

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT  
ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.  
JUNE 30, 2019**

**ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.**

**JUNE 30, 2019**

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## **Independent Auditor's Report**

To Most Reverend Christopher J. Coyne, Bishop  
and the Roman Catholic Diocese  
of Burlington, Vermont, Inc.

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Roman Catholic Diocese of Burlington, Vermont, Inc. (RCDB, Inc.), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

**Basis for Qualified Opinion**

The RCDB, Inc., has not included certain activities or operating divisions, such as the Diocesan schools, the Diocesan cemetery, and The Catholic Center (see Note A1), and has not consolidated Vermont Catholic Charities, Inc., into these financial statements, which is required to be consolidated in accordance with Accounting Standards Codification 810. The effects on the financial statements, as of and for the year ended June 30, 2019, have not been determined.

**Qualified Opinion**

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the RCDB, Inc. as of June 30, 2019, and the changes in its net assets, its functional expenses, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Gallagher, Flynn & Company, LLP

October 23, 2019

**ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.**

**STATEMENT OF FINANCIAL POSITION**

**JUNE 30, 2019**

**A S S E T S**

Cash	\$	102,727
Pledges receivable, net of allowance for doubtful accounts of \$26,885		318,631
Bequest and trust receivables		575,232
Parish receivables, net of allowance for doubtful accounts of \$163,031		459,703
Other current assets		81,376
Due from affiliated organizations, net		98,710
Prepaid expenses		147,017
Note receivable - related party		1,263,631
Marketable securities		5,099,659
Beneficial interests		15,875,857
Property and equipment, net		3,421,352
Prepaid pension plan costs		2,319,991
Total assets	\$	<u>29,763,886</u>

**LIABILITIES AND NET ASSETS**

**LIABILITIES**

Funds held for others	\$	66,012
Accounts payable		175,864
Accrued liabilities and reserves		344,171
Long-term debt		439,868
Accrued postretirement benefit plan costs		2,074,321
Total liabilities		<u>3,100,236</u>

**NET ASSETS**

Without donor restrictions		15,179,000
With donor restrictions		11,484,650
Total net assets		<u>26,663,650</u>
Total liabilities and net assets	\$	<u>29,763,886</u>

The accompanying notes are an integral part of this statement.

**ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.**

**STATEMENT OF ACTIVITIES**

**YEAR ENDED JUNE 30, 2019**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>REVENUES</b>			
Bishop's Annual Appeal	\$ 1,992,830	\$ 318,631	\$ 2,311,461
Diocesan assessments	1,423,435	-	1,423,435
Insurance premiums charged to parishes and other affiliates for insurance program	1,295,492	-	1,295,492
Imputed rental and administrative services charged to affiliated organization	1,501,446	-	1,501,446
Program revenue	288,432	-	288,432
St. Therese Digital Academy	3,171	-	3,171
Gifts and bequests	310,024	176,539	486,563
Investment return designated for current operations	865,258	201,267	1,066,525
Other revenue	<u>378,670</u>	<u>-</u>	<u>378,670</u>
Total revenues	8,058,758	696,437	8,755,195
Reclassifications: Net assets released from restrictions	<u>806,832</u>	<u>(806,832)</u>	<u>-</u>
Total revenues and reclassifications	<u>8,865,590</u>	<u>(110,395)</u>	<u>8,755,195</u>
<b>EXPENSES</b>			
Program services:			
General program expenses	4,987,717	-	4,987,717
Priests' benefit fund	590,328	-	590,328
Diocesan insurance	<u>1,228,630</u>	<u>-</u>	<u>1,228,630</u>
Total program services	<u>6,806,675</u>	<u>-</u>	<u>6,806,675</u>
Supporting services:			
General and administrative	2,511,254	-	2,511,254
Development	<u>551,554</u>	<u>-</u>	<u>551,554</u>
Total supporting services	<u>3,062,808</u>	<u>-</u>	<u>3,062,808</u>
Total expenses	<u>9,869,483</u>	<u>-</u>	<u>9,869,483</u>
<b>LOSS FROM OPERATIONS</b>	<u>(1,003,893)</u>	<u>(110,395)</u>	<u>(1,114,288)</u>
<b>OTHER GAINS</b>			
Investment return in excess of amounts designated for current operations	174,452	50,161	224,613
Increase in value of beneficial interests	36,699	80,078	116,777
Other	<u>12,642</u>	<u>-</u>	<u>12,642</u>
Total other gains	<u>223,793</u>	<u>130,239</u>	<u>354,032</u>
<b>INCREASE (DECREASE) IN NET ASSETS BEFORE PENSION RELATED CHANGES OTHER THAN NET PERIODIC PENSION COST</b>	<u>(780,100)</u>	19,844	<u>(760,256)</u>
Pension related changes other than net periodic pension cost	<u>(195,766)</u>	<u>-</u>	<u>(195,766)</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<u>(975,866)</u>	19,844	<u>(956,022)</u>
<b>NET ASSETS, beginning of year</b>	<u>16,154,866</u>	<u>11,464,806</u>	<u>27,619,672</u>
<b>NET ASSETS, end of year</b>	<u>\$ 15,179,000</u>	<u>\$ 11,484,650</u>	<u>\$ 26,663,650</u>

