

CATHOLIC DIOCESE OF WILMINGTON, INC.

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

JUNE 30, 2021 AND 2020

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, 2021 and 2020, and the related statements of support, revenue, and expenses - modified cash basis, functional expenses - modified cash basis, and cash flows - modified cash basis for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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, 2021 and 2020, 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.

December 21, 2021
Wilmington, Delaware

CATHOLIC DIOCESE OF WILMINGTON, INC.
STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2021

	<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>
ASSETS					
Cash and Cash Equivalents	\$ 2,426,235	\$ 808,436	\$ 3,234,671	\$ 248,114	\$ 3,482,785
Pooled Investments	6,909,804	11,729,864	18,639,668	13,800,531	32,440,199
Other Investments - Priests' Retirement and Welfare Trust	-	638,129	638,129	-	638,129
Other Investments - Bishop Malooly Scholarship Fund	-	-	-	3,648,934	3,648,934
Other Assets	-	-	-	58,009	58,009
Promises to Give - Net	46,765	-	46,765	2,377,538	2,424,303
Accounts Receivable - Net	4,039,000	4,550,785	8,589,785	-	8,589,785
Real Estate	770,340	-	770,340	-	770,340
Assets Held for Affiliates	-	-	-	33,756,572	33,756,572
TOTAL ASSETS	<u>\$ 14,192,144</u>	<u>\$ 17,727,214</u>	<u>\$ 31,919,358</u>	<u>\$ 53,889,698</u>	<u>\$ 85,809,056</u>
LIABILITIES					
Bank Note Payable	\$ 5,182,126	\$ -	\$ 5,182,126	\$ -	\$ 5,182,126
Other Liabilities	827,464	684,000	1,511,464	-	1,511,464
Assets Owed to Affiliates	-	-	-	33,756,572	33,756,572
Fair Value of Interest Rate Swap	17,710	-	17,710	-	17,710
TOTAL LIABILITIES	<u>6,027,300</u>	<u>684,000</u>	<u>6,711,300</u>	<u>33,756,572</u>	<u>40,467,872</u>
NET ASSETS					
Net Assets Without Donor Restrictions	8,164,844	17,043,214	25,208,058	-	25,208,058
Net Assets With Donor Restrictions	-	-	-	20,133,126	20,133,126
TOTAL NET ASSETS	<u>8,164,844</u>	<u>17,043,214</u>	<u>25,208,058</u>	<u>20,133,126</u>	<u>45,341,184</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 14,192,144</u>	<u>\$ 17,727,214</u>	<u>\$ 31,919,358</u>	<u>\$ 53,889,698</u>	<u>\$ 85,809,056</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, 2020

	<u>Net Assets Without Donor Restrictions</u>			Net Assets	<u>Total</u>
	<u>General</u>	<u>Designated</u>	<u>Total</u>	With Donor	
				Restrictions	
ASSETS					
Cash and Cash Equivalents	\$ 1,818,442	\$ 1,725,635	\$ 3,544,077	\$ 67,378	\$ 3,611,455
Pooled Investments	5,016,855	8,964,536	13,981,391	11,392,318	25,373,709
Other Investments - Priests' Retirement and Welfare Trust	-	409,475	409,475	-	409,475
Other Investments - Bishop Malooly Scholarship Fund	-	-	-	2,436,500	2,436,500
Other Assets	-	-	-	58,009	58,009
Promises to Give - Net	18,942	-	18,942	2,829,707	2,848,649
Accounts Receivable - Net	5,033,829	6,298,401	11,332,230	-	11,332,230
Real Estate	770,340	-	770,340	-	770,340
Assets Held for Affiliates	-	-	-	27,315,462	27,315,462
TOTAL ASSETS	<u>\$ 12,658,408</u>	<u>\$ 17,398,047</u>	<u>\$ 30,056,455</u>	<u>\$ 44,099,374</u>	<u>\$ 74,155,829</u>
LIABILITIES					
Bank Note Payable	\$ 5,650,158	\$ -	\$ 5,650,158	\$ -	\$ 5,650,158
Other Liabilities	831,483	700,000	1,531,483	-	1,531,483
Assets Owed to Affiliates	-	-	-	27,315,462	27,315,462
Fair Value of Interest Rate Swap	71,695	-	71,695	-	71,695
Conditional Grant - Paycheck Protection Program	962,849	-	962,849	-	962,849
TOTAL LIABILITIES	<u>7,516,185</u>	<u>700,000</u>	<u>8,216,185</u>	<u>27,315,462</u>	<u>35,531,647</u>
NET ASSETS					
Net Assets Without Donor Restrictions	5,142,223	16,698,047	21,840,270	-	21,840,270
Net Assets With Donor Restrictions	-	-	-	16,783,912	16,783,912
TOTAL NET ASSETS	<u>5,142,223</u>	<u>16,698,047</u>	<u>21,840,270</u>	<u>16,783,912</u>	<u>38,624,182</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 12,658,408</u>	<u>\$ 17,398,047</u>	<u>\$ 30,056,455</u>	<u>\$ 44,099,374</u>	<u>\$ 74,155,829</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, 2021

