2,448,186	-	2,448,186
Property and Liability and Other Insurance Expense	41,481	1,960,166	2,001,647	-	2,001,647
TOTAL EXPENSES	<u>9,804,370</u>	<u>16,906,584</u>	<u>26,710,954</u>	<u>-</u>	<u>26,710,954</u>
CHANGE IN NET ASSETS BEFORE TRANSFERS	1,193,314	(1,274,606)	(81,292)	(191,870)	(273,162)
Interfund Transfers	(953,213)	953,213	-	-	-
CHANGE IN NET ASSETS	240,101	(321,393)	(81,292)	(191,870)	(273,162)
NET ASSETS - Beginning of Year	<u>4,681,859</u>	<u>15,747,574</u>	<u>20,429,433</u>	<u>12,694,835</u>	<u>33,124,268</u>
NET ASSETS - End of Year	<u>\$ 4,921,960</u>	<u>\$ 15,426,181</u>	<u>\$ 20,348,141</u>	<u>\$ 12,502,965</u>	<u>\$ 32,851,106</u>

The accompanying notes are an integral part of these financial statements.

CATHOLIC DIOCESE OF WILMINGTON, INC.
STATEMENT OF SUPPORT, REVENUE, AND EXPENSES - MODIFIED CASH BASIS
YEAR ENDED JUNE 30, 2018

	<u>Net Assets Without Donor Restrictions</u>			<u>Net Assets With Donor Restrictions</u>	
	<u>General</u>	<u>Designated</u>	<u>Total</u>	<u>Restrictions</u>	<u>Total</u>
REVENUE AND OTHER SUPPORT					
Assessments	\$ 4,434,849	\$ -	\$ 4,434,849	\$ -	\$ 4,434,849
Annual Appeal	4,833,662	-	4,833,662	-	4,833,662
Pooled Investment Income - Net	390,443	751,909	1,142,352	888,669	2,031,021
Other Investment Income - Net	4,266	165,233	169,499	1,421	170,920
Collections	143,152	113,144	256,296	-	256,296
Contributions	619,825	18,496	638,321	229,522	867,843
Priests' Insurance Premiums	-	1,552,196	1,552,196	-	1,552,196
Lay Employee Insurance Premiums	-	11,025,083	11,025,083	-	11,025,083
Property and Liability and Other Insurance Premiums	-	2,354,029	2,354,029	-	2,354,029
Other Program Fees	456,192	-	456,192	-	456,192
Change in Value of Interest Rate Swap	104,991	-	104,991	-	104,991
Net Assets Released from Restrictions	3,001,213	-	3,001,213	(3,001,213)	-
TOTAL REVENUE AND OTHER SUPPORT	<u>13,988,593</u>	<u>15,980,090</u>	<u>29,968,683</u>	<u>(1,881,601)</u>	<u>28,087,082</u>
EXPENSES					
Assistance to Catholic Charities	755,388	-	755,388	-	755,388
Catholic Education	943,276	-	943,276	-	943,276
Communication	115,261	-	115,261	-	115,261
Distributions					-
Education Fund	-	597,433	597,433	-	597,433
Other Funds	-	743,532	743,532	-	743,532
Clergy Pension	-	988,048	988,048	-	988,048
Assistance to Diocesan Agencies	496,625	-	496,625	-	496,625
Program Expenses for Restricted Purposes	122,474	-	122,474	-	122,474
Pastoral Services	993,901	-	993,901	-	993,901

The accompanying notes are an integral part of these financial statements.

CATHOLIC DIOCESE OF WILMINGTON, INC.
STATEMENT OF SUPPORT, REVENUE, AND EXPENSES - MODIFIED CASH BASIS - CONTINUED
YEAR ENDED JUNE 30, 2018

	<u>Net Assets Without Donor Restrictions</u>			<u>Net Assets With Donor Restrictions</u>	
	<u>General</u>	<u>Designated</u>	<u>Total</u>	<u>Restrictions</u>	<u>Total</u>
EXPENSES - CONTINUED					
Administration (Including Bad Debts)	\$ 1,668,219	\$ 618,561	\$ 2,286,780	\$ -	\$ 2,286,780
Capital Expenditures	45,110	-	45,110	-	45,110
Development	629,337	-	629,337	-	629,337
Finance	1,160,940	-	1,160,940	-	1,160,940
Priests' Insurance Expense	-	2,269,723	2,269,723	-	2,269,723
Lay Employee Insurance Expense	1,124	9,785,332	9,786,456	-	9,786,456
Lay Employee Benefits	2,389,802	-	2,389,802	-	2,389,802
Property and Liability and Other Insurance Expense	48,406	1,941,776	1,990,182	-	1,990,182
TOTAL EXPENSES	<u>9,369,863</u>	<u>16,944,405</u>	<u>26,314,268</u>	<u>-</u>	<u>26,314,268</u>
CHANGE IN NET ASSETS BEFORE TRANSFERS	4,618,730	(964,315)	3,654,415	(1,881,601)	1,772,814
Interfund Transfers	<u>(1,507,867)</u>	<u>1,507,867</u>	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	3,110,863	543,552	3,654,415	(1,881,601)	1,772,814
NET ASSETS - Beginning of Year	<u>1,570,996</u>	<u>15,204,022</u>	<u>16,775,018</u>	<u>14,576,436</u>	<u>31,351,454</u>
NET ASSETS - End of Year	<u><u>\$ 4,681,859</u></u>	<u><u>\$ 15,747,574</u></u>	<u><u>\$ 20,429,433</u></u>	<u><u>\$ 12,694,835</u></u>	<u><u>\$ 33,124,268</u></u>

The accompanying notes are an integral part of these financial statements.