The accompanying notes are an integral part of this statement.

**ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**

**YEAR ENDED JUNE 30, 2019**

	Program Expenses				Supporting Expenses			Total Expenses
	General Program	Priests' Benefit Fund	Diocesan Insurance	Total Program	General and Administrative	Development	Total Supporting	
Salaries and wages	\$ 1,115,717	\$ 41,470	\$ 158,621	\$ 1,315,808	\$ 654,348	\$ 343,879	\$ 998,227	\$ 2,314,035
Employee benefits	320,784	19,332	28,194	368,310	197,739	71,862	269,601	637,911
Total personnel	1,436,501	60,802	186,815	1,684,118	852,087	415,741	1,267,828	2,951,946
Buildings and grounds	99,485	-	3,134	102,618	45,673	6,415	52,088	154,706
Contracted services	82,759	-	-	82,759	158,420	-	158,420	241,179
Insurance	-	-	1,011,216	1,011,216	29,599	-	29,599	1,040,815
Interest	-	-	-	-	35,639	-	35,639	35,639
Legal and related	-	-	-	-	429,335	-	429,335	429,335
Other	233,645	-	23,334	256,979	272,563	62,282	334,845	591,824
Priest benefits	-	491,169	-	491,169	-	-	-	491,169
Professional and technical	49,580	33,990	-	83,570	481,271	42,883	524,154	607,724
Seminary Education	431,185	-	-	431,185	-	-	-	431,185
Social services and subsidies	2,412,214	-	-	2,412,214	-	-	-	2,412,214
Supplies and postage	162,791	4,367	1,625	168,783	147,348	19,103	166,451	335,234
	4,908,160	590,328	1,226,124	6,724,611	2,451,935	546,424	2,998,359	9,722,970
Depreciation and amortization	79,557	-	2,506	82,064	59,319	5,130	64,449	146,513
Total	<u>\$ 4,987,717</u>	<u>\$ 590,328</u>	<u>\$ 1,228,630</u>	<u>\$ 6,806,675</u>	<u>\$ 2,511,254</u>	<u>\$ 551,554</u>	<u>\$ 3,062,808</u>	<u>\$ 9,869,483</u>

The accompanying notes are an integral part of this statement.

**ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.**

**STATEMENT OF CASH FLOWS**

**YEAR ENDED JUNE 30, 2019**

**DECREASE IN CASH**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Decrease in net assets	\$ (956,022)
Noncash items included in decrease in net assets:	
Depreciation and amortization	146,513
Net realized and unrealized gains on investments	(828,691)
Bad debt expense, net	42,003
Change in value of beneficial interests	(116,777)
Pension-related changes other than net periodic pension recovery	195,766
In-kind payments received on note receivable - related party	47,260
Changes in assets and liabilities:	
Receivables	443
Other current assets	(2,068)
Due from affiliated organizations	(18,876)
Prepaid expenses	(2,126)
Funds held for others	(43,141)
Accounts payable and accrued liabilities and reserves	(27,931)
Pension and postretirement benefit plan costs	(42,109)
	<u>(649,734)</u>
Net cash used in operating activities	<u>(1,605,756)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Capital acquisitions	(111,233)
Distributions from beneficial interests	405,033
Beneficial interest in Vermont Catholic Community Foundation	(1,500,500)
Proceeds from sale of marketable securities	4,168,209
Purchases of marketable securities	(1,690,485)
Net cash provided by investing activities	<u>1,271,024</u>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Principal payments on long-term debt	(29,898)
Net cash used in financing activities	<u>(29,898)</u>
Net decrease in cash	(364,630)

**CASH, beginning of year** 467,357

**CASH, end of year** \$ 102,727

**Supplemental Disclosures of Cash Flows Information**

Cash paid during the year for:	
Interest expense	<u>\$ 35,639</u>

The accompanying notes are an integral part of this statement.



# ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

### A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES

#### **General:**

The Roman Catholic Diocese of Burlington (the Diocese) was originally established in 1853. As a diocese of the Universal Roman Catholic Church, it is defined according to The Code of Canon Law as being “a portion of the people of God which is entrusted to a bishop for him to shepherd with the cooperation of the Presbyterian, so that, adhering to its pastor and gathered by him in the Holy Spirit through the gospel and the Eucharist, it constitutes a particular church in which the one, holy, Catholic, and apostolic Church of Christ is truly present and operative” (The Code of Canon Law, canon 369). As such, the Diocesan Bishop is the competent authority to erect parishes, diocesan schools, diocesan cemeteries and other activities in order to propagate the Roman Catholic religion without prejudice to the canons of The Code of Canon Law of the Roman Catholic Church and any other legislation promulgated by the Roman Catholic Church and, on the local level, by the Bishop of the Diocese.

#### **Overview of Operations:**

The Roman Catholic Diocese of Burlington, Vermont, Inc., (RCDB, Inc.) is a civil corporation ancillary to the canonical structure of the Roman Catholic Diocese of Burlington. It was chartered by the Vermont legislature in 1896, in order that it might serve the needs and requirements of those entities initially established by the first Diocesan Bishop, while at the same time respecting the separate legal structures of said entities and those that were to follow. The RCDB, Inc., consists of administrative offices, certain program offices conducted at the diocesan level, the diocesan cemetery, diocesan schools, and The Catholic Center. Certain activities are conducted by separately incorporated but affiliated entities, or by separate civilly constructed organizations under the pastoral and administrative care of the Diocesan Bishop in accordance with the canons of The Code of Canon Law of the Roman Catholic Church and other legislation as noted above. By virtue of being listed in the Official Catholic Directory as a member of the Roman Catholic Church, the RCDB, Inc., is exempt from income taxation.

#### **Accounting policies:**

##### **1. Scope of financial statements**

The accompanying financial statements include the assets, liabilities and financial activities of all administrative offices, program offices and departments of the RCDB, Inc. (RCDB Administrative Offices). However, accounts of certain activities or operating divisions of the RCDB, Inc., such as diocesan schools, the diocesan cemetery, and The Catholic Center, have been excluded. Vermont Catholic Charities, Inc. (a separate affiliated corporation for which the RCDB, Inc., is the parent corporation) has also been excluded. This entity operates separately and distinctly from the diocesan administrative offices, maintains separate accounts and carries on its own services and programs in accordance with the mission of the Roman Catholic Diocese of Burlington and the Universal Roman Catholic Church.

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

1. Scope of financial statements (continued)

These financial statements include the following activities:

**General operations:**

General operations include all accounts and activities of the RCDB, Inc., related to meeting the general and specific operating requirements of the RCDB, Inc., including chancery, finance, development, program ministries, *Vermont Catholic* publication, and general administration. The operating category also includes all accounts related to net assets with donor restrictions for the purpose of producing income for general or specific purposes.

**Self-insurance operations:**

The RCDB, Inc., is self-insured for property and liability-related claims costs and maintains a self-insurance reserve. Revenue is generated by premiums charged to affiliated organizations, and insurance premiums are paid to a provider for coverage at specified liability limits. Charges are made to operations for claims, settlements, insurance premiums, and legal defense costs.