	Net Assets Without Donor Restrictions			Net Assets With Donor Restrictions	
	General	Designated	Total	Restrictions	Total
REVENUE AND OTHER SUPPORT					
Assessments	\$ 4,330,433	\$ -	\$ 4,330,433	\$ -	\$ 4,330,433
Annual Appeal	5,023,695	-	5,023,695	-	5,023,695
Pooled Investment Income - Net	1,335,959	2,543,276	3,879,235	3,052,413	6,931,648
Other Investment Income - Net	-	603,046	603,046	695,950	1,298,996
Collections	12,285	77,548	89,833	-	89,833
Contributions	137,724	38,889	176,613	412,053	588,666
Government Grant - PPP Loan Forgiveness	962,849	-	962,849	-	962,849
Priests' Insurance Premiums	-	1,114,484	1,114,484	-	1,114,484
Lay Employee Insurance Premiums	-	9,687,954	9,687,954	-	9,687,954
Property and Liability and Other Insurance Premiums	-	2,640,422	2,640,422	-	2,640,422
Other Program Fees	259,136	4,100	263,236	-	263,236
Change in Value of Interest Rate Swap	53,985	-	53,985	-	53,985
Net Assets Released from Restrictions	811,202	-	811,202	(811,202)	-
TOTAL REVENUE AND OTHER SUPPORT	12,927,268	16,709,719	29,636,987	3,349,214	32,986,201
EXPENSES					
Assistance to Catholic Charities	699,996	-	699,996	-	699,996
Catholic Education	835,942	-	835,942	-	835,942
Communication	147,062	-	147,062	-	147,062
Distributions					
Education Fund	-	718,466	718,466	-	718,466
Other Funds	-	929,399	929,399	-	929,399
Clergy Pension	-	922,985	922,985	-	922,985
Assistance to Diocesan Agencies	527,204	-	527,204	-	527,204
Program Expenses for Restricted Purposes	920	-	920	-	920
Pastoral Services	158,590	-	158,590	-	158,590

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, 2021

	<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)	\$ 2,112,717	\$ 836,557	\$ 2,949,274	\$ -	\$ 2,949,274
Capital Expenditures	73,185	-	73,185	-	73,185
Development	547,754	-	547,754	-	547,754
Finance	1,079,867	-	1,079,867	-	1,079,867
Lay Employee and Priests' Insurance Expense	-	11,731,836	11,731,836	-	11,731,836
Lay Employee Benefits	2,694,348	-	2,694,348	-	2,694,348
Property and Liability and Other Insurance Expense	53,956	2,198,415	2,252,371	-	2,252,371
TOTAL EXPENSES	<u>8,931,541</u>	<u>17,337,658</u>	<u>26,269,199</u>	<u>-</u>	<u>26,269,199</u>
CHANGE IN NET ASSETS BEFORE TRANSFERS	3,995,727	(627,939)	3,367,788	3,349,214	6,717,002
Interfund Transfers	(973,106)	973,106	-	-	-
CHANGE IN NET ASSETS	3,022,621	345,167	3,367,788	3,349,214	6,717,002
NET ASSETS - Beginning of Year	<u>5,142,223</u>	<u>16,698,047</u>	<u>21,840,270</u>	<u>16,783,912</u>	<u>38,624,182</u>
NET ASSETS - End of Year	<u>\$ 8,164,844</u>	<u>\$ 17,043,214</u>	<u>\$ 25,208,058</u>	<u>\$ 20,133,126</u>	<u>\$ 45,341,184</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, 2020

	<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	\$ 4,531,651	\$ -	\$ 4,531,651	\$ -	\$ 4,531,651
Annual Appeal	4,312,384	-	4,312,384	-	4,312,384
Pooled Investment Loss - Net	(75,641)	(138,553)	(214,194)	(112,987)	(327,181)
Other Investment Income (Loss) - Net	11,627	(7,506)	4,121	(103,139)	(99,018)
Collections	76,874	-	76,874	-	76,874
Contributions	44,254	127,405	171,659	5,200,096	5,371,755
Priests' Insurance Premiums	-	1,385,544	1,385,544	-	1,385,544
Lay Employee Insurance Premiums	-	11,592,479	11,592,479	-	11,592,479
Property and Liability and Other Insurance Premiums	-	2,788,784	2,788,784	-	2,788,784
Other Program Fees	333,164	47,300	380,464	-	380,464
Change in Value of Interest Rate Swap	(61,280)	-	(61,280)	-	(61,280)
Recovery of Bad Debt Expense	452,606	425,796	878,402	-	878,402
Net Assets Released from Restrictions	703,023	-	703,023	(703,023)	-
TOTAL REVENUE AND OTHER SUPPORT	<u>10,328,662</u>	<u>16,221,249</u>	<u>26,549,911</u>	<u>4,280,947</u>	<u>30,830,858</u>
EXPENSES					
Assistance to Catholic Charities	755,388	-	755,388	-	755,388
Catholic Education	936,434	-	936,434	-	936,434
Communication	151,476	-	151,476	-	151,476
Distributions					
Education Fund	-	695,033	695,033	-	695,033
Other Funds	-	1,057,921	1,057,921	-	1,057,921
Clergy Pension	-	987,473	987,473	-	987,473
Assistance to Diocesan Agencies	582,816	-	582,816	-	582,816
Program Expenses for Restricted Purposes	2,204	-	2,204	-	2,204
Pastoral Services	252,747	-	252,747	-	252,747

