

**CATHOLIC DIOCESE OF WILMINGTON, INC.**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

**JUNE 30, 2014 AND 2013**

**CATHOLIC DIOCESE OF WILMINGTON, INC.**  
**TABLE OF CONTENTS**  
**JUNE 30, 2014 AND 2013**

	<u>Page No.</u>
<b>Independent Auditors' Report</b>	1
<b>Financial Statements - Modified Cash Basis</b>	
Statements of Assets, Liabilities, and Net Assets	3
Statements of Support, Revenue, and Expenses	5
Statements of Cash Flows	9
Notes to Financial Statements	10



BELFINT • LYONS • SHUMAN  
Certified Public Accountants

---

[www.belfint.com](http://www.belfint.com)

---

*Independent Auditors' Report*

To the Board of Trustees of  
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, 2014 and 2013, and the related statements of support, revenue, and 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 described in Note 1 of the financial statements; this includes determining that the modified cash basis of accounting is an acceptable basis for the presentation 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 of 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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, 2014 and 2013 and its support, revenue, and expenses, and cash flows for the years then ended in conformity with the modified cash basis of accounting as described in Note 1 of the financial statements.

***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 that matter.

*Belfint, Lyons & Shuman, P.A.*

February 17, 2015  
Wilmington, Delaware

**CATHOLIC DIOCESE OF WILMINGTON, INC.**  
**STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS - MODIFIED CASH BASIS**  
**JUNE 30, 2014**

	<b>Unrestricted</b>			<b>Restricted</b>	<b>Total</b>
	<b>General</b>	<b>Designated</b>	<b>Total</b>		
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 3,949,536	\$ (2,540)	\$ 3,946,996	\$ 1,165,200	\$ 5,112,196
Pooled Investments	1,177,164	8,313,010	9,490,174	16,228,407	25,718,581
Other Investments	-	1,931,859	1,931,859	-	1,931,859
Other Assets	-	-	-	58,009	58,009
Pledges Receivable (Net)	-	100,000	100,000	5,126,429	5,226,429
Accounts Receivable (Net)	1,116,332	2,002,381	3,118,713	-	3,118,713
Notes Receivable	523,623	-	523,623	-	523,623
Real Estate	770,340	-	770,340	-	770,340
Assets Held for Affiliates	-	-	-	29,057,149	29,057,149
<b>TOTAL ASSETS</b>	<b>\$ 7,536,995</b>	<b>\$ 12,344,710</b>	<b>\$ 19,881,705</b>	<b>\$ 51,635,194</b>	<b>\$ 71,516,899</b>
<b>LIABILITIES</b>					
Bank Note Payable	\$ 9,206,352	\$ -	\$ 9,206,352	\$ -	\$ 9,206,352
Loan Payable - Related Party	-	-	-	-	-
Other Liabilities	1,113,211	800,000	1,913,211	1,057,669	2,970,880
Assets Owed to Affiliates	-	-	-	29,057,149	29,057,149
<b>TOTAL LIABILITIES</b>	<b>10,319,563</b>	<b>800,000</b>	<b>11,119,563</b>	<b>30,114,818</b>	<b>41,234,381</b>
<b>NET ASSETS</b>					
Unrestricted - General	(2,782,568)	-	(2,782,568)	-	(2,782,568)
Unrestricted - Designated	-	11,544,710	11,544,710	-	11,544,710
Temporarily Restricted	-	-	-	15,988,547	15,988,547
Permanently Restricted	-	-	-	5,531,829	5,531,829
<b>TOTAL NET ASSETS</b>	<b>(2,782,568)</b>	<b>11,544,710</b>	<b>8,762,142</b>	<b>21,520,376</b>	<b>30,282,518</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 7,536,995</b>	<b>\$ 12,344,710</b>	<b>\$ 19,881,705</b>	<b>\$ 51,635,194</b>	<b>\$ 71,516,899</b>

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, 2013**

	<b>Unrestricted</b>			<b>Restricted</b>	<b>Total</b>
	<b>General</b>	<b>Designated</b>	<b>Total</b>		
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 3,415,353	\$ 143,416	\$ 3,558,769	\$ 68,984	\$ 3,627,753
Pooled Investments	875,138	5,512,514	6,387,652	12,798,183	19,185,835
Other Investments	-	2,331,607	2,331,607	-	2,331,607
Other Assets	-	-	-	58,009	58,009
Pledges Receivable (Net)	-	647,512	647,512	1,174,746	1,822,258
Accounts Receivable (Net)	819,445	684,203	1,503,648	-	1,503,648
Notes Receivable	838,277	-	838,277	-	838,277
Real Estate	770,340	-	770,340	-	770,340
Assets Held for Affiliates	-	-	-	25,152,059	25,152,059
<b>TOTAL ASSETS</b>	<b><u>\$ 6,718,553</u></b>	<b><u>\$ 9,319,252</u></b>	<b><u>\$ 16,037,805</u></b>	<b><u>\$ 39,251,981</u></b>	<b><u>\$ 55,289,786</u></b>
<b>LIABILITIES</b>					
Bank Note Payable	\$ 9,586,722	\$ -	\$ 9,586,722	\$ -	\$ 9,586,722
Loan Payable - Related Party	-	585,909	585,909	-	585,909
Other Liabilities	433,840	800,000	1,233,840	902,565	2,136,405
Assets Owed to Affiliates	-	-	-	25,152,059	25,152,059
<b>TOTAL LIABILITIES</b>	<b><u>10,020,562</u></b>	<b><u>1,385,909</u></b>	<b><u>11,406,471</u></b>	<b><u>26,054,624</u></b>	<b><u>37,461,095</u></b>
<b>NET ASSETS</b>					
Unrestricted - General	(3,302,009)	-	(3,302,009)	-	(3,302,009)
Unrestricted - Designated	-	7,933,343	7,933,343	-	7,933,343
Temporarily Restricted	-	-	-	7,665,528	7,665,528
Permanently Restricted	-	-	-	5,531,829	5,531,829
<b>TOTAL NET ASSETS</b>	<b><u>(3,302,009)</u></b>	<b><u>7,933,343</u></b>	<b><u>4,631,334</u></b>	<b><u>13,197,357</u></b>	<b><u>17,828,691</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 6,718,553</u></b>	<b><u>\$ 9,319,252</u></b>	<b><u>\$ 16,037,805</u></b>	<b><u>\$ 39,251,981</u></b>	<b><u>\$ 55,289,786</u></b>

