

CATHOLIC DIOCESE OF WILMINGTON, INC.

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

JUNE 30, 2016 AND 2015

CATHOLIC DIOCESE OF WILMINGTON, INC.
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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, 2016 and 2015, 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 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 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, 2016 and 2015, 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 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 this matter.

Belfint, Lyons & Shuman, P.A.

November 30, 2016
Wilmington, Delaware

CATHOLIC DIOCESE OF WILMINGTON, INC.
STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2016

	<u>Unrestricted</u>		<u>Total</u>	<u>Restricted</u>	<u>Total</u>
	<u>General</u>	<u>Designated</u>			
ASSETS					
Cash and Cash Equivalents	\$ 1,658,452	\$ 207,784	\$ 1,866,236	\$ 1,634,194	\$ 3,500,430
Pooled Investments	2,370,728	9,581,460	11,952,188	12,428,559	24,380,747
Other Investments	-	2,108,272	2,108,272	-	2,108,272
Other Assets	-	-	-	58,009	58,009
Pledges Receivable (Net)	-	100,000	100,000	4,557,346	4,657,346
Accounts Receivable (Net)	2,343,157	2,607,614	4,950,771	22,182	4,972,953
Notes Receivable	463,544	-	463,544	-	463,544
Real Estate	770,340	-	770,340	-	770,340
Assets Held for Affiliates	-	-	-	25,197,284	25,197,284
TOTAL ASSETS	<u>\$ 7,606,221</u>	<u>\$ 14,605,130</u>	<u>\$ 22,211,351</u>	<u>\$ 43,897,574</u>	<u>\$ 66,108,925</u>
LIABILITIES					
Bank Note Payable	\$ 8,417,468	\$ -	\$ 8,417,468	\$ -	\$ 8,417,468
Other Liabilities	889,250	943,505	1,832,755	2,600	1,835,355
Fair Value of Interest Rate Swap	189,384	-	189,384	-	189,384
Assets Owed to Affiliates	-	-	-	25,197,284	25,197,284
TOTAL LIABILITIES	<u>9,496,102</u>	<u>943,505</u>	<u>10,439,607</u>	<u>25,199,884</u>	<u>35,639,491</u>
NET ASSETS					
Unrestricted - General	(1,889,881)	-	(1,889,881)	-	(1,889,881)
Unrestricted - Designated	-	13,661,625	13,661,625	-	13,661,625
Temporarily Restricted	-	-	-	13,165,861	13,165,861
Permanently Restricted	-	-	-	5,531,829	5,531,829
TOTAL NET ASSETS	<u>(1,889,881)</u>	<u>13,661,625</u>	<u>11,771,744</u>	<u>18,697,690</u>	<u>30,469,434</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,606,221</u>	<u>\$ 14,605,130</u>	<u>\$ 22,211,351</u>	<u>\$ 43,897,574</u>	<u>\$ 66,108,925</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, 2015