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, 2020

	<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	\$ 1,568,800	\$ -	\$ 1,568,800	\$ -	\$ 1,568,800
Capital Expenditures	49,508	-	49,508	-	49,508
Development	647,330	-	647,330	-	647,330
Finance	1,116,967	-	1,116,967	-	1,116,967
Lay Employee and Priests' Insurance Expense	-	11,547,494	11,547,494	-	11,547,494
Lay Employee Benefits	2,576,522	-	2,576,522	-	2,576,522
Property and Liability and Other Insurance Expense	51,014	2,078,655	2,129,669	-	2,129,669
TOTAL EXPENSES	<u>8,691,206</u>	<u>16,366,576</u>	<u>25,057,782</u>	<u>-</u>	<u>25,057,782</u>
CHANGE IN NET ASSETS BEFORE TRANSFERS	1,637,456	(145,327)	1,492,129	4,280,947	5,773,076
Interfund Transfers	<u>(1,417,193)</u>	<u>1,417,193</u>	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	220,263	1,271,866	1,492,129	4,280,947	5,773,076
NET ASSETS - Beginning 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>
NET ASSETS - End of Year	<u>\$ 5,142,223</u>	<u>\$ 16,698,047</u>	<u>\$ 21,840,270</u>	<u>\$ 16,783,912</u>	<u>\$ 38,624,182</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, 2021

	Program Services	Supporting Services		Total Expenses
		General and Administrative	Fundraising	
Salaries	\$ 768,321	\$ 907,976	\$ 251,912	\$ 1,928,209
Employee Benefits	183,037	216,307	60,013	459,357
Payroll Taxes	59,353	70,141	19,460	148,954
Total Salaries and Related Expenses	1,010,711	1,194,424	331,385	2,536,520
Advertising	6,420	3,120	7,297	16,837
Assistance to Diocesan Agencies	1,227,200	-	-	1,227,200
Bad Debt Expense	1,535,354	-	-	1,535,354
Clergy Pension	922,985	-	-	922,985
Conferences and Meetings	19,421	101,064	26	120,511
Dues and Memberships	3,816	64,212	289	68,317
Education	1,205,291	62,238	-	1,267,529
Insurance Settlements Expense	285,456	-	-	285,456
Interest Expense	182,160	2,416	1,301	185,877
Lay Employee and Priest Insurance Expense	11,500,421	150,420	80,995	11,731,836
Lay Employee Long-Term Disability	120,778	1,602	863	123,243
Lay Employee Pension	2,519,683	33,424	17,998	2,571,105
Occupancy	23,029	100,609	493	124,131
Other Expenses	176,661	113,602	1,818	292,081
Payroll Processing and Bank Fees	-	43,302	37,808	81,110
Postage and Printing	11,266	32,128	49,542	92,936
Professional Fees	115,125	63,771	334,734	513,630
Property and Liability and Other Insurance	2,252,371	-	-	2,252,371
Repairs and Maintenance	14,245	194,306	1,009	209,560
Supplies	21,057	16,112	4,077	41,246
Technology	20,156	40,943	-	61,099
Travel	5,386	2,879	-	8,265
Total Expenses	\$ 23,178,992	\$ 2,220,572	\$ 869,635	\$ 26,269,199

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, 2020

	<u>Program Services</u>	<u>Supporting Services</u>		<u>Total Expenses</u>
		<u>General and Administrative</u>	<u>Fundraising</u>	
Salaries	\$ 881,945	\$ 1,036,881	\$ 291,708	\$ 2,210,534
Employee Benefits	137,011	161,080	45,317	343,408
Payroll Taxes	62,433	79,476	23,973	165,882
Total Salaries and Related Expenses	1,081,389	1,277,437	360,998	2,719,824
Advertising	16,362	3,174	4,210	23,746
Assistance to Diocesan Agencies	1,338,204	-	-	1,338,204
Clergy Pension	987,473	-	-	987,473
Conferences and Meetings	76,121	114,833	1,489	192,443
Dues and Memberships	4,150	68,521	1,745	74,416
Education	764,601	360,336	-	1,124,937
Insurance Settlements Expense	256,938	-	-	256,938
Interest Expense	226,870	3,010	1,621	231,501
Lay Employee and Priests' Insurance Expense	11,346,674	130,533	70,287	11,547,494
Lay Employee Long-Term Disability	125,438	1,664	896	127,998
Lay Employee Pension	2,399,553	31,831	17,140	2,448,524
Occupancy	22,036	118,725	321	141,082
Other Expenses	463,542	140,030	1,791	605,363
Payroll Processing and Bank Fees	-	39,519	37,690	77,209
Postage and Printing	12,436	31,103	55,594	99,133
Professional Fees	140,249	77,688	407,784	625,721
Property and Liability and Other Insurance	2,129,669	-	-	2,129,669
Repairs and Maintenance	37,797	136,936	1,445	176,178
Supplies	24,752	16,313	3,115	44,180
Technology	18,028	44,889	-	62,917
Travel	12,584	9,720	528	22,832
Total Expenses	\$ 21,484,866	\$ 2,606,262	\$ 966,654	\$ 25,057,782