CATHOLIC DIOCESE OF WILMINGTON, INC.
STATEMENT OF FUNCTIONAL EXPENSES - MODIFIED CASH BASIS
YEAR ENDED JUNE 30, 2019

	<u>Program Services</u>	<u>Supporting Services</u>		<u>Total Expenses</u>
		<u>General and Administrative</u>	<u>Fundraising</u>	
Salaries	\$ 931,168	\$ 1,050,331	\$ 280,674	\$ 2,262,173
Employee Benefits	146,322	165,047	44,105	355,474
Payroll Taxes	65,279	79,047	23,305	167,631
Total Salaries and Related Expenses	1,142,769	1,294,425	348,084	2,785,278
Advertising	23,610	14,047	3,481	41,138
Assistance to Diocesan Agencies	1,346,155	-	-	1,346,155
Bad Debt Expense	806,981	-	-	806,981
Clergy Pension	1,198,660	-	-	1,198,660
Conferences and Meetings	68,004	114,486	2,553	185,043
Dues and Memberships	2,371	63,102	264	65,737
Education	1,344,795	172,765	-	1,517,560
Insurance Settlements Expense	252,247	-	-	252,247
Interest Expense	286,410	3,799	2,046	292,255
Lay Employee Insurance Expense	9,605,817	127,424	68,613	9,801,854
Lay Employee Long-Term Disability	114,092	1,513	815	116,420
Lay Employee Pension	2,285,131	30,313	16,322	2,331,766
Occupancy	77,799	88,570	13,503	179,872
Other Expenses	368,841	45,371	599	414,811
Payroll Processing and Bank Fees	-	40,776	38,828	79,604
Postage and Printing	14,197	31,821	52,820	98,838
Priest Insurance Expense	2,115,778	-	-	2,115,778
Professional Fees	145,134	188,910	314,615	648,659
Property and Liability and Other Insurance	2,001,647	-	-	2,001,647
Repairs and Maintenance	7,608	274,571	1,698	283,877
Supplies	46,172	20,170	3,698	70,040
Technology	13,745	27,010	-	40,755
Travel	22,543	12,769	667	35,979
Total Expenses	<u>\$ 23,290,506</u>	<u>\$ 2,551,842</u>	<u>\$ 868,606</u>	<u>\$ 26,710,954</u>

The accompanying notes are an integral part of these financial statements.

CATHOLIC DIOCESE OF WILMINGTON, INC.
STATEMENTS OF CASH FLOWS - MODIFIED CASH BASIS
YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets	\$ (273,162)	\$ 1,772,814
Adjustments to Reconcile Changes in Net Assets to Net Cash from Operating Activities		
Net Gains on Pooled Investments	(75,516)	(1,795,641)
Net Losses (Gains) on Other Investments	27,137	(140,999)
Change in Value of Interest Rate Swap	103,647	(104,991)
Bad Debt Expense	806,981	1,347,469
Changes in Assets and Liabilities		
Accounts Receivable	(1,988,104)	(127,687)
Pledges Receivable	71,459	1,022,589
Other Assets	5,000	-
Other Liabilities	528,063	(148,995)
	<u>(794,495)</u>	<u>1,824,559</u>
NET CASH FROM OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Amounts Drawn from (Deposited to) Pooled Investments - Net	2,322,475	(546,886)
Amounts Drawn from Other Investments for		
Priests' Pension Payments - Net	1,089,493	1,107,988
Reinvestment of Interest and Dividends into Pooled Investments - Net of Fees	(575,474)	(235,380)
Reinvestment of Interest and Dividends into Other Investments - Net of Fees	(13,110)	(13,245)
Advances to Affiliated Corporations - Net of Repayments	(748,007)	(738,747)
Repayments (Issuance) of Notes Receivable	(60)	243,610
	<u>2,075,317</u>	<u>(182,660)</u>
NET CASH FROM INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Bank Note Payable	(947,337)	(936,245)
NET CHANGE IN CASH AND CASH EQUIVALENTS	333,485	705,654
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>2,658,119</u>	<u>1,952,465</u>
CASH AND CASH EQUIVALENTS - End of Year	<u>\$ 2,991,604</u>	<u>\$ 2,658,119</u>
SUPPLEMENTAL DISCLOSURES		
Interest Paid	<u>\$ 292,255</u>	<u>\$ 309,137</u>

The accompanying notes are an integral part of these financial statements.

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities - Catholic Diocese of Wilmington, Inc. (Diocese) is a nonprofit corporation having as its purpose the promotion of the teachings of Jesus Christ, as taught and set forth by the Roman Catholic Church throughout the Diocese in the state of Delaware and the nine (9) counties of the state of Maryland's Eastern Shore and such territory over which the Diocese will have jurisdiction as delegated by proper authority of the Universal Roman Catholic Church.

Basis of Reporting - The Diocese reports using a modified cash basis of accounting. Support and expenses are generally recognized on a cash basis; however, certain assets other than cash and certain liabilities are recognized to improve the usefulness of the financial statements to the reader. The following identifies the significant differences between the Diocese's modified cash basis of accounting and accounting principles generally accepted in the United States of America:

- The Diocese does not recognize certain pledges and grants required under accounting principles generally accepted in the United States of America (Note 8). However, pledges receivable that are recognized are reported as increases in net assets without donor restrictions or net assets with donor restrictions based upon the absence or existence of donor-imposed restrictions.
- The Diocese does not establish accruals under Financial Accounting Standards Board Accounting Standards Codification (ASC) 715, *Defined Benefit Plans - Pension*, for employee pension liabilities and priests' health and welfare liabilities.
- The Diocese has not adopted provisions of ASC 360, *Property, Plant, and Equipment*, which requires nonprofit organizations to capitalize long-lived tangible assets and recognize depreciation as a cost of using up the future economic benefits of those long-lived tangible assets. Depreciation expense is not recognized in the financial statements. Also, certain equipment is expensed at the time of purchase that should be capitalized in order to conform to accounting principles generally accepted in the United States of America.
- The Diocese has not adopted ASC 958-205-50-1A, *Reporting Endowment Funds*, which requires organizations to provide certain expanded disclosures for endowment funds.

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basis of Reporting - Continued

In addition, the accompanying financial statements reflect only the operations of the Diocese. Certain other entities have not been consolidated in the accompanying statements, the more significant of which are as follows:

Affiliated Parishes and Schools	Catholic Ministry to the Elderly, Inc.
Catholic Cemeteries, Inc.	Catholic Press of Wilmington, Inc.
Catholic Charities, Inc.	Catholic Youth Organization, Inc.
Catholic Diocese Foundation	Diocese of Wilmington Schools, Inc.