	Unrestricted			Restricted	Total*
	General	Designated	Total		
ASSETS					
Cash and Cash Equivalents	\$ 3,039,731	\$ (125,418)	\$ 2,914,313	\$ 1,566,355	\$ 4,480,668
Pooled Investments	2,623,641	8,989,445	11,613,086	12,909,788	24,522,874
Other Investments	-	948,820	948,820	-	948,820
Other Assets	-	-	-	58,009	58,009
Pledges Receivable (Net)	-	100,000	100,000	8,877,076	8,977,076
Accounts Receivable (Net)	2,014,153	2,329,926	4,344,079	27,523	4,371,602
Notes Receivable	513,190	-	513,190	-	513,190
Real Estate	770,340	-	770,340	-	770,340
Assets Held for Affiliates	-	-	-	26,954,091	26,954,091
TOTAL ASSETS	\$ 8,961,055	\$ 12,242,773	\$ 21,203,828	\$ 50,392,842	\$ 71,596,670
LIABILITIES					
Bank Note Payable	\$ 8,825,982	\$ -	\$ 8,825,982	\$ -	\$ 8,825,982
Other Liabilities	1,004,457	700,000	1,704,457	(7,929)	1,696,528
Assets Owed to Affiliates	-	-	-	26,954,091	26,954,091
Interfund Payable (Receivable)	(882,477)	1,233,995	351,518	(351,518)	-
TOTAL LIABILITIES	8,947,962	1,933,995	10,881,957	26,594,644	37,476,601
NET ASSETS					
Unrestricted - General	13,093	-	13,093	-	13,093
Unrestricted - Designated	-	10,308,778	10,308,778	-	10,308,778
Temporarily Restricted	-	-	-	18,266,369	18,266,369
Permanently Restricted	-	-	-	5,531,829	5,531,829
TOTAL NET ASSETS	13,093	10,308,778	10,321,871	23,798,198	34,120,069
TOTAL LIABILITIES AND NET ASSETS	\$ 8,961,055	\$ 12,242,773	\$ 21,203,828	\$ 50,392,842	\$ 71,596,670

*Restated, See Note 15

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, 2016

	<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>		
REVENUE AND OTHER SUPPORT							
Assessments	\$ 4,310,950	\$ -	\$ 4,310,950	\$ -	\$ -	\$ -	\$ 4,310,950
Annual Appeal	4,863,478	-	4,863,478	-	-	-	4,863,478
Pooled Investment Income (Loss)	(42,138)	(35,084)	(77,222)	(370,258)	24,431	-	(423,049)
Other Investment Income (Loss)	10,025	(34,846)	(24,821)	7,191	-	-	(17,630)
Collections	142,758	224,149	366,907	49,766	-	-	416,673
Contributions	146,869	190,236	337,105	265,641	260,656	-	863,402
Priests' Insurance Premiums	-	1,476,193	1,476,193	-	-	-	1,476,193
Lay Employee Insurance Premiums	-	11,718,323	11,718,323	-	-	-	11,718,323
Property and Liability Insurance Premiums	-	2,306,532	2,306,532	-	-	-	2,306,532
Other Program Fees	385,577	21,064	406,641	-	-	-	406,641
Change in Value of Interest Rate Swap	(189,384)	-	(189,384)	-	-	-	(189,384)
Net Assets Released from Restrictions	5,337,935	-	5,337,935	(1,071,609)	(4,266,326)	-	-
TOTAL REVENUE AND OTHER SUPPORT	<u>14,966,070</u>	<u>15,866,567</u>	<u>30,832,637</u>	<u>(1,119,269)</u>	<u>(3,981,239)</u>	<u>-</u>	<u>25,732,129</u>
EXPENSES							
Program Services							
Catholic Charities	855,388	-	855,388	-	-	-	855,388
Catholic Education	890,195	-	890,195	-	-	-	890,195
Communication	101,082	-	101,082	-	-	-	101,082
Distributions							
Education Fund	-	604,940	604,940	-	-	-	604,940
Other Funds	-	575,596	575,596	-	-	-	575,596
Clergy Pension	-	980,431	980,431	-	-	-	980,431
Assistance to Diocesan Agencies	623,486	-	623,486	-	-	-	623,486
Program Expenses for Restricted Purposes	149,573	-	149,573	-	-	-	149,573
Pastoral Services	993,658	-	993,658	-	-	-	993,658
Total Program Services	<u>3,613,382</u>	<u>2,160,967</u>	<u>5,774,349</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,774,349</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, 2016