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, 2021 AND 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets	\$ 6,717,002	\$ 5,773,076
Adjustments to Reconcile Changes in Net Assets to Net Cash from Operating Activities		
Net (Gains) Losses on Pooled Investments	(6,793,599)	509,184
Net (Gains) Losses on Other Investments	(1,223,379)	163,253
Change in Value of Interest Rate Swap	(53,985)	61,280
Bad Debt Expense (Recovery of Bad Debt Expense)	1,535,354	(878,402)
Grant Income from Forgiveness of PPP Loan	(962,849)	-
Changes in Assets and Liabilities		
Accounts Receivable	1,112,175	(2,456,859)
Promises to Give	424,346	(2,793,040)
Other Liabilities	(20,019)	(632,979)
	735,046	(254,487)
CASH FLOWS FROM INVESTING ACTIVITIES		
Amounts Drawn from (Deposited to) Pooled Investments - Net	(134,842)	1,957,750
Amounts Drawn from (Deposited to) Other Investments for		
Priests' Pension Payments - Net	354,980	1,289,901
Bishop Malooly Scholarship Fund - Net	(522,200)	(2,545,338)
Reinvestment of Interest and Dividends into Pooled Investments - Net of Fees	(138,049)	(182,003)
Reinvestment of Interest and Dividends into Other Investments - Net of Fees	(50,489)	(28,213)
Repayments from (Advances to) Affiliated Corporations - Net	94,916	(182,573)
Repayments of Notes Receivable	-	60,297
	(395,684)	369,821
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Bank Note Payable	(468,032)	(458,332)
Proceeds from Conditional Grant - Paycheck Protection Program	-	962,849
	(468,032)	504,517
NET CHANGE IN CASH AND CASH EQUIVALENTS	(128,670)	619,851
CASH AND CASH EQUIVALENTS - Beginning of Year	3,611,455	2,991,604
CASH AND CASH EQUIVALENTS - End of Year	\$ 3,482,785	\$ 3,611,455
SUPPLEMENTAL DISCLOSURES		
Interest Paid	\$ 185,877	\$ 231,501

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

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

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 promises to give and grants required under accounting principles generally accepted in the United States of America (Note 8). However, promises to give 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.
- The Diocese has not adopted ASC 958-30, *Split Interest Agreements*, which requires organizations to recognize a beneficial interest in a charitable trust as an asset at fair value and contribution revenue.

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

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.

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

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

Revenue Recognition - The Diocese recognizes revenue from exchange transactions as follows:

Assessments - Revenue from parish assessments is recognized on a quarterly basis over the calendar year. Parishes are invoiced on a quarterly basis and payment is due 30 days upon receipt of the invoice. The finance council recommends proposed assessments based on parish ordinary income; assessments are then approved by the Bishop.

Priests' and Lay Employee Insurance Premiums - The Diocese administers a self-funded insurance plan. Parishes and affiliated corporations pay the Diocese a premium for their portion of the plan's claims and expenses. Parishes are invoiced for clergy health insurance premiums on an annual basis and payment is due in four monthly installments upon receipt of the invoice. Revenue from priests' insurance premiums is recognized at a point in time when the parishes are invoiced. Affiliated corporations are invoiced for lay health insurance premiums on a monthly basis and payment is due 20 days upon receipt of the invoice. Revenue from lay employee insurance premiums is recognized on a monthly basis over the coverage period.

Property and Liability and Other Insurance Premiums - The Diocese maintains property and liability coverage for parishes and affiliated corporations on a limited self-insured basis. Parishes and affiliated corporations are billed a premium directly from Waldorf Risk Solutions (the insurance brokerage firm). Parishes remit payment directly to Waldorf Risk Solutions. Waldorf risk solutions wires money collected from the parishes and affiliated corporations to the Diocese on a regular basis throughout the fiscal year as the Diocese pays the related insurance claims. Revenue from property and liability insurance premiums is recognized on a monthly basis over the coverage period.

Other Program Fees - Other program fees consist mainly of payments from Catholic schools related to testing and evaluation fees, and fees for the use of educational software. Catholic schools are invoiced for such fees on a regular basis and payment is due 30 days upon receipt of the invoice. The Diocese recognizes revenue from program fees when payment is received.

Contributions - Except for promises to give to the Annual Catholic Appeal and annual grants made by the Catholic Diocese Foundation, Inc., which are accounted for on a cash basis, contributions are recognized when cash, securities, or other assets, or an unconditional promise to give is received. 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 assets without donor restriction and reported in the

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

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

Contributions - Continued - 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 (loss) 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, 2021 and 2020, the investment pool was held in a custody account at 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 and Glenmede Trust Company and are segregated for the Revocable Priests' Retirement and Welfare Trust and the Bishop Malooly Scholarship Fund, respectively.

Promises to Give - Except for promises to give 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 recognized as revenue in the period received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of support, revenue, and expenses - modified cash basis. The discount rate used on long-term promises to give was 1.69% as of June 30, 2021 and 2020. Long-term promises to give are also recorded net of an allowance for uncollectible accounts. The Diocese takes into

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

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

Promises to Give - Continued - consideration an analysis of specific donors, the age of past due amounts and an assessment of the donor's ability to pay. Write-offs of promises to give are made at the discretion of management. There was no allowance for uncollectible promises to give as of June 30, 2021 and 2020. Bad debt expense totaled \$0 and \$5,690 for the years ended June 30, 2021 and 2020.

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 30 days old. An allowance for doubtful accounts is established at the discretion of management based on an analysis of a receivable's collectability. The total allowance for doubtful accounts receivable as of June 30, 2021 and 2020 was \$9,431,342 and \$7,895,987, respectively. Bad debt expense (recovery of bad debts) totaled \$1,535,354 and (\$884,092) for the years ended June 30, 2021 and 2020, respectively.