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, 2014**

	<u>Unrestricted</u>			<u>Temporarily Restricted</u>		<u>Permanently Restricted</u>	<u>Total</u>
	<u>General</u>	<u>Designated</u>	<u>Total</u>	<u>General</u>	<u>Capital Campaign</u>		
<b>REVENUE AND OTHER SUPPORT</b>							
Assessments	\$ 4,238,448	\$ -	\$ 4,238,448	\$ -	\$ -	\$ -	\$ 4,238,448
Annual Appeal	4,541,006	-	4,541,006	1,000	-	-	4,542,006
Pooled Investment Income	243,354	985,768	1,229,122	2,154,010	(4,262)	-	3,378,870
Other Investment Income	11,727	412,119	423,846	9,588	-	-	433,434
Collections	106,344	-	106,344	590	-	-	106,934
Contributions	74,032	14,993	89,025	256,391	8,731,823	-	9,077,239
Priests' Insurance Premiums	-	1,741,199	1,741,199	-	-	-	1,741,199
Lay Employee Insurance Premiums	-	11,109,431	11,109,431	-	-	-	11,109,431
Property and Liability Insurance Premiums	-	2,465,500	2,465,500	-	-	-	2,465,500
Other	400,901	18,137	419,038	-	-	-	419,038
Net Assets Released from Restrictions	2,826,121	-	2,826,121	(1,035,676)	(1,790,445)	-	-
<b>TOTAL REVENUE AND OTHER SUPPORT</b>	<u>12,441,933</u>	<u>16,747,147</u>	<u>29,189,080</u>	<u>1,385,903</u>	<u>6,937,116</u>	<u>-</u>	<u>37,512,099</u>
<b>EXPENSES</b>							
Program Services							
Catholic Charities	830,486	-	830,486	-	-	-	830,486
Catholic Education	507,617	-	507,617	-	-	-	507,617
Communication	128,458	-	128,458	-	-	-	128,458
Distributions							
Education Fund	-	-	-	-	-	-	-
Other Funds	-	565,173	565,173	-	-	-	565,173
Clergy Pension	-	774,935	774,935	-	-	-	774,935
Assistance to Diocesan Agencies	614,302	-	614,302	-	-	-	614,302
Program Expenses for Restricted Purposes	1,035,676	-	1,035,676	-	-	-	1,035,676
Restricted Capital Campaign Expenses	1,790,445	-	1,790,445	-	-	-	1,790,445
Pastoral Services	461,359	-	461,359	-	-	-	461,359
Total Program Services	<u>5,368,343</u>	<u>1,340,108</u>	<u>6,708,451</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,708,451</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 - CONTINUED**  
**YEAR ENDED JUNE 30, 2014**

	Unrestricted			Temporarily Restricted		Permanently Restricted	Total
	General	Designated	Total	General	Capital Campaign		
<b>EXPENSES - CONTINUED</b>							
Supporting Services							
Administration	\$ 1,239,911	\$ -	\$ 1,239,911	\$ -	\$ -	\$ -	\$ 1,239,911
Capital Expenditures	11,989	-	11,989	-	-	-	11,989
Development	431,774	-	431,774	-	-	-	431,774
Finance	577,785	-	577,785	-	-	-	577,785
Bankruptcy Expenses	96,279	78,264	174,543	-	-	-	174,543
Priests' Insurance Expense	-	1,674,917	1,674,917	-	-	-	1,674,917
Lay Employees Insurance Expense	-	8,902,374	8,902,374	-	-	-	8,902,374
Lay Employees Benefits	3,232,584	-	3,232,584	-	-	-	3,232,584
Property and Liability Insurance Expense	-	2,103,944	2,103,944	-	-	-	2,103,944
	5,590,322	12,759,499	18,349,821	-	-	-	18,349,821
<b>TOTAL EXPENSES</b>	10,958,665	14,099,607	25,058,272	-	-	-	25,058,272
<b>CHANGE IN NET ASSETS BEFORE TRANSFERS</b>	1,483,268	2,647,540	4,130,808	1,385,903	6,937,116	-	12,453,827
Interfund Transfers	(963,827)	963,827	-	-	-	-	-
<b>CHANGE IN NET ASSETS</b>	519,441	3,611,367	4,130,808	1,385,903	6,937,116	-	12,453,827
<b>NET ASSETS - Beginning of Year</b>	(3,302,009)	7,933,343	4,631,334	6,504,736	1,160,792	5,531,829	17,828,691
<b>NET ASSETS - End of Year</b>	\$ (2,782,568)	\$ 11,544,710	\$ 8,762,142	\$ 7,890,639	\$ 8,097,908	\$ 5,531,829	\$ 30,282,518