	Unrestricted			Temporarily Restricted		Permanently Restricted	Total
	General	Designated	Total	General	Capital Campaign		
EXPENSES - CONTINUED							
Supporting Services							
Administration (Including Bad Debts)	\$ 1,936,599	\$ 800,674	\$ 2,737,273	\$ -	\$ -	\$ -	\$ 2,737,273
Capital Expenditures	85,658	-	85,658	-	-	-	85,658
Development	587,287	-	587,287	-	-	-	587,287
Finance	1,106,284	-	1,106,284	-	-	-	1,106,284
Priests' Insurance Expense	-	1,910,579	1,910,579	-	-	-	1,910,579
Lay Employees Insurance Expense	-	11,064,351	11,064,351	-	-	-	11,064,351
Lay Employees Benefits	4,616,533	-	4,616,533	-	-	-	4,616,533
Property and Liability Insurance Expense	-	1,500,450	1,500,450	-	-	-	1,500,450
Total Supporting Services	8,332,361	15,276,054	23,608,415	-	-	-	23,608,415
TOTAL EXPENSES	11,945,743	17,437,021	29,382,764	-	-	-	29,382,764
CHANGE IN NET ASSETS BEFORE TRANSFERS	3,020,327	(1,570,454)	1,449,873	(1,119,269)	(3,981,239)	-	(3,650,635)
Interfund Transfers	(4,923,301)	4,923,301	-	-	-	-	-
CHANGE IN NET ASSETS	(1,902,974)	3,352,847	1,449,873	(1,119,269)	(3,981,239)	-	(3,650,635)
NET ASSETS - Beginning of Year	13,093	10,308,778	10,321,871	7,317,889	10,948,480	5,531,829	34,120,069
NET ASSETS - End of Year	<u>\$ (1,889,881)</u>	<u>\$ 13,661,625</u>	<u>\$ 11,771,744</u>	<u>\$ 6,198,620</u>	<u>\$ 6,967,241</u>	<u>\$ 5,531,829</u>	<u>\$ 30,469,434</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, 2015

	Unrestricted			Temporarily Restricted		Permanently Restricted	Total*
	General	Designated	Total	General	Capital Campaign		
REVENUE AND OTHER SUPPORT							
Assessments	\$ 4,282,513	\$ -	\$ 4,282,513	\$ -	\$ -	\$ -	\$ 4,282,513
Annual Appeal	4,215,929	-	4,215,929	-	-	-	4,215,929
Pooled Investment Income (Loss)	5,001	(17,668)	(12,667)	5,881	(5,720)	-	(12,506)
Other Investment Income	13,998	60,227	74,225	7,191	-	-	81,416
Collections	109,373	-	109,373	36,213	-	-	145,586
Contributions	23,832	9,776	33,608	203,408	9,917,901	-	10,154,917
Priests' Insurance Premiums	-	1,522,943	1,522,943	-	-	-	1,522,943
Lay Employee Insurance Premiums	-	11,264,743	11,264,743	-	-	-	11,264,743
Property and Liability Insurance Premiums	-	2,549,068	2,549,068	-	-	-	2,549,068
Other Program Fees	450,520	15,471	465,991	-	-	-	465,991
Net Assets Released from Restrictions	7,887,052	-	7,887,052	(825,443)	(7,061,609)	-	-
TOTAL REVENUE AND OTHER SUPPORT	16,988,218	15,404,560	32,392,778	(572,750)	2,850,572	-	34,670,600
EXPENSES							
Program Services							
Catholic Charities	806,742	-	806,742	-	-	-	806,742
Catholic Education	382,471	-	382,471	-	-	-	382,471
Communication	139,049	-	139,049	-	-	-	139,049
Distributions							
Education Fund	-	200,410	200,410	-	-	-	200,410
Other Funds	-	198,861	198,861	-	-	-	198,861
Clergy Pension	-	847,112	847,112	-	-	-	847,112
Assistance to Diocesan Agencies	654,135	-	654,135	-	-	-	654,135
Program Expenses for Restricted Purposes	1,375,104	-	1,375,104	-	-	-	1,375,104
Pastoral Services	568,969	-	568,969	-	-	-	568,969
Total Program Services	3,926,470	1,246,383	5,172,853	-	-	-	5,172,853