The Diocese acts as a fiduciary for these entities by investing funds in its pooled investments and cash management accounts on behalf of these entities.

Use of Estimates - The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Statement Presentation - Resources are reported for accounting purposes into separate classes of net assets based on the existence or absence of donor-imposed restrictions. A description of the two net asset classifications follows:

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions, although their use may be limited by other factors, such as by contract or board designation.

Net Assets With Donor Restrictions - Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Contributions - Noncash contributions are recorded at fair value on the date of donation. Contributions of cash and other noncapital assets are reported in net assets with donor restrictions if the contributions are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, donor-restricted net assets are reclassified to net

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Contributions - Continued - assets without donor restriction and reported in the statements of support, revenue, and expenses - modified cash basis as net assets released from restrictions. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are released from restriction when the assets are placed in service. Donor-restricted contributions that are received and expended within the same fiscal year are reported in net assets without donor restrictions.

Cash and Cash Equivalents - Cash and cash equivalents include all highly liquid investments with an original maturity of three months or less. Cash and cash equivalents do not include cash management funds held in the pooled investment account.

Pooled Investments - Pooled investments are stated at fair value based on quoted market prices. Pooled investment income on the statements of support, revenue, and expenses - modified cash basis includes interest, dividends, and realized and unrealized gains and losses, net of consulting and custodial costs.

The Diocese manages an investment pool for its investments and those of its affiliated organizations. As of June 30, 2019 and 2018, the investment pool was held in a custody account at the State Street Global Services (Investment Custodian). The pool is invested in a combination of fixed income, equity securities, and mutual funds. The Diocese also invests in a variety of alternative investment funds. Such investments are stated at net asset value, as reported by the fund, as a practical expedient for fair value. The investment pool is exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the market value of investments, it is at least reasonably possible that changes in risks in the near term could materially affect the amounts reported in the financial statements.

Other Investments - Other investments consist of investments included in the Diocesan-managed investment pool that are segregated for the Revocable Priests' Retirement and Welfare Trust.

Pledges Receivable - Except for pledges made to the Annual Catholic Appeal and annual grants made by the Catholic Diocese Foundation, Inc., which are accounted for on a cash basis, unconditional promises to give are reported at present value as pledges receivable, net of an allowance for doubtful accounts, and contributions in the period the promise is received. The Diocese capital campaign pledges are reported at present value as pledges receivable. All pledges are due within one year.

Accounts Receivable - Accounts receivable are stated at estimated net realizable value and consist of receivables for assessments, lay employee insurance premiums, priests' insurance premiums, payroll-related expenses disbursed on behalf of affiliated corporations, and amounts loaned to affiliated corporations. Accounts receivable are considered past due when they become greater than thirty days old. An allowance for doubtful accounts is established at the

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accounts Receivable - Continued - discretion of management based on an analysis of a receivable's collectibility. The total allowance for doubtful accounts receivable as of June 30, 2019 and 2018 was \$8,802,755 and \$8,052,825, respectively.

Other Assets - As of June 30, 2019 and 2018, other assets consisted primarily of the cash surrender value of life insurance.

Real Estate and Equipment - Real estate consists of buildings and the related land. All real estate acquisitions are capitalized at cost, when purchased, or at fair value at date of gift, when donated. Equipment is expensed at the time of purchase. When real estate is sold or otherwise disposed of, the asset is removed from the statements of assets, liabilities, and net assets - modified cash basis and a corresponding gain or loss is recognized, if needed, in the statements of support, revenue, and expenses - modified cash basis.

Assets Held for/Owed to Affiliates - These assets are owned by affiliated corporations and invested for the affiliates by the Diocese in the pooled investments.

Other Revenue - Other revenue on the statements of support, revenue, and expenses - modified cash basis for the years ended June 30, 2019 and 2018 consists primarily of miscellaneous fee income.

Fair Value - Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value hierarchy for inputs is used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Diocese has the ability to access. Since valuations are based on quoted market prices that are readily and regularly available in an active market, it does not entail a significant degree of judgment.

Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Income Taxes - The Diocese is a nonprofit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and therefore has made no provision for federal income taxes in the accompanying financial statements. In addition, the Diocese qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been determined by the Internal Revenue Service not to be a “private foundation” within the meaning of Section 509(a)(2) of the IRC.

Income not related to the Diocese’s tax-exempt purpose may be subject to taxation as unrelated business income. The Diocese has determined that no liability for uncertain tax positions is required to be accrued and included in the statements of assets, liabilities, and net assets - modified cash basis as of June 30, 2019 and 2018.

The Diocese believes it is no longer subject to examination by tax authorities for years prior to fiscal year ended June 30, 2016.

Subsequent Events - The Diocese’s policy is to evaluate events and transactions subsequent to its year end for potential recognition in the financial statements or disclosure in the notes to the financial statements. Management has evaluated events and transactions through the date of the independent auditors’ report, which is the date the financial statements were available to be issued.

Functional Classification of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses for the year ended June 30, 2019. Accordingly, certain costs were allocated among the programs and supporting services benefited. Such allocations are determined by management on a reasonable basis that is consistently applied. Costs are assigned to departments based upon the nature of the program or supporting services performed by that department. Certain costs are allocated across departments based on time and effort.

The costs of providing various programs and other activities have not been summarized on a functional basis in the statement of activities or in a statement of functional expenses for the year ended June 30, 2018. Expenses by function were as follows for the year ended June 30, 2018:

Program Services	\$ 22,192,101
Supporting Services	
Management and General	3,492,830
Fundraising	<u>629,337</u>
Total Expenses	<u><u>\$ 26,314,268</u></u>

During the year ended June 30, 2018, priests’ insurance expense, lay employee insurance expense, lay employee benefits, and property and liability and other insurance expense were classified as supporting services expense in

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Functional Classification of Expenses - Continued - the statement of support, revenue, and expenses - modified cash basis. During the year ended June 30, 2019, management determined that these expenses relate to components of the Diocesan programs and, therefore, these amounts were reclassified to program services expense in the chart above.