**Priests' Benefit Fund:**

The RCDB, Inc., sponsors a noncontributory, non-ERISA qualified defined benefit retirement plan and related trust, and a defined health benefit postretirement plan under the "Priests' Benefit Fund," which provides medical care. The plans provide benefits to all Roman Catholic Priests who have been incardinated in the Diocese, have contributed twenty years of service to the Diocese, and meet certain criteria, as defined in the plans. Activity incurred in connection with the "Priests' Benefit Fund" for the year ended June 30, 2019 includes:

Program administration costs	\$ 99,159
Health and dental insurance premiums for active priests	435,404
Net periodic pension costs of the retirement and postretirement plans (see Note H)	<u>55,765</u>
Total priest benefit fund expenses	<u>\$ 590,328</u>

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

2. **Basis of accounting and presentation**

The accompanying statements have been prepared on the accrual basis of accounting, which means that revenues are recognized when they are earned, and expenses are recognized as they are incurred.

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. A main provision of this guidance was to condense the presentation of net assets from three classes (unrestricted, temporarily restricted and permanently restricted) to two classes, as described more fully below. The guidance also enhances disclosures for board-designated amounts, composition of net assets with donor restrictions, liquidity, and expenses by both their natural and functional classification.

The RCDB Administrative Office's financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP), which require the RCDB Administrative Offices to report information regarding its financial position and activities according to the following net asset classifications:

*Net assets without donor restrictions:* Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the RCDB Administrative Offices. These net assets may be used at the discretion of management and the Board and include board-designated funds that may be expended with approval of the Board.

*Net assets with donor restrictions:* Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the RCDB Administrative Offices or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

3. **Contributions and promises to give**

Contributions are recognized when the donor makes a promise to give to the RCDB Administrative Offices that is, in substance, unconditional. Contributions received are recorded as support with or without donor restrictions, depending on the existence and/or nature of any donor restrictions. Net assets with donor restrictions are reclassified to net assets without donor restrictions upon satisfaction of the time or purpose restrictions (see Note K). Contributions restricted for a specific purpose that are satisfied during the same fiscal year are recorded as without donor restrictions. Pledges receivable, which are primarily related to the Bishop's Fund Appeal, are expected to be collected in one year.

**ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

**A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)**

**3. Contributions and promises to give (continued)**

Gifts of property and equipment are presented as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as donor restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the RCDB Administrative Offices report expirations of donor restrictions when the donated or acquired long-lived assets are placed in service (as the assets are used in its activities).

**4. Diocesan assessments**

Diocesan assessments include assessments to parishes for the general support of the Diocesan operations and Catholic schools.

**5. Allowance for doubtful collection of receivables**

Notes and accounts receivable are stated at the amount the RCDB Administrative Offices expects to collect. The allowances for doubtful accounts are the RCDB Administrative Office's best estimates of the amount of probable credit losses in the RCDB Administrative Office's existing notes and accounts receivable; however, changes in circumstances relating to notes and accounts receivable may result in a requirement for additional allowances in the future. The RCDB Administrative Offices determine each allowance based on historical write-off experience, current trends in collections and, for larger accounts, the ability to pay outstanding balances. The RCDB Administrative Offices regularly review their allowances for doubtful accounts and maintain general reserves for loan balances and invoices considered to be at risk of collection. In addition, for accounts receivable, past due balances greater than 90 days and other higher risk amounts are reviewed individually for collectability. Account balances are charged against the respective allowance after all collection efforts have been exhausted and the potential for recovery is considered remote.

**6. Impairment of long-lived assets**

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows. An impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset.

**ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

**A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)**

**7. Fair value measurements**

Under the FASB authoritative guidance on fair value measurements, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the RCDB Administrative Offices uses various methods including market, income and cost approaches. Based on these approaches, the RCDB Administrative Offices often utilize certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The RCDB Administrative Offices utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques the RCDB Administrative Offices are required to provide the following information according to the fair value hierarchy.

The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the RCDB Administrative Offices have access to.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets in active markets;
- Quoted prices for identical or similar assets in inactive markets;
- Inputs other than quoted prices that are observable for the asset;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset.

Level 3: Inputs to the valuation methodology are unobservable and significant.

For the year ended June 30, 2019, the application of valuation techniques applied to similar assets and liabilities has been consistent.

**ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

**A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)**

**7. Fair value measurements (continued)**

The following is a description of the valuation methodologies used for instruments measured at fair value:

**Investment securities**

The fair value of investment securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

**Beneficial interests**

The fair value of the beneficial interest in trusts is the RCDB Administrative Office's proportionate share of the total market value based upon quoted market prices of the underlying investments, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

The beneficial interest in Vermont Catholic Community Foundation, Inc. (VCCF) is valued based on the net asset value (NAV) of units within a fund of assets, as further described below.