*Restated, See Note 15

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, 2015

	<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>		
EXPENSES - CONTINUED							
Supporting Services							
Administration (Including Bad Debts)	\$ 2,767,454	\$ 1,190,437	\$ 3,957,891	\$ -	\$ -	\$ -	\$ 3,957,891
Capital Expenditures	215,788	-	215,788	-	-	-	215,788
Development	514,478	-	514,478	-	-	-	514,478
Finance	546,196	-	546,196	-	-	-	546,196
Bankruptcy Expenses	117,549	122,239	239,788	-	-	-	239,788
Priests' Insurance Expense	-	1,843,517	1,843,517	-	-	-	1,843,517
Lay Employees Insurance Expense	-	10,614,738	10,614,738	-	-	-	10,614,738
Lay Employees Benefits	6,134,555	-	6,134,555	-	-	-	6,134,555
Property and Liability Insurance Expense	-	1,593,245	1,593,245	-	-	-	1,593,245
	<u>10,296,020</u>	<u>15,364,176</u>	<u>25,660,196</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,660,196</u>
TOTAL EXPENSES	<u>14,222,490</u>	<u>16,610,559</u>	<u>30,833,049</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,833,049</u>
CHANGE IN NET ASSETS BEFORE TRANSFERS	2,765,728	(1,205,999)	1,559,729	(572,750)	2,850,572	-	3,837,551
Interfund Transfers	29,933	(29,933)	-	-	-	-	-
CHANGE IN NET ASSETS	2,795,661	(1,235,932)	1,559,729	(572,750)	2,850,572	-	3,837,551
NET ASSETS - Beginning of Year	<u>(2,782,568)</u>	<u>11,544,710</u>	<u>8,762,142</u>	<u>7,890,639</u>	<u>8,097,908</u>	<u>5,531,829</u>	<u>30,282,518</u>
NET ASSETS - End of Year	<u>\$ 13,093</u>	<u>\$ 10,308,778</u>	<u>\$ 10,321,871</u>	<u>\$ 7,317,889</u>	<u>\$ 10,948,480</u>	<u>\$ 5,531,829</u>	<u>\$ 34,120,069</u>

*Restated, See Note 15

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, 2016 AND 2015

	2016	2015*
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets	\$ (3,650,635)	\$ 3,837,551
Adjustments to Reconcile Changes in Net Assets to Net Cash from Operating Activities		
Net Losses on Pooled Investments	696,679	328,858
Net Losses on Other Investments	73,878	31,454
Change in Value of Interest Rate Swap	189,384	-
Bad Debt Expense	1,447,638	1,355,993
Changes in Assets and Liabilities		
Accounts Receivable	(1,981,651)	(2,608,882)
Pledges Receivable	4,252,392	(3,750,647)
Other Liabilities	138,827	(1,274,352)
NET CASH FROM OPERATING ACTIVITIES	1,166,512	(2,080,025)
CASH FLOWS FROM INVESTING ACTIVITIES		
Amounts Drawn from (Deposited to) Pooled Investments - Net	(280,413)	1,183,201
Amounts Drawn from (Deposited to) Other Investments for Priests' Pension Payments - Net	(1,201,306)	987,043
Reinvestment of Interest and Dividends into Pooled Investments	(274,139)	(316,352)
Reinvestment of Interest and Dividends into Other Investments	(32,024)	(35,458)
Repayments of Notes Receivable	49,646	10,433
NET CASH FROM INVESTING ACTIVITIES	(1,738,236)	1,828,867
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Bank Note Payable	(408,514)	(380,370)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(980,238)	(631,528)
CASH AND CASH EQUIVALENTS - Beginning of Year	4,480,668	5,112,196
CASH AND CASH EQUIVALENTS - End of Year	\$ 3,500,430	\$ 4,480,668
SUPPLEMENTAL DISCLOSURES		
Interest Paid	\$ 273,369	\$ 229,196

*Restated, See Note 15

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

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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, 2016

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, programs which benefit families of a predetermined income and residential criteria, and capital campaign.