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, 2013**

	Unrestricted			Temporarily Restricted		Permanently Restricted	Total
	General	Designated	Total	General	Capital Campaign		
<b>REVENUE AND OTHER SUPPORT</b>							
Assessments	\$ 4,108,500	\$ -	\$ 4,108,500	\$ -	\$ -	\$ -	\$ 4,108,500
Annual Appeal	4,451,738	-	4,451,738	-	-	-	4,451,738
Pooled Investment Income	23,131	333,005	356,136	1,554,097	-	-	1,910,233
Other Investment Income	1,169	374,587	375,756	12,782	-	-	388,538
Collections	21,409	-	21,409	61,625	-	-	83,034
Contributions	15,013	191,937	206,950	353,588	1,160,792	-	1,721,330
Priests' Insurance Premiums	-	1,692,729	1,692,729	-	-	-	1,692,729
Lay Employee Insurance Premiums	276,200	10,365,182	10,641,382	-	-	-	10,641,382
Property and Liability Insurance Premiums	-	2,063,378	2,063,378	-	-	-	2,063,378
Other	31,141	95,911	127,052	-	-	-	127,052
Net Assets Released from Restrictions	359,554	563,710	923,264	(923,264)	-	-	-
<b>TOTAL REVENUE AND OTHER SUPPORT</b>	9,287,855	15,680,439	24,968,294	1,058,828	1,160,792	-	27,187,914
<b>EXPENSES</b>							
Program Services							
Catholic Charities	798,210	-	798,210	-	-	-	798,210
Catholic Education	446,097	-	446,097	-	-	-	446,097
Communication	122,734	-	122,734	-	-	-	122,734
Distributions							
Education Fund	-	675,750	675,750	-	-	-	675,750
Other Funds	-	1,154,830	1,154,830	-	-	-	1,154,830
Clergy Pension	-	711,023	711,023	-	-	-	711,023
Assistance to Diocesan Agencies	556,474	-	556,474	-	-	-	556,474
Pastoral Services	661,816	164,872	826,688	-	-	-	826,688
<b>Total Program Services</b>	2,585,331	2,706,475	5,291,806	-	-	-	5,291,806

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, 2013**

	Unrestricted			Temporarily Restricted		Permanently Restricted	Total
	General	Designated	Total	General	Capital Campaign		
<b>EXPENSES - CONTINUED</b>							
Supporting Services							
Administration	\$ 2,183,235	\$ -	\$ 2,183,235	\$ -	\$ -	\$ -	\$ 2,183,235
Capital Expenditures	5,954	-	5,954	-	-	-	5,954
Development	476,443	-	476,443	-	-	-	476,443
Finance	512,381	-	512,381	-	-	-	512,381
Bankruptcy Expenses	883,769	-	883,769	-	-	-	883,769
Priests' Insurance Expense	-	1,597,150	1,597,150	-	-	-	1,597,150
Lay Employees Insurance Expense	-	8,215,848	8,215,848	-	-	-	8,215,848
Lay Employees Benefits	2,156,064	-	2,156,064	-	-	-	2,156,064
Property and Liability Insurance Expense	-	1,850,000	1,850,000	-	-	-	1,850,000
Total Supporting Services	6,217,846	11,662,998	17,880,844	-	-	-	17,880,844
<b>TOTAL EXPENSES</b>	8,803,177	14,369,473	23,172,650	-	-	-	23,172,650
<b>CHANGE IN NET ASSETS</b>	484,678	1,310,966	1,795,644	1,058,828	1,160,792	-	4,015,264
<b>NET ASSETS - Beginning of Year</b>	(3,786,687)	6,622,377	2,835,690	5,445,908	-	5,531,829	13,813,427
<b>NET ASSETS - End of Year</b>	<u>\$ (3,302,009)</u>	<u>\$ 7,933,343</u>	<u>\$ 4,631,334</u>	<u>\$ 6,504,736</u>	<u>\$ 1,160,792</u>	<u>\$ 5,531,829</u>	<u>\$ 17,828,691</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, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in Net Assets	\$ 12,453,827	\$ 4,015,264
Adjustments to Reconcile Changes in Net Assets to Net Cash from Operating Activities		
Net Gains on Pooled Investments	(3,244,747)	(1,733,725)
Net Gains on Other Investments	(374,907)	(333,868)
Bad Debts	(252,251)	165,033
Changes in Assets and Liabilities		
Accounts Receivable	(1,362,814)	(470,792)
Pledges Receivable	(3,404,171)	(692,508)
Other Assets	-	(1,415)
Other Liabilities	834,475	(112,953)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<u>4,649,412</u>	<u>835,036</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Amounts Drawn (Deposited) from (to) Pooled Investments - Net	(3,739,785)	(1,061,786)
Amounts Drawn from Other Investments for Priests' Pension Payments	793,728	728,038
Reinvestment of Interest and Dividends into Pooled Investments	(134,123)	(176,508)
Reinvestment of Interest and Dividends into Other Investments	(19,073)	(42,089)
Repayments of Notes Receivable	314,654	117,431
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<u>(2,784,599)</u>	<u>(434,914)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal Payments on Bank Note Payable	(380,370)	(412,068)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	1,484,443	(11,946)
<b>CASH AND CASH EQUIVALENTS - Beginning of Year</b>	<u>3,627,753</u>	<u>3,639,699</u>
<b>CASH AND CASH EQUIVALENTS - End of Year</b>	<u>\$ 5,112,196</u>	<u>\$ 3,627,753</u>
<b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Related Party Loan Received (Repaid) Directly to Pooled Investments	<u>\$ (585,909)</u>	<u>\$ 585,909</u>