Change in Accounting Principle - The Financial Accounting Standards Board has updated its requirements for presentation of financial statements of not-for-profit entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Diocese has implemented this new industry guidance and has adjusted the presentation in these financial statements accordingly. The changes have been applied retrospectively to all periods presented.

A key change is the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets, if applicable, are now reported as net assets with donor restrictions. A summary of the net asset classifications resulting from the adoption of this new industry guidance is presented in Note 18.

NOTE 2: PLAN OF REORGANIZATION

On July 28, 2011, the United States Bankruptcy Court for the District of Delaware executed an order confirming the *Second Amended Chapter 11 Plan of Reorganization of Catholic Diocese of Wilmington, Inc.* (Plan). The Plan provided for several settlement mechanisms and the continued corporate existence of the Diocese as a Reorganized Debtor.

The Plan also outlined the settlement of pension plan claims from the Lay Pension Plan. The Diocese transferred a Lay Pension Fund to an irrevocable trust maintained by the Investment Custodian (Lay Pension Plan Trust).

A principal term of this settlement agreement required the Diocese to provide the Lay Pension Trust a fully secured, unsubordinated promissory note in the amount of \$15,000,000. An entity related to the Diocese agreed to pledge as collateral unencumbered real property on behalf of the Diocese. The details of the Diocese's obligation to fund the Lay Pension Plan are more fully disclosed in Note 13.

On September 2, 2014, the United States Bankruptcy Court for the District of Delaware entered the final decree closing the Diocese's Chapter 11 case.

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019

NOTE 3: AVAILABILITY AND LIQUIDITY

The following reflects the Diocese's financial assets as of the date of the statement of assets, liabilities, and net assets - modified cash basis, reduced by amounts not available for general use because of contractual, board-designated, or donor-imposed restrictions within one year of the statement of assets, liabilities, and net assets - modified cash basis date:

Financial Assets as of June 30, 2019	
Cash and Cash Equivalents	\$ 2,991,604
Pooled Investments	29,190,523
Other Investments	193,695
Other Assets - Cash Value of Life Insurance Policy	58,009
Pledges Receivable (Net)	49,919
Accounts Receivable (Net)	7,820,086
Notes Receivable	60,297
Assets Held for Affiliates	<u>29,555,284</u>
 Total Financial Assets as of June 30, 2019	 69,919,417
 Less: Amounts Not Available to be Used Within a Year	
Donor-Restricted Investment Funds	(12,444,956)
Board-Designated Investment Funds	(11,646,522)
Other Net Assets, Board-Designated for Specific Purposes	(3,779,659)
Other Assets - Cash Value of Life Insurance Policy	(58,009)
Noncurrent Portion of Accounts Receivable	(3,868,741)
Noncurrent Portion of Notes Receivable	(60,297)
Assets Held for Affiliates	<u>(29,555,284)</u>
 Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	 <u><u>\$ 8,505,949</u></u>

The Diocese's short-term liquidity plan is to maintain readily available resources, including operating cash, to cover expenses as they are incurred.

Per the Diocese's investment policies, donor-restricted and board-designated investment funds are generally not available for operations. Therefore, those investment fund amounts have been reflected as unavailable for general expenditures within one year in the chart above. Although investment funds without donor restrictions or board designations are shown as available in the chart above, the Diocese does not intend to spend these funds unless there is an immediate liquidity need.

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019

NOTE 4: NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following as of June 30, 2019:

	<u>2019</u>	<u>2018</u>
Subject to Purpose Restriction		
Donor-Restricted Investment Funds		
Original Gift Values to be Held in Perpetuity	\$ 1,391,209	\$ 1,391,209
Amount Above Original Gift Values which is Expendable to Support		
Tuition Assistance and Education	7,488,817	7,674,555
Scholarship Assistance to Various Schools	220,200	212,847
Seminary	1,274,415	1,231,405
Mass Stipends	192,348	186,087
Capital Renovations/Maintenance - St. Peter's Cathedral	149,408	145,746
Missions	166,670	162,589
Newman Center - University of Delaware	872,902	948,988
Music Program - Church of the Holy Child	89,339	87,111
Education Fund - Capital Improvements	447,106	435,942
Other Restrictions	152,542	160,347
Total Subject to Purpose Restriction	<u>12,444,956</u>	<u>12,636,826</u>
Subject to Time Restriction		
Cash Surrender Value of Life Insurance Policy	<u>58,009</u>	<u>58,009</u>
Total Net Assets With Donor Restrictions	<u><u>\$ 12,502,965</u></u>	<u><u>\$ 12,694,835</u></u>

NOTE 5: NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions consisted of the following as of June 30, 2019:

	<u>2019</u>	<u>2018</u>
Undesignated	\$ 4,921,960	\$ 4,681,859
Board-Designated Investment Funds		
Diocesan Reserve Fund	6,762,532	6,589,953
Priest Health and Welfare Fund	193,695	1,297,215
Property and Liability Insurance Fund	181,591	798,526
Lay and Clergy Healthcare Fund	2,809,098	2,516,630
Seminary Fund	1,531,883	1,492,005
Kaiser Fund	159,263	155,454
Other Designations	8,460	8,396
	<u>11,646,522</u>	<u>12,858,179</u>
Board-Designated for Specific Purposes		
Lay and Clergy Healthcare	<u>3,779,659</u>	<u>2,889,395</u>
Total Net Assets Without Donor Restrictions	<u><u>\$ 20,348,141</u></u>	<u><u>\$ 20,429,433</u></u>

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019

NOTE 6: POOLED INVESTMENTS

The composition of pooled investments as of June 30, 2019 and 2018 was as follows:

	<u>2019</u>	<u>2018</u>
Cash and Cash Equivalents	\$ 251,947	\$ 544,301
Fixed Income	6,018,991	5,964,208
Domestic Equity	11,523,565	11,561,565
International Equity	<u>11,396,020</u>	<u>12,791,934</u>
Total Pooled Investments	<u>\$ 29,190,523</u>	<u>\$ 30,862,008</u>