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.

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

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

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 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 that 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 (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, 2016 and 2015, 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.

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

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

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 collectibility. The total allowance for doubtful accounts receivable as of June 30, 2016 and 2015 was \$6,170,995 and \$4,770,881, respectively.

Other Assets - As of June 30, 2016 and 2015, 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, 2016 and 2015 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.

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

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

Fair Value - Continued

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, 2016 and 2015.

The Diocese believes it is no longer subject to examination by tax authorities for years prior to fiscal year ended June 30, 2013.

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.

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). 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

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

NOTE 2: PLAN OF REORGANIZATION - CONTINUED

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 10.

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.

NOTE 3: POOLED INVESTMENTS

The composition of pooled investments as of June 30, 2016 and 2015 was as follows:

	<u>2016</u>	<u>2015</u>
Cash and Cash Equivalents	\$ 9,490	\$ 1,511,292
Fixed Income	5,726,382	4,497,367
Domestic Equity	10,251,273	10,496,781
International Equity	<u>8,393,602</u>	<u>8,017,434</u>
Total Pooled Investments	<u>\$ 24,380,747</u>	<u>\$ 24,522,874</u>

Pooled investment loss for the years ended June 30, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Interest and Dividends	\$ 435,426	\$ 494,792
Custodial and Advisory Fees	(161,796)	(178,440)
Net Losses	<u>(696,679)</u>	<u>(328,858)</u>
Total Pooled Investment Loss	<u>\$ (423,049)</u>	<u>\$ (12,506)</u>

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

NOTE 4: OTHER INVESTMENTS

The composition of other investments - Revocable Priests' Retirement and Welfare Trust as of June 30, 2016 and 2015 was as follows:

	<u>2016</u>	<u>2015</u>
Cash and Cash Equivalents	\$ (368,571)	\$ (1,413,383)
Fixed Income	581,970	461,667
Domestic Equity	1,041,834	1,077,524
International Equity	<u>853,039</u>	<u>823,012</u>
Total Other Investments	<u>\$ 2,108,272</u>	<u>\$ 948,820</u>

Other investments income (loss) - Revocable Priests' Retirement and Welfare Trust for the years ended June 30, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Interest and Dividends	\$ 43,980	\$ 50,852
Custodial and Advisory Fees	(11,956)	(15,394)
Net Losses	<u>(73,878)</u>	<u>(31,454)</u>
Other Investment Income (Loss)	<u>\$ (41,854)</u>	<u>\$ 4,004</u>

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

NOTE 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. On October 10, 2013 the property was sold for \$700,000, which included \$547,512 in cash proceeds (\$600,000 less \$52,488 in fees) plus an interest-free note of \$100,000 to be paid in October 2018. As a result of the sale and outstanding note receivable, the pledge receivable in the amount of \$100,000 is included in the statements of assets, liabilities, and net assets - modified cash basis as of June 30, 2016 and 2015.

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

NOTE 5: PLEDGES RECEIVABLE - CONTINUED

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

Capital campaign pledges are receivable over a period of up to five years. Pledges are discounted using the Internal Revenue Service applicable federal rate (1.41% and 1.60% as of June 30, 2016 and 2015, 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.

The following pledges receivable were outstanding as of June 30:

	<u>2016</u>	<u>2015</u>
Campaign Pledges Receivable		
Receivable Within One Year	\$ 5,412,465	\$ 6,865,527
Receivable in One to Five Years	<u>1,663,226</u>	<u>6,611,203</u>
Gross Campaign Pledges Receivable	7,075,691	13,476,730
Parish Shortfall and Pledges to Parishes		
Receivable from One to Three Years	554,037	994,825
Discount to Net Present Value	(124,282)	(241,958)
Allowance for Uncollectible Pledges	<u>(353,785)</u>	<u>(673,837)</u>
	7,151,661	13,555,760
Less: Portion Attributable to Parishes	<u>(2,594,315)</u>	<u>(4,678,684)</u>
Campaign Pledges Receivable (Net)	4,557,346	8,877,076
Pledged Proceeds from Real Estate Transaction	<u>100,000</u>	<u>100,000</u>
Pledges Receivable (Net)	<u>\$ 4,657,346</u>	<u>\$ 8,977,076</u>