**Pension plan investment securities**

The fair value of pension plan investment securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

**Investments measured using net asset value**

Certain investments are valued based on NAV of units within a fund of assets. The NAV is used as a practical expedient to estimating fair value and is based upon the quoted prices of the underlying investments. This practical expedient would not be used if it were determined to be probable that the fund will sell the investment for an amount different from the reported NAV. Each fund provides for daily redemptions at reported NAV per unit, with no advance notification requirement.

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

**8. Beneficial interests**

In accordance with FASB Topic 958, *Not for Profit Entities*, the RCDB Administrative Offices record their beneficial interest in trusts in which they are named or have been legally determined to be a beneficiary at the lesser of estimated discounted cash flows of income to be received or their proportionate share of the fair value of underlying net assets of the trusts. Distributions received from perpetual trusts are accounted for as gains on investments; other distributions from trusts are accounted for as reductions in the carrying value of the related trust. Changes in the RCDB Administrative Office's share of the change in fair value of the underlying assets of the trusts are recorded as a gain due to the change in value of beneficial interests.

The RCDB Administrative Offices record their beneficial interest in VCCF at the net asset value of its proportionate share of the fair value of VCCF's investments. Distributions received from the funds are accounted for as reductions in the carrying value of the related fund and changes in the RCDB's share of the change in fair value of VCCF's investments are recorded as investment income.

**9. Funds held for others**

Resources from donors that are directed toward other specified entities are recorded as liabilities for "funds held for others" in the accompanying statements of financial position.

**10. Contributed services**

The value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded. In addition, many individuals volunteer their time and perform a variety of tasks that assist the RCDB, Inc.

**11. Property and equipment, and depreciation**

Property and equipment are carried at cost or the fair value of contributed assets, except for assets transferred from other affiliates wholly controlled by the RCDB, Inc., which are recorded at their historical cost to the transferor. Construction in process represents costs incurred on projects in process and not placed in service at year-end. Depreciation and amortization are provided for in amounts sufficient to relate the cost of depreciable assets to activities over their estimated service lives, using the straight-line method.

**ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

**A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)**

**12. Endowment**

The RCDB Administrative Offices endowment consists of seven individual donor restricted funds established for a variety of purposes. Its endowment may include both donor-restricted endowment funds and funds designated by the Diocesan Administrative Board to function as endowments. As required by ASC Topic 958-205-05, *Not-For-Profit Entities: Presentation of Financial Statements: Reporting Endowment Funds*, net assets associated with endowment funds, including funds designated by the Diocesan Administrative Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. There were no board designated funds at June 30, 2019.

**Interpretation of relevant law**

The RCDB Administrative Offices follow the state of Vermont's *Uniform Prudent Management of Institutional Funds Act* (UPMIFA). The Diocesan Administrative Board has interpreted this law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the RCDB Administrative Offices classify as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The portion of the donor-restricted endowment fund that is not required to be held in perpetuity is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.



**ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

**A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)**

**12. Endowment (continued)**

**Interpretation of relevant law (continued)**

In accordance with UPMIFA, the RCDB Administrative Offices consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) general economic conditions;
- (2) the possible effect of inflation and deflation;
- (3) the role that each investment or course of action plays within the overall investment portfolio of the fund;
- (4) the expected total return from income and the appreciation of investments;
- (5) other resources of the organization;
- (6) the needs of the organization and the fund to make distributions and to preserve capital; and
- (7) an asset's special relationship or special value, if any, to the charitable purposes of the organization.

**Underwater endowment funds**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the RCDB Administrative Offices to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in net assets with donor restrictions. These deficiencies may result from unfavorable market fluctuations that occur shortly after an investment of new permanently restricted contributions and continued appropriation for certain programs that are deemed prudent by the Diocesan Administrative Board. There were no such deficiencies as of June 30, 2019.

**ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

**A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)**

**12. Endowment (continued)**

**Return objectives and risk parameters**

The RCDB Administrative Offices have adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period as well as board-designed funds. Under this policy, as approved by the Diocesan Administrative Board, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The RCDB Administrative Offices expect their endowment funds, over time, to provide an average rate of return of approximately 7% annually. Actual returns in any given year may vary from this amount.