Pooled investment income for the years ended June 30, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Interest and Dividends	\$ 814,487	\$ 415,041
Custodial and Advisory Fees	(239,013)	(179,661)
Net Gains	<u>75,516</u>	<u>1,795,641</u>
Total Pooled Investment Income	<u>\$ 650,990</u>	<u>\$ 2,031,021</u>

NOTE 7: OTHER INVESTMENTS

The composition of other investments - Revocable Priests' Retirement and Welfare Trust as of June 30, 2019 and 2018 was as follows:

	<u>2019</u>	<u>2018</u>
Cash and Cash Equivalents	\$ 4,632	\$ 7,992
Fixed Income	39,323	253,621
Domestic Equity	75,286	491,641
International Equity	<u>74,454</u>	<u>543,961</u>
Total Other Investments	<u>\$ 193,695</u>	<u>\$ 1,297,215</u>

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019

NOTE 7: OTHER INVESTMENTS - CONTINUED

Other investment income - Revocable Priests' Retirement and Welfare Trust for the years ended June 30, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Interest and Dividends	\$ 21,780	\$ 26,075
Custodial and Advisory Fees	(8,670)	(12,830)
Net Gains (Losses)	<u>(27,137)</u>	<u>140,999</u>
Other Investment Income (Loss)	<u>\$ (14,027)</u>	<u>\$ 154,244</u>

In addition to investment income from the Revocable Priests' Retirement and Welfare Trust, other investment income on the statements of support, revenue, and expenses - modified cash basis includes trust income, interest on notes receivable, and increases in the cash surrender value of life insurance policies.

NOTE 8: PLEDGES RECEIVABLE

As of June 30, 2018, pledges receivable included a pledge from Children's Home, Inc., a related party, for the Diocese to receive the proceeds from the sale of real estate owned by Children's Home, Inc. On October 10, 2013, the property was sold for \$700,000, which included \$547,512 in cash proceeds (\$600,000 less \$52,488 in fees) plus an interest-free note of \$100,000 to be paid in October 2018. As a result of the sale and outstanding note receivable, the pledge receivable in the amount of \$100,000 was included in the statements of assets, liabilities, and net assets - modified cash basis as of June 30, 2018. The pledge receivable was paid in full during the year ended June 30, 2019.

Pledges receivable include pledges received in connection with various gift campaigns. During the year ended June 30, 2013, the Diocese initiated its Sustaining Hope for the Future capital campaign. Pledges received as part of this campaign are shared by the Diocese and individual parishes, based on a predetermined formula. Pledges receivable in the statements of assets, liabilities, and net assets - modified cash basis are reported net of the amounts allocated to the individual parishes.

Capital campaign pledges are receivable over a period of up to five years. Pledges expected to be collected in greater than one year are discounted using the Internal Revenue Service applicable federal rate. The discount calculated as of June 30, 2018 was immaterial and, therefore, was not reflected in the financial statements. The allowance for uncollectible pledges is a percentage of the non-related-party receivable balance. The percentage is an estimate. Write-offs of the pledges receivable are made at the discretion of management.

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019

NOTE 8: PLEDGES RECEIVABLE - CONTINUED

The following pledges receivable were outstanding as of June 30:

	<u>2019</u>	<u>2018</u>
Campaign Pledges Receivable		
Receivable Within One Year	\$ 41,408	\$ 177,362
Receivable in One to Five Years	<u>-</u>	<u>39,342</u>
Gross Campaign Pledges Receivable	41,408	216,704
Parish Shortfall and Pledges to Parishes		
Receivable Within One Year	46,765	46,765
Allowance for Uncollectible Pledges	<u>(2,070)</u>	<u>(10,833)</u>
	86,103	252,636
Less: Portion Attributable to Parishes	<u>(36,184)</u>	<u>(174,208)</u>
Campaign Pledges Receivable (Net)	49,919	78,428
Pledged Proceeds from Real Estate Transaction	<u>-</u>	<u>100,000</u>
Pledges Receivable (Net)	<u>\$ 49,919</u>	<u>\$ 178,428</u>

NOTE 9: NOTES RECEIVABLE

Notes receivable were as follows as of June 30:

	<u>2019</u>	<u>2018</u>
<i>Diocese of Wilmington Schools, Inc.</i> - Issued without Terms	<u>\$ 60,297</u>	<u>\$ 60,237</u>

NOTE 10: BANK NOTE PAYABLE

As set forth in the Plan of Reorganization, the Diocese entered into a loan agreement with RBS Citizens in December 2011 to borrow \$10,000,000 to fund a required pension plan contribution and obligations incurred resulting from legal fees. Under the original terms of the loan agreement, the note bore interest at LIBOR plus 2.50%. The note required payments of interest only through June 2012. Beginning in July 2012, the note required monthly payments of principal and interest calculated based on a 20-year amortization period. The note's original maturity was July 2015.

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019

NOTE 10: BANK NOTE PAYABLE - CONTINUED

During the year ended June 30, 2015, the original terms of the loan agreement were amended to change the interest rate to LIBOR plus 2.25%. The effective rate of the note payable as of June 30, 2019 and 2018 was 4.69% and 4.23%, respectively. During the year ended June 30, 2016, the terms of the loan agreement were further amended to extend the maturity date through October 1, 2021. The outstanding balance due on the note payable as of June 30, 2019 and 2018 was \$6,108,490 and \$7,055,827, respectively. An entity related to the Diocese agreed to pledge as collateral of the note payable unencumbered real property on behalf of the Diocese.

The following are the estimated principal maturities of the note payable for each of the following years ending June 30, based on the amended maturity date:

2020	\$ 457,450
2021	457,450
2022	<u>5,193,590</u>
	<u>\$ 6,108,490</u>

In accordance with the note payable, the Diocese is required to comply with the following financial covenants:

Fixed Charge Coverage Ratio - The Diocese is to maintain a fixed charge coverage ratio of 1.15 to 1.00, determined quarterly on a rolling four-quarter basis. The ratio is calculated by the sum of (i) change in net assets without donor restrictions plus (ii) interest expense plus (iii) fund distributions accounted for as an expense plus (iv) nonrecurring bankruptcy-related costs plus/minus (v) net investment depreciation/appreciation divided by the sum of (i) current payments on long-term debt plus (ii) interest expense.