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

NOTE 6: NOTES RECEIVABLE

Notes receivable were as follows as of June 30:

	2016	2015
<i>Diocese of Wilmington Schools, Inc.</i> - Issued Without Terms	\$ 303,544	\$ 303,190
<i>St. Joseph Church</i> - Interest-free Loan with Quarterly Installments of \$7,500 over 10 Years, Starting September 2017	160,000	210,000
Total Notes Receivable	\$ 463,544	\$ 513,190

NOTE 7: 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 requires 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, 2016 and 2015 was 2.71% and 2.43%, respectively. During the year ended June 30, 2016, the terms of the loan agreement were further amended to extend the maturity date through October 1, 2021. The outstanding balance due on the note payable as of June 30, 2016 and 2015 was \$8,417,468 and \$8,825,982, respectively. An entity related to the Diocese agreed to pledge as collateral of the note payable unencumbered real property on behalf of the Diocese.

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

2017	\$ 378,576
2018	412,992
2019	412,992
2020	412,992
2021	412,992
Thereafter	6,386,924
	\$ 8,417,468

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

NOTE 7: 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 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 original loan agreement required the Diocese to 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. During the year ended June 30, 2015, the original loan agreement was amended to require the Diocese to maintain cash on hand of at least 90 days.

During the year ended June 30, 2016, in order to hedge interest rate risk, the Diocese entered into an interest rate swap agreement for a notional amount of \$4,361,780. Under this agreement, the Diocese pays a fixed rate of 4.06% on the outstanding notional amount on a monthly basis and receives, on a monthly basis, LIBOR plus 2.25%. The swap agreement commenced on September 3, 2015 and expires on October 1, 2021. The estimated value of the interest rate swap liability as of June 30, 2016 was \$189,384 and is included in the statements of assets, liabilities, and net assets.

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

2017	\$ 212,247
2018	217,659
2019	223,209
2020	228,725
2021	236,897
Thereafter	<u>3,088,171</u>
	<u><u>\$ 4,206,908</u></u>

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

NOTE 8: FAIR VALUE MEASUREMENT

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

	<u>2016</u>	<u>2015</u>
Pooled Investments	\$ 24,380,747	\$ 24,522,874
Other Investments	2,108,272	948,820
Assets Held for Affiliates	<u>25,197,284</u>	<u>26,954,091</u>
Total Investments	<u>\$ 51,686,303</u>	<u>\$ 52,425,785</u>

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

	<u>2016</u>			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets at Fair Value				
Investments				
Cash Management Funds	\$ 732,529	\$ 732,529	\$ -	\$ -
Fixed Income	11,972,332	11,972,332	-	-
Domestic Equity	21,432,667	12,869,963	-	8,562,704
International Equity	<u>17,548,775</u>	<u>13,457,660</u>	<u>-</u>	<u>4,091,115</u>
Total Investments at Fair Value	<u>\$ 51,686,303</u>	<u>\$ 39,032,484</u>	<u>\$ -</u>	<u>\$ 12,653,819</u>
Liabilities at Fair Value				
Interest Rate Swap	\$ 189,384	\$ -	\$ 189,384	\$ -
Assets Owed to Affiliates	<u>25,197,284</u>	<u>-</u>	<u>25,197,284</u>	<u>-</u>
Total Liabilities at Fair Value	<u>\$ 25,386,668</u>	<u>\$ -</u>	<u>\$ 25,386,668</u>	<u>\$ -</u>