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

**CATHOLIC DIOCESE OF WILMINGTON, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**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.

In October 2009, the Diocese filed a petition for relief under Chapter 11 of the federal bankruptcy laws in the United States Bankruptcy Court for the District of Delaware. On July 28, 2011, the United States Bankruptcy Court for the District of Delaware issued an order confirming the Diocese's Plan of Reorganization.

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.

*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 5). However, pledges receivable that are recognized are reported as increases in unrestricted or temporarily restricted net assets 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, 2014**

**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 existence or absence of donor-imposed restrictions. A description of the three net assets classifications follows:

**Unrestricted Net Assets** - Assets that are available for the support of operations and whose use is not externally restricted, although their use may be limited by other factors such as by board designation.

**Temporarily Restricted Net Assets** - Gifts for which donor-imposed restrictions have not been met. Temporarily restricted net assets are primarily restricted for youth education and related activities, education of men for the priesthood, upkeep or construction of facilities, and programs which benefit families of a predetermined income and residential criteria.

**Permanently Restricted Net Assets** - Gifts, trusts, and pledges that require by donor restriction that the corpus be invested in perpetuity and normally only the income be made available for operations in accordance with donor restrictions. The permanently restricted net assets are primarily education related.

*Contributions* - Noncash contributions are recorded at fair value on the date of donation. Contributions of cash and other noncapital assets are reported as temporarily restricted operating revenue 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

**CATHOLIC DIOCESE OF WILMINGTON, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2014**

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

*Contributions - continued* - time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of support, revenue, and expenses - modified cash basis as net assets released from restrictions. Donor-restricted contributions which are received and expended within the same fiscal year are reported as unrestricted revenues.

*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, 2014 and 2013, 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 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 in one to five years.

*Accounts Receivable* - Accounts receivable are stated at estimated net realizable value and consist of receivables for assessments, lay employee insurance premiums, priests' insurance premiums, and payroll-related expenses disbursed on behalf of 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 discretion of management based on an analysis of a receivable's collectability. The total allowance for doubtful accounts receivable as of June 30, 2014 and 2013 was \$3,414,888 and \$3,667,123, respectively.

**CATHOLIC DIOCESE OF WILMINGTON, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2014**

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

*Other Assets* - As of June 30, 2014 and 2013, 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, 2014 and 2013 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.

*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

**CATHOLIC DIOCESE OF WILMINGTON, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2014**

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

*Income Taxes - continued* - 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, 2014 and 2013.

The Diocese believes it is no longer subject to examination by tax authorities for years prior to fiscal year ended June 30, 2011.

*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.

**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) as a “Settlement Plan.” In compliance with applicable provisions of the United States Bankruptcy Code, 11 U.S.C. §§ 101-1532 (Bankruptcy Code), Article VI, and various other provisions of the Plan set forth the means for implementation of the Plan as a Settlement Plan. The Plan provided for several settlement mechanisms and the continued corporate existence of the Diocese as a Reorganized Debtor.

In accordance with the Plan, the Catholic Diocese of Wilmington Settlement Trust (Settlement Trust) was established to provide for compensation to litigation claimants. Under the terms of the Plan, the Settlement Trust received settlement payments totaling approximately \$77,425,000 by September 26, 2011 (Funding Date).

Several of the Diocese’s affiliated entities were named as co-defendants in legal actions against the Diocese. These entities, among others, comprise a group referred to in the Plan as Non-Debtor Catholic Entities (NDCE). According to the Plan, the NDCE agreed to contribute funds to support the Diocese in funding the Settlement Trust in exchange for a release from the Survivor Claimants of all pending and future liability. The NDCE contributing funds directly to the Settlement Trust were Catholic Diocese Foundation, Catholic Cemeteries, Inc., Siena Hall, Inc., Seton Villa, Inc., Children’s Home, Inc., and certain Diocesan parishes. The NDCE settlement contribution was approximately \$62,000,000, less any amounts that were paid by the Diocese to the Bankruptcy Court-appointed Settlement Arbitrator before the Funding Date.



**CATHOLIC DIOCESE OF WILMINGTON, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2014**

**NOTE 2: PLAN OF REORGANIZATION - CONTINUED**

NDCE holdings in the Diocese's pooled investments account combined with Diocesan funds and/or borrowings from affiliates were utilized to make the required payment to the Settlement Trust on behalf of the NDCE.