Other Assets - As of June 30, 2021 and 2020, 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, or if donated, at fair value on the date of donation. 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.

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.

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

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

Fair Value - Continued

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.

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, 2021 and 2020.

The Diocese believes it is no longer subject to examination by tax authorities for years prior to fiscal year ended June 30, 2018.

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.

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

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

Functional Classification of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of functional expenses - modified cash basis. 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.

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 12.

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, 2021

NOTE 3: AVAILABILITY AND LIQUIDITY

The following reflects the Diocese's financial assets as of the date of the statements 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:

	<u>2021</u>	<u>2020</u>
Financial Assets as of June 30		
Cash and Cash Equivalents	\$ 3,482,785	\$ 3,611,455
Pooled Investments	32,440,199	25,373,709
Other Investments - Priests' Retirement and Welfare Trust	638,129	409,475
Other Investments - Bishop Malooly Scholarship Fund	3,648,934	2,436,500
Other Assets - Cash Value of Life Insurance Policy	58,009	58,009
Promises to Give - Net	2,424,303	2,848,649
Accounts Receivable - Net	8,589,785	11,332,230
Assets Held for Affiliates	<u>33,756,572</u>	<u>27,315,462</u>
 Total Financial Assets as of June 30	 85,038,716	 73,385,489
 Less: Amounts Not Available to be Used Within a Year		
Donor-Restricted Cash	(248,114)	(67,378)
Donor-Restricted Investment Funds	(17,449,465)	(13,828,818)
Board-Designated Investment Funds	(12,367,993)	(9,374,011)
Other Net Assets, Board-Designated for Specific Purposes	(4,675,221)	(7,324,036)
Other Assets - Cash Value of Life Insurance Policy	(58,009)	(58,009)
Donor-Restricted Promises to Give - Net	(2,377,538)	(2,829,707)
Noncurrent Portion of Accounts Receivable	(409,000)	(409,000)
Assets Held for Affiliates	<u>(33,756,572)</u>	<u>(27,315,462)</u>
 Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	 <u>\$ 13,696,804</u>	 <u>\$ 12,179,068</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 on the previous page. Although investment funds without donor restrictions or board designations are shown as available in the preceding chart, 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, 2021

NOTE 4: NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2021</u>	<u>2020</u>
Subject to Purpose Restriction		
Cash - Restricted for Tuition Assistance and Education	\$ 248,114	\$ 67,378
Promises to Give - Net - Restricted for Tuition Assistance and Education	2,377,538	2,829,707
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	12,336,902	9,129,511
Scholarship Assistance to Various Schools	293,352	217,086
Seminary	1,034,344	1,265,228
Mass Stipends	241,889	190,134
Capital Renovations/Maintenance - St. Peter's Cathedral	175,105	142,938
Missions	206,732	165,022
Newman Center - University of Delaware	1,124,993	791,465
Music Program - Church of the Holy Child	110,803	88,456
Education Fund - Capital Improvements	313,997	244,643
Other Restrictions	<u>220,139</u>	<u>203,126</u>
Total Subject to Purpose Restriction	20,075,117	16,725,903
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>\$ 20,133,126</u>	<u>\$ 16,783,912</u>

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 5: NET ASSETS WITHOUT DONOR RESTRICTIONS

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

	<u>2021</u>	<u>2020</u>
Undesignated	<u>\$ 8,164,844</u>	<u>\$ 5,142,223</u>
Board-Designated Investment Funds		
Diocesan Reserve Fund	8,520,023	6,629,144
Priest Health and Welfare and Seminary Fund	638,129	409,475
Property and Liability Insurance Fund	225,577	179,787
Lay and Clergy Healthcare Fund	2,773,499	1,988,478
Kaiser Fund	202,246	158,720
Other Designations	<u>8,519</u>	<u>8,407</u>
	12,367,993	9,374,011
Board-Designated for Specific Purposes		
Lay and Clergy Healthcare	<u>4,675,221</u>	<u>7,324,036</u>
Total Net Assets Without Donor Restrictions	<u>\$ 25,208,058</u>	<u>\$ 21,840,270</u>

NOTE 6: POOLED INVESTMENTS

The composition of Pooled Investments as of June 30, 2021 and 2020, was as follows:

	<u>2021</u>	<u>2020</u>
Cash and Cash Equivalents	\$ 2,607,657	\$ 666,107
Fixed Income	7,430,991	5,974,661
Domestic Equity	13,425,723	10,716,219
International Equity	<u>8,975,828</u>	<u>8,016,722</u>
Pooled Investments	<u>\$ 32,440,199</u>	<u>\$ 25,373,709</u>

Pooled Investment Income (Loss) - Net for the years ended June 30, 2021 and 2020, consisted of the following:

	<u>2021</u>	<u>2020</u>
Interest and Dividends	\$ 381,448	\$ 404,602
Custodial and Advisory Fees	(243,399)	(222,599)
Net Gains (Losses)	<u>6,793,599</u>	<u>(509,184)</u>
Pooled Investment Income (Loss) - Net	<u>\$ 6,931,648</u>	<u>\$ (327,181)</u>

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 7: OTHER INVESTMENTS

The composition of Other Investments - Priests' Retirement and Welfare Trust as of June 30, 2021 and 2020, was as follows:

	<u>2021</u>	<u>2020</u>
Cash and Cash Equivalents	\$ (2,344,361)	\$ (1,252,250)
Fixed Income	742,909	401,829
Domestic Equity	1,342,228	720,726
International Equity	<u>897,353</u>	<u>539,170</u>
 Other Investments - Priests' Retirement and Welfare Trust	 <u>\$ 638,129</u>	 <u>\$ 409,475</u>

The composition of Other Investments - Bishop Malooly Scholarship Fund as of June 30, 2021 and 2020, was as follows:

	<u>2021</u>	<u>2020</u>
Cash and Cash Equivalents	\$ 98,595	\$ 132,252
Fixed Income	923,271	592,578
Domestic Equity	2,413,044	1,578,380
International Equity	<u>214,024</u>	<u>133,290</u>
 Other Investments - Bishop Malooly Scholarship Fund	 <u>\$ 3,648,934</u>	 <u>\$ 2,436,500</u>

Other Investment Income (Loss) - Net - Priests' Retirement and Welfare Trust for the years ended June 30, 2021 and 2020, consisted of the following:

	<u>2021</u>	<u>2020</u>
Interest and Dividends	\$ 34,805	\$ 26,250
Custodial and Advisory Fees	(19,048)	(16,349)
Net Gains (Losses)	<u>567,877</u>	<u>(36,103)</u>
 Other Investment Income (Loss) - Net - Priests' Retirement and Welfare Trust	 <u>\$ 583,634</u>	 <u>\$ (26,202)</u>

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 7: OTHER INVESTMENTS - CONTINUED

Other Investment Income (Loss) - Net - Bishop Malooly Scholarship Fund for the years ended June 30, 2021 and 2020, consisted of the following:

	2021	2020
Interest and Dividends	\$ 52,439	\$ 24,199
Custodial and Advisory Fees	(17,707)	(5,887)
Net Gains (Losses)	655,502	(127,150)
Other Investment Income (Loss) - Net - Bishop Malooly Scholarship Fund	\$ 690,234	\$ (108,838)

In addition to Other Investment Income (Loss) - Net from the Priests' Retirement and Welfare Trust and the Bishop Malooly Scholarship Fund, Other Investment Income (Loss) - Net on the statements of support, revenue, and expenses - modified cash basis includes trust income, interest on notes receivable, and increases (decreases) in the cash surrender value of life insurance policies.

NOTE 8: PROMISES TO GIVE

During the year ended June 30, 2013, the Diocese initiated its Sustaining Hope for the Future capital campaign. Promises to give received as part of this campaign are shared by the Diocese and individual parishes, based on a predetermined formula. Promises to give in the statements of assets, liabilities, and net assets - modified cash basis are reported net of the amounts allocated to the individual parishes. As of June 30, 2021, the campaign had closed and all portions attributable to individual parishes were properly paid.

During the year ended June 30, 2020, the Diocese received a \$5,000,000 promise to give from a donor. Proceeds from the promise to give are restricted for the use of providing financial assistance to families who cannot afford the full cost of tuition at Catholic schools. Payments totaling \$2,500,000 were received from this donor as of June 30, 2021. The remaining balance of the promise to give will be paid in five annual installments of \$500,000.

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 8: PROMISES TO GIVE - CONTINUED

The following promises to give were outstanding as of June 30:

	Tuition Assistance		Sustaining Hope Campaign	
	2021	2020	2021	2020
Receivable in Less than One Year	\$ 500,000	\$ 500,000	\$ -	\$ -
Receivable in One to Five Years	2,000,000	2,500,000	-	-
Gross Promises to Give	2,500,000	3,000,000	-	-
Parish Shortfall and Promises to Give to Parishes Receivable Within One Year	-	-	46,765	46,765
Discount to Net Present Value	(122,462)	(170,293)	-	-
Allowance for Uncollectible Promises to Give	-	-	-	-
	2,377,538	2,829,707	46,765	46,765
Less: Portion Attributable to Parishes	-	-	-	(27,823)
Promises to Give - Net	<u>\$ 2,377,538</u>	<u>\$ 2,829,707</u>	<u>\$ 46,765</u>	<u>\$ 18,942</u>

NOTE 9: 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.

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, 2021 and 2020, was 2.34% and 2.42%, 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 balances due on the note payable as of June 30, 2021 and 2020, were \$5,182,126 and \$5,650,158, respectively. Subsequent to the year ended June 30, 2021, the loan agreement was amended to extend the maturity date through January 30, 2022. An entity related to the Diocese agreed to pledge as collateral of the note payable unencumbered real property on behalf of the Diocese.

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 9: BANK NOTE PAYABLE - CONTINUED

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. As of June 30, 2021, the Diocese was not in compliance with this financial covenant. As a result of the January 30, 2022 maturity date, the Diocese is in the process of renegotiating and extending the terms of the loan with the bank.

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 expired on October 1, 2021. The estimated value of the interest rate swap liability as of June 30, 2021 and 2020, was \$17,710 and \$71,695, respectively, and is included in the statements of assets, liabilities, and net assets - modified cash basis.