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

NOTE 8: FAIR VALUE MEASUREMENT - CONTINUED

	2015			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets at Fair Value				
Investments				
Cash Management Funds	\$ 564,750	\$ 564,750	\$ -	\$ -
Fixed Income	10,135,683	10,135,683	-	-
Domestic Equity	23,656,520	14,454,241	-	9,202,279
International Equity	<u>18,068,832</u>	<u>13,627,157</u>	<u>-</u>	<u>4,441,675</u>
Total Investments at Fair Value	<u>\$ 52,425,785</u>	<u>\$ 38,781,831</u>	<u>\$ -</u>	<u>\$ 13,643,954</u>
Liabilities at Fair Value				
Assets Owed to Affiliates	<u>\$ 26,954,091</u>	<u>\$ -</u>	<u>\$ 26,954,091</u>	<u>\$ -</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, 2016 and 2015.

Investments designated as level 3 consist of Diocese's mutual fund 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 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, 2016 and 2015 which would normally be considered a level 1 input on the fair value hierarchy. However, the existence of pool allocations in determining each organization's share of the pool is considered to be a level 2 input, which results in the classification as shown above.

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

NOTE 8: FAIR VALUE MEASUREMENT - CONTINUED

The following is a summary of the changes in the fair value of Diocese's level 3 assets for the years ended June 30, 2016 and 2015:

	<u>Investments</u>
Balance - July 1, 2014	\$ 15,171,248
Net Purchases, Withdrawals, and Transfers	(1,667,999)
Interest and Dividend Income, Net of Fees	(109,273)
Gains on Investments	249,978
Balance - June 30, 2015	\$ 13,643,954
Balance - July 1, 2015	\$ 13,643,954
Net Purchases, Withdrawals, and Transfers	(779,677)
Interest and Dividend Income, Net of Fees	(110,522)
Losses on Investments	(99,936)
Balance - June 30, 2016	\$ 12,653,819

NOTE 9: RELATED-PARTY TRANSACTIONS

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

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

During the years ended June 30, 2016 and 2015, the Diocese loaned St. Thomas More Academy \$290,000 and \$225,000, respectively, to help fund their operations. This non-interest-bearing loan has no stated repayment terms. The balance due to the Diocese was \$515,000 and \$225,000 as of June 30, 2016 and 2015, respectively, and management has established a reserve for this balance as an uncollectible account.

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

NOTE 9: RELATED-PARTY TRANSACTIONS - CONTINUED

The Diocese received assessments from its parishes and other affiliated entities in the amounts of \$4,310,950 and \$4,282,513 for the years ended June 30, 2016 and 2015, respectively. In relation to assessments, amounts due to the Diocese from affiliated entities as of June 30, 2016 and 2015 were \$3,248,611 and \$2,843,719, respectively. Management reserved \$1,938,381 and \$1,775,231 as of June 30, 2016 and 2015, respectively, for assessment receivables from entities that management has deemed uncollectible. Write-offs of the receivables are made at the discretion of management. The receivables, net of an allowance, are reported on the statements of assets, liabilities, and net assets - modified cash basis as accounts receivable.

During the years ended June 30, 2016 and 2015, the Diocese provided funding to certain affiliated corporations. The more significant funding provided was as follows:

	<u>2016</u>	<u>2015</u>
Catholic Press of Wilmington, Inc.	\$ 164,258	\$ 195,795
Catholic Charities, Inc.	855,388	806,742
Catholic Youth Organization	114,288	113,400
Catholic Schools	344,940	545,350

During the years ended June 30, 2016 and 2015, 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, 2016 and 2015 are included in accounts receivable on the statements of assets, liabilities, and net assets - modified cash basis.

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>2016</u>	<u>2015</u>
Catholic Charities, Inc.	\$ 298,296	\$ 201,990
Catholic Cemeteries, Inc.	280,027	210,030
St. Mark's High School	223,000	100,000
St. Thomas More Academy	41,000	11,000

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 \$11,720,000 and \$11,260,000, respectively, in premium revenue from affiliated corporations and paid approximately \$11,060,000 and \$10,600,000, respectively, in actual claims and administrative costs for the years ended June 30, 2016 and 2015.