The Plan contemplated that insurance carriers for the Diocese and certain of the NDCE also provided settlement funds in exchange for a release of all claims against the insurable interest of the Diocese and NDCE. The insurance carriers contributed \$15,456,559 to the Settlement Trust.

The Plan outlined the options for addressing the settlement of claims of Allied Irish Bank and Wilmington Trust Company related to the Delaware Economic Development Authority bond obligation of \$11,000,000 (Note 7). The claimants had the option to execute a promissory note substantially in the form and terms proposed by the Diocese or to receive a pro rata distribution of the funds held in the Capital Campaign Fund. The claimants chose to receive the value of the Capital Campaign Fund on or about the Funding Date. Payments were made for satisfaction of the Delaware Economic Development Authority bond obligation in the amount of \$8,146,528. As a result, the Diocese recognized a gain on discharge of indebtedness in the amount of \$2,853,472 during the year ended June 30, 2012.

The Plan also outlined the settlement of pension plan claims from the Lay Pension Plan. The Diocese transferred the Lay Pension Fund included in designated pooled investments on the statements of assets, liabilities, and net assets - modified cash basis to an irrevocable trust maintained by the Investment Custodian (Lay Pension Plan Trust). In addition, \$5,000,000 was contributed to the Lay Pension Trust. Included in the Plan's confirmation order was an additional settlement agreement with terms outlining the settlement of open disputes with the Official Committee of Lay Employees appointed in the Diocese's bankruptcy case regarding the treatment of lay pension claims under the Plan and the terms of the proposed Lay Pension Plan Reaffirmation Agreement. Under the Plan, the Diocese's liability to holders of lay pension claims was discharged as a matter of law in consideration of the additional funding of the Lay Pension Trust. However, by operation of the Lay Pension Plan Reaffirmation Agreement, the Reorganized Diocese reaffirmed the discharged obligations (as modified by the Lay Pension Plan Reaffirmation Agreement, e.g., to freeze pension benefits as of December 31, 2011, and implement an amended governance structure going forward), which became legally binding upon the Reorganized Diocese notwithstanding the discharge of indebtedness in the Plan.

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 11.

**CATHOLIC DIOCESE OF WILMINGTON, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2014**

**NOTE 3: POOLED INVESTMENTS**

The composition of pooled investments as of June 30, 2014 and 2013 was as follows:

	<u>2014</u>	<u>2013</u>
Cash and Cash Equivalents	\$ 1,651,556	\$ 1,552,810
Fixed Income	4,088,717	3,594,566
Domestic Equity	11,879,856	9,794,497
International Equity	<u>8,098,452</u>	<u>4,243,962</u>
Total Pooled Investments	<u>\$ 25,718,581</u>	<u>\$ 19,185,835</u>

Pooled investment income for the years ended June 30, 2014 and 2013 consisted of the following:

	<u>2014</u>	<u>2013</u>
Interest and Dividends	\$ 307,253	\$ 345,199
Custodial and Advisory Fees	(173,130)	(168,691)
Net Gains	<u>3,244,747</u>	<u>1,733,725</u>
Total Pooled Investment Income	<u>\$ 3,378,870</u>	<u>\$ 1,910,233</u>

**NOTE 4: OTHER INVESTMENTS**

The composition of other investments - Revocable Priests' Retirement and Welfare Trust as of June 30, 2014 and 2013 was as follows:

	<u>2014</u>	<u>2013</u>
Cash and Cash Equivalents	\$ (537,506)	\$ 64,716
Fixed Income	419,517	462,115
Domestic Equity	1,218,917	1,259,175
International Equity	<u>830,931</u>	<u>545,601</u>
Total Other Investments	<u>\$ 1,931,859</u>	<u>\$ 2,331,607</u>

**CATHOLIC DIOCESE OF WILMINGTON, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2014**

**NOTE 4: OTHER INVESTMENTS - CONTINUED**

Other investments income - Revocable Priests' Retirement and Welfare Trust for the years ended June 30, 2014 and 2013 consisted of the following:

	2014	2013
Interest and Dividends	\$ 35,864	\$ 48,002
Custodial and Advisory Fees	(16,791)	(5,913)
Net Gains	374,907	333,868
Other Investment Income	\$ 393,980	\$ 375,957

In addition to investment income from the Revocable Priests' Retirement and Welfare Trust, other investments 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 5: PLEDGES RECEIVABLE**

Pledges receivable include 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. The pledge is in conjunction with Children's Home's NDCE settlement contribution (Note 2). As of June 30, 2012, the pledge was recorded at \$1,000,000 in the statements of assets, liabilities, and net assets - modified cash basis based on the estimated fair value of the real property. 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, the pledge was reduced to \$100,000 and \$647,512 in the statements of assets, liabilities, and net assets - modified cash basis as of June 30, 2014 and 2013, respectively.

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 (See Note 5).