NOTE 10: FAIR VALUE MEASUREMENT

Assets measured at fair value on a recurring basis consist of investments. Investments are presented in the statements of assets, liabilities, and net assets - modified cash basis as follows:

	<u>2021</u>	<u>2020</u>
Pooled Investments	\$ 32,440,199	\$ 25,373,709
Other Investments - Priests' Retirement and Welfare Trust	638,129	409,475
Other Investments - Bishop Malooly Scholarship Fund	3,648,934	2,436,500
Assets Held for Affiliates	<u>33,756,572</u>	<u>27,315,462</u>
Total Investments	<u>\$ 70,483,834</u>	<u>\$ 55,535,146</u>

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 10: FAIR VALUE MEASUREMENT - CONTINUED

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

	2021			
	Fair Value	Level 1	Level 2	Level 3
Assets, at Fair Value				
Investments Using Fair Value Hierarchy				
Cash and Cash Equivalents	\$ 4,504,015	\$ 4,504,015	\$ -	\$ -
Fixed Income	16,473,837	16,473,837	-	-
Domestic Equity	16,683,202	16,683,202	-	-
International Equity	14,105,254	14,105,254	-	-
Total Investments Using Fair Value Hierarchy	51,766,308	51,766,308	-	-
Investments Measured at Net Asset Value				
Alternative Investment Funds	18,717,526	-	-	-
Total Assets, at Fair Value	\$ 70,483,834	\$ 51,766,308	\$ -	\$ -
Liabilities, at Fair Value				
Interest Rate Swap	\$ 17,710	\$ -	\$ 17,710	\$ -
Assets Owed to Affiliates	33,756,572	-	33,756,572	-
Total Liabilities, at Fair Value	\$ 33,774,282	\$ -	\$ 33,774,282	\$ -
2020				
	Fair Value	Level 1	Level 2	Level 3
Assets, at Fair Value				
Investments Using Fair Value Hierarchy				
Cash and Cash Equivalents	\$ 614,350	\$ 614,350	\$ -	\$ -
Fixed Income	13,316,033	13,316,033	-	-
Domestic Equity	14,578,767	14,578,767	-	-
International Equity	10,735,619	10,735,619	-	-
Total Investments Using Fair Value Hierarchy	39,244,769	39,244,769	-	-
Investments Measured at Net Asset Value				
Alternative Investment Funds	16,290,377	-	-	-
Total Assets, at Fair Value	\$ 55,535,146	\$ 39,244,769	\$ -	\$ -

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 10: FAIR VALUE MEASUREMENT - CONTINUED

	2020			
	Fair Value	Level 1	Level 2	Level 3
Liabilities, at Fair Value				
Interest Rate Swap	\$ 71,695	\$ -	\$ 71,695	\$ -
Assets Owed to Affiliates	27,315,462	-	27,315,462	-
Total Liabilities, at Fair Value	<u>\$ 27,387,157</u>	<u>\$ -</u>	<u>\$ 27,387,157</u>	<u>\$ -</u>

The Diocese participates with other affiliated organizations in an investment pool which is held in a custody account. The investments in the chart above represent pooled investments, other investments - priests' retirement and welfare trust, other investments - Bishop Malooly scholarship fund, and assets held for affiliates. 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, 2021 and 2020.

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 assets, liabilities, and net assets - modified cash basis.

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, 2021 and 2020, 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.

NOTE 11: 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.

In years prior to the years ended June 30, 2021 and 2020, the Diocese loaned funds to St. Thomas More Academy 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, 2021 and 2020. Management has established a reserve of \$130,308 for this

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 11: RELATED-PARTY TRANSACTIONS - CONTINUED

balance as an uncollectible account as of June 30, 2021 and 2020, respectively. During the years ended June 30, 2021 and 2020, the Diocese loaned All Saints School \$0 and \$88,000, respectively, to help fund their operations. This non-interest-bearing loan has no stated repayment terms. The balance due to the Diocese was \$263,000 as of June 30, 2021 and 2020, respectively. Management has established a reserve of \$175,000 for this balance as an uncollectible account as of June 30, 2021 and 2020. In years prior to the years ended June 30, 2021 and 2020, the Diocese loaned funds to Most Blessed Sacrament School 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, 2021 and 2020. In years prior to the years ended June 30, 2021 and 2020, the Diocese loaned funds to St. Mark's High School to help fund their operations. This non-interest-bearing loan has no stated repayment terms. The balance due to the Diocese was \$706,114 as of June 30, 2021 and 2020, 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 \$4,330,433 and \$4,531,651 for the years ended June 30, 2021 and 2020, respectively. In relation to assessments, amounts due to the Diocese from affiliated entities as of June 30, 2021 and 2020, were \$4,874,189 and \$4,615,507, respectively. Management reserved \$2,507,163 and \$2,213,548 as of June 30, 2021 and 2020, 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 - net.

During the years ended June 30, 2021 and 2020, the Diocese provided funding to certain affiliated corporations. The more significant funding provided was as follows:

	<u>2021</u>	<u>2020</u>
Catholic Press of Wilmington, Inc.	\$ 199,404	\$ 237,876
Catholic Charities, Inc.	699,996	755,388
Catholic Schools	327,800	344,940

During the years ended June 30, 2021 and 2020, 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, 2021 and 2020, are included in accounts receivable - net on the statements of assets, liabilities, and net assets - modified cash basis.

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 11: RELATED-PARTY TRANSACTIONS - CONTINUED

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.