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

NOTE 9: RELATED-PARTY TRANSACTIONS - CONTINUED

As of June 30, 2016 and 2015, lay insurance receivables due from affiliated corporations totaled \$5,206,149 and \$4,188,839, respectively, and are included in accounts receivable. As of June 30, 2016 and 2015, lay insurance receivables that management has deemed uncollectible were reserved in the amount of \$2,895,364 and \$2,157,190, 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 \$1,480,000 and \$1,520,000, respectively, in premium revenues from affiliated corporations and paid approximately \$1,910,000 and \$1,840,000, respectively, in actual claims during the years ended June 30, 2016 and 2015. As of June 30, 2016 and 2015, clergy insurance receivables due from affiliated parishes totaled \$299,427 and \$272,302, respectively, and are included in accounts receivable. As of June 30, 2016 and 2015, clergy insurance receivables that management has deemed uncollectible were reserved in the amount of \$185,735 and \$123,235, 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 10).

NOTE 10: 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 under-funded when the Diocese filed a petition for relief under Chapter 11 of the Bankruptcy Code in October 2009. In connection with the settlement with the Official Committee of Lay Employees incorporated into the order confirming the plan, actuaries assisted management in preparing cash-flow projections based on plan census, plan obligations, and current plan provisions.

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

	January 1	
	2016	2015
Market Value of Assets	\$ 25,409,942	\$ 26,308,690
Actuarial Liability	76,498,466	74,496,387
Funded Status Percentage	33.22%	35.32%

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

NOTE 10: PENSION PLANS - CONTINUED

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

No later than December 31, 2016	\$5,000,000
No later than December 31, 2017	5,000,000

During the years ended June 30, 2016 and 2015, the Diocese contributed \$4,769,748 and \$6,295,474 respectively, to the Lay Pension Plan.

For fiscal years ending after June 30, 2015 (not including the additional 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, 2016 and 2015, the fund assets totaled \$2,108,272 and \$948,820, 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 11: 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, 2016 and 2015, matching contributions were \$84,385 and \$81,981, respectively.

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2016

NOTE 12: 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, 2016 and 2015 totaled \$3,534,384 and \$4,301,800, respectively.

NOTE 13: CONTINGENCIES

The Diocese sponsors self-insurance plans which cover health insurance for lay and religious employees of the Diocese and affiliated entities (Note 9). 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 \$937,085 and \$700,000 as of June 30, 2016 and 2015, respectively.

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 14: LEASES

The Diocese leases office equipment under noncancelable leases expiring at various dates through March 2021. Rent expenses related to these leases were \$6,071 and \$6,221 for the years ended June 30, 2016 and 2015, respectively.

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

2017	\$	6,144
2018		6,144
2019		6,144
2020		4,664
2021		<u>1,278</u>
	<u>\$</u>	<u>24,374</u>

CATHOLIC DIOCESE OF WILMINGTON, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
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NOTE 15: PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2016, the Diocese determined that contribution revenue and net pledges receivable were understated as of June 30, 2015. As a result, the Diocese has restated its 2015 financial statements. The following are the effects of the restatement:

	<u>As Previously Reported</u>	<u>As Restated</u>	<u>Restatement</u>
<u>As of June 30, 2015</u>			
Pledges Receivable (Net)	\$ 8,188,268	\$ 8,977,076	\$ 788,808
Total Assets	70,807,862	71,596,670	788,808
Total Net Assets	33,331,261	34,120,069	788,808
<u>For the Year Ended June 30, 2015</u>			
Contributions	9,366,109	10,154,917	788,808
Total Revenue and Other Support	33,881,792	34,670,600	788,808
Change in Net Assets	3,048,743	3,837,551	788,808