Cash on Hand - The loan agreement requires the Diocese to maintain cash on hand, the sum of cash without donor restrictions plus investments without donor restrictions multiplied by 365 and divided by total operating expenses, of at least 90 days.

During the year ended June 30, 2016, in order to hedge interest rate risk, the Diocese entered into an interest rate swap agreement for a notional amount of \$4,361,780. Under this agreement, the Diocese pays a fixed rate of 4.06% on the outstanding notional amount on a monthly basis and receives, on a monthly basis, LIBOR plus 2.25%. The swap agreement commenced on September 3, 2015 and expires on October 1, 2021. The estimated value of the interest rate swap asset (liability) as of June 30, 2019 and 2018 was \$(10,415) and \$93,232, respectively, and is included in the statements of assets, liabilities, and net assets - modified cash basis.

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019

NOTE 10: BANK NOTE PAYABLE - CONTINUED

The following is the estimated future amortization of the interest rate swap notional amount for the following years ending June 30:

2020	\$	228,725
2021		236,897
2022		<u>3,088,171</u>
	\$	<u><u>3,553,793</u></u>

NOTE 11: FAIR VALUE MEASUREMENT

Assets measured at fair value on a recurring basis consist of investments. Investments are presented in the statements of financial position - modified cash basis as follows:

	<u>2019</u>	<u>2018</u>
Pooled Investments	\$ 29,190,523	\$ 30,862,008
Other Investments	193,695	1,297,215
Assets Held for Affiliates	<u>29,555,284</u>	<u>31,310,705</u>
Total Investments	<u><u>\$ 58,939,502</u></u>	<u><u>\$ 63,469,928</u></u>

Fair values of assets and liabilities measured on a recurring basis as of June 30 were as follows:

	<u>2019</u>			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets at Fair Value				
Investments				
Cash Management Funds	\$ 729,543	\$ 729,543	\$ -	\$ -
Fixed Income	12,107,203	12,107,203	-	-
Domestic Equity	13,719,082	13,719,082	-	-
International Equity	<u>18,016,272</u>	<u>18,016,272</u>	-	-
Total Investments at Fair Value	<u>44,572,100</u>	<u>44,572,100</u>	-	-
Total Assets at Fair Value	<u><u>\$ 44,572,100</u></u>	<u><u>\$ 44,572,100</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Liabilities at Fair Value				
Interest Rate Swap	\$ 10,415	\$ -	\$ 10,415	\$ -
Assets Owed to Affiliates	<u>29,555,284</u>	-	<u>29,555,284</u>	-
Total Liabilities at Fair Value	<u><u>\$ 29,565,699</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 29,565,699</u></u>	<u><u>\$ -</u></u>
<i>Investments Measured at Net Asset Value</i>				
Alternative Investment Funds	<u><u>\$ 14,367,402</u></u>			

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019

NOTE 11: FAIR VALUE MEASUREMENT - CONTINUED

	2018			
	Fair Value	Level 1	Level 2	Level 3
Assets at Fair Value				
Investments				
Cash Management Funds	\$ 1,216,734	\$ 1,216,734	\$ -	\$ -
Fixed Income	12,246,672	12,246,672	-	-
Domestic Equity	13,754,742	13,754,742	-	-
International Equity	20,935,621	20,935,621	-	-
Total Investments at Fair Value	48,153,769	48,153,769	-	-
Interest Rate Swap	93,232	-	93,232	-
Total Assets at Fair Value	<u>\$ 48,247,001</u>	<u>\$ 48,153,769</u>	<u>\$ 93,232</u>	<u>\$ -</u>
Liabilities at Fair Value				
Assets Owed to Affiliates	<u>\$ 31,310,705</u>	<u>\$ -</u>	<u>\$ 31,310,705</u>	<u>\$ -</u>
Total Liabilities at Fair Value	<u>\$ 31,310,705</u>	<u>\$ -</u>	<u>\$ 31,310,705</u>	<u>\$ -</u>
<i>Investments Measured at Net Asset Value</i>				
Alternative Investment Funds	<u>\$ 15,316,159</u>			

The Diocese participates with other affiliated organizations in an investment pool which is held in a custody account. These investments represent pooled investments, other investments, and assets held for affiliates in the chart above. The pool is invested in a combination of money market, fixed income, equity securities, and mutual funds. The fair value of these investments was primarily determined based on quoted market prices as of June 30, 2019 and 2018.

Investments in alternative investment funds that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

The fair value of assets owed to affiliates, a liability, is based on the net asset value of the total investment pool. The fair value of these investments was primarily determined based on quoted market prices as of June 30, 2019 and 2018, which would normally be considered a level 1 input on the fair value hierarchy. However, the existence of pool allocations in determining each organization's share of the pool is considered to be a level 2 input, which results in the classification as shown above.

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019

NOTE 12: RELATED-PARTY TRANSACTIONS

Certain members of the Diocese's board are also board members of certain affiliated corporations.

The Diocese includes on its statements of assets, liabilities, and net assets - modified cash basis, assets held for/owed to affiliated corporations, which are reported as restricted assets and liabilities. These assets are owned by the affiliated corporations and are included in the financial statements of the Diocese to portray the fiduciary relationship on these assets.

During the years ended June 30, 2019 and 2018, the Diocese loaned St. Thomas More Academy \$0 and \$145,308, respectively, to help fund their operations. This non-interest-bearing loan has no stated repayment terms. The balance due to the Diocese was \$765,308 as of June 30, 2019 and 2018 and management has established a reserve for this balance as an uncollectible account. During the year ended June 30, 2019, the Diocese loaned All Saints School \$175,000 to help fund their operations. This non-interest-bearing loan has no stated repayment terms. The balance due to the Diocese was \$175,000 as of June 30, 2019 and management has established a reserve for this balance as an uncollectible account. During the year ended June 30, 2019, the Diocese loaned Most Blessed Sacrament School \$321,000 to help fund their operations. This non-interest-bearing loan has no stated repayment terms. The balance due to the Diocese was \$321,000 as of June 30, 2019. During the year ended June 30, 2019, the Diocese loaned St. Mark's High School \$200,229 to help fund their operations. This non-interest-bearing loan has no stated repayment terms. The balance due to the Diocese was \$200,229 as of June 30, 2019 and management has established a reserve for this balance as an uncollectible account.