	2021	2020
Catholic Charities, Inc.	\$ 114,900	\$ 587,795
Catholic Cemeteries, Inc.	-	71,033
Catholic Ministry to the Elderly, Inc.	46,000	-
St. Mark's High School	367,000	278,000
St. Thomas More Academy	48,500	48,500

The Diocese pays claims and other expenses related to their self-insurance plan. The self-insurance plan covers health insurance for lay employees and priests. Each affiliated corporation pays the Diocese a premium for their portion of the plan's claims and expenses. The Diocese recognized approximately \$10,800,000 and \$12,985,000, respectively, in premium revenue from affiliated corporations and incurred expenses of approximately \$11,730,000 and \$11,540,000, respectively, in actual claims and administrative costs for the years ended June 30, 2021 and 2020.

As of June 30, 2021 and 2020, insurance receivables due from affiliated corporations totaled \$9,367,233 and \$10,060,293, respectively, and are included in accounts receivable - net. As of June 30, 2021 and 2020, insurance receivables that management has deemed uncollectible were reserved in the amount of \$4,995,801 and \$4,188,367, respectively. Write-offs of the receivables are made at the discretion of management.

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 12).

NOTE 12: 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.

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 12: PENSION PLANS - CONTINUED

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	
	2021	2020
Market Value of Assets	\$ 33,105,685	\$ 32,687,229
Actuarial Liability	83,136,746	83,105,843
Funded Status Percentage	39.82%	39.33%

During the years ended June 30, 2021 and 2020, the Diocese contributed \$2,846,605 and \$2,724,024, respectively, to the Lay Pension Plan. Lay pension expense reported in the statements of support, revenue, and expenses - modified cash basis and functional expenses - modified cash basis for the years ended June 30, 2021 and 2020, are 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.

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, 2021 and 2020, the fund assets totaled \$638,129 and \$409,475, respectively. This balance is included in other investments - priests' retirement and welfare trust 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 13: 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

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 13: TAX-SHELTERED ANNUITY RETIREMENT PLAN - CONTINUED

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, 2021 and 2020, matching contributions were \$76,822 and \$85,335, respectively.

NOTE 14: 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, 2021 and 2020, totaled \$3,399,842 and \$3,597,175, respectively.

NOTE 15: 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 11). 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 \$684,000 and \$700,000 as of June 30, 2021 and 2020, respectively.

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.

NOTE 16: LEASES

The Diocese leases office equipment under noncancelable leases expiring at various dates through March 2026. Rent expenses related to these leases were \$11,233 and \$11,421 for the years ended June 30, 2021 and 2020, respectively.

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 16: LEASES - CONTINUED

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

2022	\$ 10,988
2023	6,876
2024	6,036
2025	4,556
2026	<u>1,197</u>
	<u>\$ 29,653</u>

NOTE 17: CONDITIONAL CONTRIBUTION - PAYCHECK PROTECTION PROGRAM (PPP) LOAN

In response to the uncertainty created by the COVID-19 pandemic, the federal government signed into law the Coronavirus Aid, Relief, and Economic Security (CARES) Act. A provision of the CARES Act allowed for loans to eligible small businesses, including nonprofit organizations, under its Paycheck Protection Program (PPP) administered by the U.S. Small Business Administration. PPP loans have a maturity term of two or five years and incur interest at a rate of 1%. PPP loans contain provisions to forgive all or a portion of the funds borrowed based on a calculation that considers the borrower's incurrence of eligible costs and maintaining employee and salary levels for a period of time after receipt of the loan funds.

In April 2020, the Diocese submitted one PPP loan application which included a loan request in the amount of \$4,905,998 for the following entities: Catholic Diocese of Wilmington, Inc., Catholic Charities, Inc., Catholic Cemeteries, Inc., Catholic Ministry to the Elderly, Inc., St. Mark's High School, Christ the Teacher Catholic School, and Most Blessed Sacrament School. Certain members of the Dioceses' board of directors are also board members of the previously mentioned affiliated corporations. Due to common management, one application was submitted for these corporations.

On April 23, 2020, the Diocese received a PPP loan in the amount of \$4,905,000. Upon receipt of the PPP loan proceeds, the Diocese disbursed a total of \$3,942,151 to the affiliated corporations indicated above. Only the net proceeds retained by the Diocese were recorded as a liability in the statement of assets, liabilities, and net assets - modified cash basis as of June 30, 2020. The proceeds disbursed to the affiliated corporations were recorded as a liability on the books of those respective corporations, based on the allocation included in the PPP loan application.

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 17: CONDITIONAL CONTRIBUTION - PAYCHECK PROTECTION PROGRAM (PPP) LOAN - CONTINUED

The allocation of the PPP loan proceeds to the affiliated corporations is as follows:

Catholic Diocese of Wilmington, Inc.	\$	962,849
Catholic Charities, Inc.		1,091,992
Catholic Cemeteries, Inc.		452,861
Catholic Ministry to the Elderly, Inc.		62,803
St. Mark's High School		1,279,442
Christ the Teacher Catholic School		662,020
Most Blessed Sacrament School		<u>393,033</u>
	<u>\$</u>	<u>4,905,000</u>

The Diocese portion of the PPP loan, totaling \$962,849, was recorded as a conditional grant liability on the statement of assets, liabilities, and net assets - modified cash basis as of June 30, 2020.

During the year ended June 30, 2021, the Diocese and affiliated corporations utilized the loan proceeds for purposes consistent with the PPP and satisfied the conditions contained in the loan agreement. As a result, \$962,849 is included in government grant - PPP loan forgiveness in the statement of support, revenue, and expenses - modified cash basis for the year ended June 30, 2021. The Diocese was notified on November 2, 2021 that its PPP loan was forgiven in full.