Capital campaign pledges are receivable over a period of up to five years. Pledges are discounted using the Internal Revenue Service applicable federal rate (1.91% and .95% as of June 30, 2014 and 2013, respectively.) 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, 2014**

**NOTE 5: PLEDGES RECEIVABLE - CONTINUED**

The following pledges receivable were outstanding as of June 30:

	<u>2014</u>	<u>2013</u>
Campaign Pledges Receivable		
Receivable Within One Year	\$ 2,928,351	\$ 565,686
Receivable in One to Five Years	3,651,825	605,036
Gross Campaign Pledges Receivable	<u>6,580,176</u>	<u>1,170,722</u>
Parish Shortfall and Pledges to Parishes		
Receivable from One to Three Years	1,165,233	-
Discount to Net Present Value	(154,615)	(8,790)
Allowance for Uncollectible Pledges	<u>(329,009)</u>	<u>(1,140)</u>
	7,261,785	1,160,792
Less: Portion Attributable to Parishes	<u>(2,149,126)</u>	<u>-</u>
Campaign Pledges Receivable (Net)	5,112,659	1,160,792
Other Pledges Due Within One Year	13,770	13,954
Pledged Proceeds from Real Estate Transaction	<u>100,000</u>	<u>647,512</u>
Pledges Receivable (Net)	<u>\$ 5,226,429</u>	<u>\$ 1,822,258</u>

**NOTE 6: NOTES RECEIVABLE**

Notes receivable were as follows as of June 30:

	<u>2014</u>	<u>2013</u>
<i>St. John the Baptist/Holy Angels</i> - Issued August 2004, Payable on Demand	\$ -	\$ 93,000
<i>Diocese of Wilmington Schools, Inc.</i> - Issued Without Terms	302,773	505,827
<i>St. Joseph Church</i> - Interest-free Loan with Quarterly Installments of \$7,500 over 10 Years, Starting September 2017	210,000	210,000
<i>Holy Rosary</i> - Issued July 2008, Payable on Demand upon 30-Day Notice	<u>10,850</u>	<u>29,450</u>
Total Notes Receivable	<u>\$ 523,623</u>	<u>\$ 838,277</u>

**CATHOLIC DIOCESE OF WILMINGTON, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2014**

**NOTE 7: BONDS PAYABLE**

In November 2002, the Diocese was issued \$12,500,000 of tax-exempt bonds (Bonds) through the Delaware Economic Development Authority. Proceeds from the Bonds were used for capital expenditures. The Bonds were set to mature December 2032 with interest that varied weekly at rates determined by a Remarketing Agent based on prevailing market conditions.

Allied Irish Bank was the issuer of a letter of credit for the outstanding balance of the Bonds. Wilmington Trust Company was the trustee for the Bonds originally issued by the Delaware Economic Development Authority. As a result of the Diocese's Chapter 11 Bankruptcy filing, Wilmington Trust Company drew on the letter of credit from Allied Irish Bank and used the proceeds to repurchase the Bonds from the bond holders.

As such, Allied Irish Bank and Wilmington Trust Company were claimants in the bankruptcy case. In accordance with the Plan of Reorganization (Note 2), payments were made for satisfaction of the bond obligation.

**NOTE 8: 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. The note bears interest at LIBOR plus 2.50%. The note required payments of interest only through June 2012. Beginning in July 2012, the note requires monthly payments of principal and interest calculated based on a 20-year amortization period. The note's original maturity is July 2015. The effective rate of the note payable as of June 30, 2014 and 2013 was 2.66% and 2.69%, 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 note has a provision to extend the original maturity date if certain conditions are met. Provided that no events of default have been reached by the Diocese and the Diocese makes principal payments in an aggregate amount of at least \$1,000,000 on or before July 1, 2015, in addition to the principal payments set forth by the note's amortization in the preceding paragraph, the maturity of the note shall be extended to July 2016. In addition, provided that no events of default have been reached by the Diocese and the Diocese makes principal payments in an aggregate amount of at least \$2,000,000 on or before July 1, 2016, in addition to the principal payments set forth by the note's amortization in the preceding paragraph, the maturity of the note shall be extended to July 2017.

**CATHOLIC DIOCESE OF WILMINGTON, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2014**

**NOTE 8: BANK NOTE PAYABLE - CONTINUED**

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

2015	\$ 406,740
2016	<u>8,799,612</u>
	<u>\$ 9,206,352</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 unrestricted net assets 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 Diocese must maintain cash on hand, the sum of unrestricted cash plus unrestricted investments multiplied by 365 and divided by total operating expenses, of at least 45 days.

The Diocese was in compliance with these covenants as of June 30, 2014 and 2013.

**CATHOLIC DIOCESE OF WILMINGTON, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2014**

**NOTE 9: FAIR VALUE MEASUREMENT**

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

	2014			
	Fair Value	Level 1	Level 2	Level 3
<b>Pooled Investments</b>				
Cash and Cash Equivalents	\$ 1,651,556	\$ -	\$ 1,651,556	\$ -
Fixed Income	4,088,717	-	4,088,717	-
Domestic Equity	11,879,856	-	7,103,834	4,776,022
International Equity	8,098,452	-	8,098,452	-
<b>Total Pooled Investments</b>	<b>25,718,581</b>	<b>-</b>	<b>20,942,559</b>	<b>4,776,022</b>
<b>Other Investments</b>				
Cash and Cash Equivalents	(537,506)	-	(537,506)	-
Fixed Income	419,517	-	419,517	-
Domestic Equity	1,218,917	-	860,165	358,752
International Equity	830,931	-	830,931	-
<b>Total Other Investments</b>	<b>1,931,859</b>	<b>-</b>	<b>1,573,107</b>	<b>358,752</b>
<b>Assets Held for Affiliates</b>				
Cash and Cash Equivalents	1,350,588	-	1,350,588	-
Fixed Income	4,707,033	-	4,707,033	-
Domestic Equity	13,676,388	-	8,280,383	5,396,005
International Equity	9,323,140	-	9,323,140	-
<b>Total Assets Held for Affiliates</b>	<b>29,057,149</b>	<b>-</b>	<b>23,661,144</b>	<b>5,396,005</b>
<b>Assets at Fair Value</b>				
Total Cash Management Funds	2,464,638	-	2,464,638	-
Total Fixed Income	9,215,267	-	9,215,267	-
Total Domestic Equity	26,775,161	-	16,244,382	10,530,779
Total International Equity	18,252,523	-	18,252,523	-
<b>Total Assets at Fair Value</b>	<b>\$ 56,707,589</b>	<b>\$ -</b>	<b>\$ 46,176,810</b>	<b>\$ 10,530,779</b>