The Diocese recognized assessment revenue from its parishes and other affiliated entities in the amounts of \$4,480,150 and \$4,434,849 for the years ended June 30, 2019 and 2018, respectively. In relation to assessments, amounts due to the Diocese from affiliated entities as of June 30, 2019 and 2018 were \$3,816,574 and \$3,280,525, respectively. Management reserved \$1,954,731 and \$1,902,468 as of June 30, 2019 and 2018, respectively, for assessment receivables from entities that management has deemed uncollectible. Write-offs of the receivables are made at the discretion of management. The receivables, net of an allowance, are reported on the statements of assets, liabilities, and net assets - modified cash basis as accounts receivable.

During the years ended June 30, 2019 and 2018, the Diocese provided funding to certain affiliated corporations. The more significant funding provided was as follows:

	<u>2019</u>	<u>2018</u>
Catholic Press of Wilmington, Inc.	\$ 245,827	\$ 87,788
Catholic Charities, Inc.	755,388	755,388
Catholic Youth Organization	-	63,897
Catholic Schools	344,940	344,940

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019

NOTE 12: RELATED-PARTY TRANSACTIONS - CONTINUED

During the years ended June 30, 2019 and 2018, the Diocese disbursed funds on behalf of certain affiliated corporations for expenses including wages, payroll taxes, health benefits, and other miscellaneous expenses. Amounts unreimbursed as of June 30, 2019 and 2018 are included in accounts receivable on the statements of assets, liabilities, and net assets - modified cash basis.

The following is a summary of the more significant amounts due from the affiliated corporations to the Diocese as a result of expenses disbursed on their behalf.

	2019	2018
Catholic Charities, Inc.	\$ 587,795	\$ 394,975
Catholic Cemeteries, Inc.	71,274	-
St. Mark's High School	189,000	100,000
St. Thomas More Academy	48,500	48,500

The Diocese pays claims and other expenses related to their self-insurance plan, which commenced on July 1, 1998. The self-insurance plan covers health insurance for lay employees. Each affiliated corporation pays the Diocese a premium for their portion of the plan's claims and expenses. The Diocese recognized approximately \$11,400,000 and \$11,025,000, respectively, in premium revenue from affiliated corporations and incurred expenses of approximately \$9,800,000 and \$9,785,000, respectively, in actual claims and administrative costs for the years ended June 30, 2019 and 2018.

As of June 30, 2019 and 2018, lay insurance receivables due from affiliated corporations totaled \$8,533,149 and \$6,924,959, respectively, and are included in accounts receivable. As of June 30, 2019 and 2018, lay insurance receivables that management has deemed uncollectible were reserved in the amount of \$4,483,612 and \$4,171,742, respectively. Write-offs of the receivables are made at the discretion of management.

The Diocese also sponsors a Health and Welfare Plan for priests, which became self-insured effective January 1, 2002. Each affiliated corporation pays the Diocese a premium for their portion of the plan's claims and expenses. The Diocese recognized approximately \$1,615,000 and \$1,550,000 respectively, in premium revenues from affiliated corporations and incurred expenses of approximately \$2,115,000 and \$2,280,000, respectively, in actual claims during the years ended June 30, 2019 and 2018. As of June 30, 2019 and 2018, clergy insurance receivables due from affiliated parishes totaled \$343,649 and \$308,639, respectively, and are included in accounts receivable. As of June 30, 2019 and 2018, clergy insurance receivables that management has deemed uncollectible were reserved in the amount of \$180,485 and \$186,540, respectively. Write-offs of the receivables are made at the discretion of management.

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019

NOTE 12: RELATED-PARTY TRANSACTIONS - CONTINUED

The Diocese provides long-term disability for all full-time employees of the Diocese, parishes, and certain affiliated corporations, at no cost to those entities since these amounts were not significant. The Diocese also provides a pension benefit for all full-time employees of the Diocese, parishes, and certain affiliated corporations (Note 13).

NOTE 13: PENSION PLANS

The Diocese sponsors a noncontributory defined benefit pension plan (Lay Pension Plan) covering certain full-time employees of the Diocese, parishes, and affiliated corporations. The Lay Pension Plan calls for benefits to be paid to eligible employees at retirement based on compensation, as defined in the plan documents. The Lay Pension Plan was underfunded when the Diocese filed a petition for relief under Chapter 11 of the Bankruptcy Code in October 2009. In connection with the settlement with the Official Committee of Lay Employees incorporated into the order confirming the plan, actuaries assisted management in preparing cash-flow projections based on plan census, plan obligations, and current plan provisions.

In addition to the provisions stated in Note 2, the Lay Pension Plan benefits froze based on accrued service earned at December 31, 2011. The unvested benefits were permitted to vest upon satisfaction of the ordinary conditions for vesting. The following funded status of the Lay Pension Plan is based on actuarial valuations as of:

	January 1	
	2019	2018
Market Value of Assets	\$ 29,716,165	\$ 35,095,090
Actuarial Liability	82,940,904	82,919,337
Funded Status Percentage	35.83%	42.32%

During the years ended June 30, 2019 and 2018, the Diocese contributed \$2,607,266 and \$2,549,701, respectively, to the Lay Pension Plan. Lay pension expense reported in the statements of support, revenue, and expenses - modified cash basis for the years ended June 30, 2019 and 2018, and in the statement of functional expenses - modified cash basis for the year ended June 30, 2019 is shown net of pension contributions collected by affiliated entities.

For fiscal years ending after June 30, 2015, the Diocese will make annual contributions to the Lay Pension Plan Trust equal to the lesser of \$2,200,000 (plus 2.5% compounded annually) or the amortized annual contribution required to achieve fully funded status on an actuarial basis by June 30, 2060.

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019

NOTE 13: PENSION PLANS - CONTINUED

The Diocese also has a Revocable Priests' Retirement and Welfare Trust to cover the health and retirement cost of the clergy of the Diocese. As of June 30, 2019 and 2018, the fund assets totaled \$193,695 and \$1,297,215, respectively. This balance is included in other investments on the statements of assets, liabilities, and net assets - modified cash basis.

Under the modified cash basis of accounting, there is no liability recognized in the financial statements related to future obligations under the plan or future obligations related to health and retirement costs of the clergy.

NOTE 14: TAX-SHELTERED ANNUITY RETIREMENT PLAN

Effective February 1, 2013, the Diocese adopted a 403(b) tax-sheltered annuity plan. Generally, employees are eligible to participate in the plan if they normally work more than 20 hours per week. Eligible employees are able to make elective deferrals beginning on their date of hire. Eligible employees may participate in employer-matching contributions upon the satisfaction of applicable service requirements. The service requirement for matching contributions is one year of service defined as at least 1,000 hours of service in a year for employees hired before July 1, 2007, or 1,300 hours of service in a year for employees hired after July 1, 2007. Employees are vested in matching contributions at a rate of 0% for less than three years of credited service or 100% for three or more years of credited service. The Diocese, at its discretion, may make a matching contribution equal to a percentage of an employee's elective deferrals. The Diocese determines whether, and at what rate, it will make matching contributions on an annual basis. For the years ended June 30, 2019 and 2018, matching contributions were \$86,196 and \$84,082, respectively.

NOTE 15: CONCENTRATION OF CREDIT RISK

The Diocese maintains cash balances at one financial institution, where balances are insured by the Federal Deposit Insurance Corporation. Uninsured cash balances as of June 30, 2019 and 2018 totaled \$2,850,799 and \$2,593,835, respectively.

NOTE 16: COMMITMENTS AND CONTINGENCIES

Unpaid Health Insurance Claims - The Diocese sponsors self-insurance plans which cover health insurance for lay and religious employees of the Diocese and affiliated entities (Note 12). A liability for unpaid claims, including incurred but not reported losses, is reflected in the statements of assets, liabilities, and net assets - modified cash basis as other liabilities in the amount of \$744,000 and \$880,559 as of June 30, 2019 and 2018, respectively.

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019

NOTE 16: COMMITMENTS AND CONTINGENCIES - CONTINUED

Litigation Claims - Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Diocese but which only will be resolved when one or more future events occur or fail to occur. The Diocese's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Diocese or unasserted claims that may result in such proceedings, the Diocese's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

As of June 30, 2019, there were four claims against the Diocese. The Diocese intends to vigorously defend these allegations. The ultimate outcome of the litigation cannot presently be determined. Accordingly, adjustments, if any, that might result from the resolution of this matter have not been reflected in the financial statements. Should the Diocese experience adverse outcomes in these cases, they may be responsible to pay any amount that exceeds insurance coverage.

Purchase Commitments - During the year ended June 30, 2018, the Diocese entered into an agreement for various training and coaching to be provided in four different Diocesan elementary schools. The total contract amounted to \$445,000. The future commitment under this contract as of June 30, 2019 was \$110,000.

During the year ended June 30, 2018, the Diocese entered into an additional agreement for education software related to various Diocesan schools. The total contract amounted to \$356,765. This agreement was paid in full during the year ended June 30, 2019.

NOTE 17: LEASES

The Diocese leases office equipment under noncancelable leases expiring at various dates through September 2023. Rent expenses related to these leases were \$8,972 and \$6,692 for the years ended June 30, 2019 and 2018, respectively.

Future minimum lease payments under noncancelable lease agreements are as follows for the years ending June 30:

2020	\$ 10,412
2021	7,026
2022	4,952
2023	<u>840</u>
	<u><u>\$ 23,230</u></u>

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019

NOTE 18: ADJUSTMENTS TO PRIOR PERIOD FINANCIAL STATEMENTS

As discussed in Note 1 to the financial statements, the Diocese adopted new industry financial statement guidance promulgated by the Financial Accounting Standards Board as of and for the year ended June 30, 2019. The requirements of this new accounting pronouncement have been applied retrospectively to all periods presented.

Additionally, during the year ended June 30, 2019, management performed an analysis of the capital campaign and determined that donor obligations associated with the campaign had been satisfied as of June 30, 2018. Therefore, the remaining amounts associated with the campaign were reclassified from the net assets with donor restrictions column to the net assets without donor restrictions - general column. These changes had no effect on previously reported change in net assets or total net assets.

The chart below identifies the effects of these reclassifications.

	As Previously Reported	Effect of ASU 2016-14 Implementation	Other Reclassification	As Restated
<u>As of June 30, 2018</u>				
Net Assets - Unrestricted - General	\$ 3,846,789	\$ (3,846,789)	\$ -	\$ -
Net Assets - Unrestricted - Designated	15,933,408	(15,933,408)	-	-
Net Assets - Temporarily Restricted	11,952,862	(11,952,862)	-	-
Net Assets - Permanently Restricted	1,391,209	(1,391,209)	-	-
Net Assets Without Donor Restrictions - General	-	3,846,789	835,070	4,681,859
Net Assets Without Donor Restrictions - Designated	-	15,933,408	(185,834)	15,747,574
Net Assets With Donor Restrictions	-	13,344,071	(649,236)	12,694,835
<u>As of June 30, 2017</u>				
Net Assets - Unrestricted - General	\$ 1,570,996	\$ (1,570,996)	\$ -	\$ -
Net Assets - Unrestricted - Designated	15,204,022	(15,204,022)	-	-
Net Assets - Temporarily Restricted	13,185,227	(13,185,227)	-	-
Net Assets - Permanently Restricted	1,391,209	(1,391,209)	-	-
Net Assets Without Donor Restrictions - General	-	1,570,996	-	1,570,996
Net Assets Without Donor Restrictions - Designated	-	15,204,022	-	15,204,022
Net Assets With Donor Restrictions	-	14,576,436	-	14,576,436