**CATHOLIC DIOCESE OF WILMINGTON, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2014**

**NOTE 9: FAIR VALUE MEASUREMENT - CONTINUED**

	2013			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Pooled Investments</b>				
Cash and Cash Equivalents	\$ 1,552,810	\$ -	\$ 1,552,810	\$ -
Fixed Income	3,594,566	-	3,594,566	-
Domestic Equity	9,794,497	-	5,558,168	4,236,329
International Equity	4,243,962	-	4,243,962	-
<b>Total Pooled Investments</b>	<u>19,185,835</u>	<u>-</u>	<u>14,949,506</u>	<u>4,236,329</u>
<b>Other Investments</b>				
Cash and Cash Equivalents	64,716	-	64,716	-
Fixed Income	462,115	-	462,115	-
Domestic Equity	1,259,175	-	355,770	903,405
International Equity	545,601	-	545,601	-
<b>Total Other Investments</b>	<u>2,331,607</u>	<u>-</u>	<u>1,428,202</u>	<u>903,405</u>
<b>Assets Held for Affiliates</b>				
Cash and Cash Equivalents	2,697,246	-	2,697,246	-
Fixed Income	4,577,510	-	4,577,510	-
Domestic Equity	12,472,821	-	7,414,375	5,058,446
International Equity	5,404,482	-	5,404,482	-
<b>Assets Held for Affiliates</b>	<u>25,152,059</u>	<u>-</u>	<u>20,093,613</u>	<u>5,058,446</u>
<b>Assets at Fair Value</b>				
Total Cash Management Funds	4,314,772	-	4,314,772	-
Total Fixed Income	8,634,191	-	8,634,191	-
Total Domestic Equity	23,526,493	-	13,328,313	10,198,180
Total International Equity	10,194,045	-	10,194,045	-
<b>Total Assets at Fair Value</b>	<u>\$ 46,669,501</u>	<u>\$ -</u>	<u>\$ 36,471,321</u>	<u>\$ 10,198,180</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, 2014 and 2013, which would normally be considered a level 1 input on the fair value hierarchy. However,



**CATHOLIC DIOCESE OF WILMINGTON, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2014**

**NOTE 9: FAIR VALUE MEASUREMENT - CONTINUED**

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.

Investments designated as level 3 consist of Diocese's allocation of holdings that contain private equity funds or holdings in which a readily ascertainable market value does not exist. The fair values of these investments have been determined based on the proportionate share of the underlying net assets of the investment funds and are provided to the investment custodian directly from the private equity investment fund manager in the absence of readily ascertainable market values. Because of the inherent uncertainty of valuation, the estimated fair values may differ significantly from values that would have been used had a ready market for investments existed and those differences could be material.

The following is a summary the changes in the fair value of Diocese's level 3 assets for the years ended June 30, 2014 and 2013:

	<u>Pooled Investments</u>	<u>Other Investments</u>	<u>Assets Held for Affiliates</u>
Balance - July 1, 2012	\$ 3,299,194	\$ 918,579	\$ 4,417,458
Net Purchases, Withdrawals and Transfers	276,066	(179,891)	(184,512)
Interest and Dividend Income, Net of Fees	1,277	365	1,670
Gains on Investments	<u>659,792</u>	<u>164,352</u>	<u>823,830</u>
Balance - June 30, 2013	<u>\$ 4,236,329</u>	<u>\$ 903,405</u>	<u>\$ 5,058,446</u>
Balance - July 1, 2013	\$ 4,236,329	\$ 903,405	\$ 5,058,446
Net Purchases, Withdrawals and Transfers	(417,316)	(616,539)	(743,681)
Interest and Dividend Income, Net of Fees	(6,471)	(486)	(7,311)
Gains on Investments	<u>963,480</u>	<u>72,372</u>	<u>1,088,551</u>
Balance - June 30, 2014	<u>\$ 4,776,022</u>	<u>\$ 358,752</u>	<u>\$ 5,396,005</u>

**NOTE 10: 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.

**CATHOLIC DIOCESE OF WILMINGTON, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2014**

**NOTE 10: RELATED-PARTY TRANSACTIONS - CONTINUED**

During the year ended June 30, 2013, the Catholic Diocese Foundation loaned the Diocese \$585,909 to help fund the preparation phase of the new capital campaign. The balance was repaid in full during the year ended June 30, 2014. The balance due to the Foundation was \$0 and \$585,909 as of June 30, 2014 and 2013, respectively, and is included in loan payable - related party on the statements of assets, liabilities, and net assets - modified cash basis.

The Diocese received assessments from its parishes and other affiliated entities in the amounts of \$4,238,448 and \$4,108,500 for the years ended June 30, 2014 and 2013, respectively. In relation to assessments, amounts due to the Diocese from affiliated entities as of June 30, 2014 and 2013 were \$2,285,317 and \$2,366,166, respectively. Management reserved \$1,956,041 and \$2,032,071 as of June 30, 2014 and 2013, 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.

The Diocese had pledged to reimburse Catholic Charities, Inc. (Charities) for certain program costs incurred in New Castle County, up to \$1,000,000. When these costs were incurred by Charities, an expense and a related liability to Charities was recognized in an amount equal to the costs. The balance due to Charities included in other liabilities as of June 30, 2014 and 2013 was \$1,056,019 and \$889,723, respectively.

During the years ended June 30, 2014 and 2013, the Diocese provided funding to certain affiliated corporations. The more significant funding provided was as follows:

	2014	2013
Catholic Press of Wilmington, Inc.	\$ 157,594	\$ 118,062
Catholic Charities, Inc.	830,486	798,210
Catholic Youth Organization	111,768	93,472
Catholic Schools	344,940	344,940

During the years ended June 30, 2014 and 2013, 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, 2014 and 2013 are included in accounts receivable on the statements of assets, liabilities, and net assets - modified cash basis.

**CATHOLIC DIOCESE OF WILMINGTON, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2014**

**NOTE 10: RELATED-PARTY TRANSACTIONS - CONTINUED**

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

	<u>2014</u>	<u>2013</u>
Catholic Charities, Inc.	\$ 201,582	\$ 243,411
Catholic Cemeteries, Inc.	140,000	90,000
St. Mark's High School	120,000	321,866
St. Thomas More Academy	11,000	51,822

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 received approximately \$11,100,000 and \$10,400,000, respectively, in premium revenue from affiliated corporations and paid approximately \$8,900,000 and \$8,200,000, respectively, in actual claims and administrative costs for the years ended June 30, 2014 and 2013. As of June 30, 2014 and 2013, lay insurance receivables due from affiliated corporations totaled \$2,937,071 and \$1,672,514, respectively, and are included in accounts receivable. As of June 30, 2014 and 2013, lay insurance receivables that management has deemed uncollectible were reserved in the amount of \$971,024 and \$978,310, 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 received approximately \$1,740,000 and \$1,690,000, respectively, in premium revenues from affiliated corporations and paid approximately \$1,670,000 and \$1,600,000, respectively, in actual claims during the years ended June 30, 2014 and 2013. As of June 30, 2014 and 2013, clergy insurance receivables due from affiliated parishes totaled \$156,350 and \$101,964, respectively, and are included in accounts receivable. As of June 30, 2014 and 2013, clergy insurance receivables that management has deemed uncollectible were reserved in the amount of \$118,964 and \$101,964, 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 (see Note 11).

**CATHOLIC DIOCESE OF WILMINGTON, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2014**

**NOTE 11: PENSION PLANS**

The Diocese sponsors a noncontributory defined benefit pension plan (Lay Pension Plan) covering 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 under-funded when the Diocese filed a petition for relief under Chapter 11 of the Bankruptcy Code in October 2009. The Official Committee of Lay Employees represented the interests of lay pension claimants in the Diocese's bankruptcy case. As part of the Settlement Plan, designated lay pension fund assets held in the pooled investment account outside of the defined benefit pension plan were transferred to the Lay Pension Plan Trust (see Note 2, Plan of Reorganization).

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	
	2014	2013
Market Value of Assets	\$ 21,123,649	\$ 18,405,475
Actuarial Liability	70,886,626	68,005,006
Funded Status Percentage	29.80%	27.06%

The Diocese, as a reorganized debtor, has agreed to additional scheduled contributions as follows:

No later than December 31, 2011	\$5,000,000
No later than June 30, 2013	2,000,000
No later than June 30, 2014	2,100,000
No later than June 30, 2015	2,200,000
No later than December 31, 2016	5,000,000
No later than December 31, 2017	5,000,000

During the years ended June 30, 2014 and 2013, the Diocese contributed \$3,400,000 and \$2,000,000 to the Lay Pension Plan.

**CATHOLIC DIOCESE OF WILMINGTON, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2014**

**NOTE 11: PENSION PLANS - CONTINUED**

For fiscal years ending after June 30, 2015 (not including the two \$5,000,000 scheduled contributions above), 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, 2014 and 2013, the fund assets totaled \$1,931,859 and \$2,331,607, 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 12: 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, 2014 and 2013, matching contributions were \$82,271 and \$44,232, respectively.

**NOTE 13: 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, 2014 and 2013 totaled \$5,130,070 and \$3,779,208, respectively.

**CATHOLIC DIOCESE OF WILMINGTON, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2014**

**NOTE 14: CONTINGENCIES**

The Diocese sponsors self-insurance plans which cover health insurance for lay and religious employees of the Diocese and affiliated entities (Note 10). 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 \$800,000 as of June 30, 2014 and 2013.

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, 2014, there was one unsettled claim remaining from the Plan of Reorganization (Note 2). The remaining settlement for this claim is not reasonably determinable. The Diocese believes that any liability it will incur would not have a material adverse effect on its financial condition or its results of operations.