**Strategies employed for achieving objectives**

To satisfy its long-term rate of return objectives, the RCDB Administrative Offices rely on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The RCDB Administrative Offices target a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

**Spending policy and how the investment objectives relate to spending policy**

The RCDB Administrative Offices have a policy of appropriating for distribution each year 5% of its endowment fund fair value on the calendar year end preceding the fiscal year in which the distribution is planned. In establishing this policy, the RCDB Administrative Offices considered the long-term expected return on its endowments. Accordingly, over the long term, the RCDB Administrative Offices expect the current spending policy to allow its endowments to grow at an average of 2% annually.

**13. Measure of operations**

The statement of activities reports all changes in net assets, including changes in net assets from supporting activities (“operating”) and other (“non-operating”) activities. Non-operating activities are limited to other resources that generate return from investments and other activities considered to be not material to operations or that are unusual or nonrecurring in nature.

**ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

**A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)**

**14. Functional allocation of expenses**

Expenses are charged to program and supporting services based on direct expenses incurred and allocations of common expenses.

Common costs are allocated to program and supporting services based upon related estimated utilization. Specifically, salaries and wages and employee benefits are allocated based on estimates of time and effort and buildings and grounds and depreciation and amortization are allocated based on relative square footage utilized in the activity.

In 2019, the RCDB, Inc. incurred nonrecurring expenses of approximately \$253,000 related to convening a synod and approximately \$105,000 related to conducting a capital campaign feasibility study. These are considered professional and technical expenses classified as general and administrative in the statement of functional expenses.

**15. Income taxes**

The RCDB, Inc., is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes due to its nature as a religious organization under Section 501(a) of the Code and is not required to file annual income tax returns. Any activity conducted by the RCDB, Inc. relative to publishing activities requires a tax return filing for unrelated business income tax. These filings have not had any income tax liability.

**16. Use of estimates**

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

17. Recently issued accounting pronouncements

*Revenue recognition*

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which provides a robust framework for addressing revenue recognition issues and, upon its effective date, replaces almost all existing revenue recognition guidance, including industry-specific guidance, in current U.S. generally accepted accounting principles. The revenue recognition policies of almost all entities will be affected by the new guidance in the ASU. The degree to which an entity's revenue recognition policies will change upon the adoption of the ASU, and the effects the changes will have on the entity's financial statements will vary depending on the nature and terms of the entity's revenue-generating transactions. In addition, entities in some industries likely will be affected by the new guidance in the ASU more than entities in other industries. Given the broad applicability and potentially significant ramifications of the guidance in the ASU, the FASB provided significantly delayed effective dates for its guidance. The ASU is effective for years beginning after December 15, 2018. The RCDB, Inc. is in the process of evaluating the impact of the ASU on its financial statements.

*Contributions received and contributions made*

In June 2018, the FASB issued ASU 2018-18, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the guidance presented in Topic 958 for evaluating whether a transaction is a reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU is effective for years beginning after December 15, 2018. The RCDB, Inc. is in the process of evaluating the impact of the ASU on its financial statements.

*Pension plans*

In March 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This ASU requires that an employer report the service cost component consistent with other compensation costs and separately from the other components of net benefit cost. The ASU is effective for years beginning after December 15, 2018. The RCDB, Inc. is in the process of evaluating the impact of the ASU on its financial statements.

**ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

**A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)**

**18. Evaluation of subsequent events**

In preparing these financial statements, the RCDB Administrative Offices have evaluated events and transactions for potential recognition or disclosure through October 23, 2019, the date the financial statements were available to be issued.

**B) AVAILABILITY AND LIQUIDITY**

The following reflects the RCDB Administrative Offices financial assets that are estimated to be available to meet general expenditure needs within one year as of June 30, 2019. This includes amounts pledged by donors for general operating use in 2019 and excludes note receivable – related party, beneficial interests, and marketable securities.

Total financial assets considered current assets	\$ 1,555,003
Cash required to satisfy donor restrictions	(10,000)
Anticipated distributions from marketable securities and beneficial interests based upon 5% spending policy	<u>1,048,776</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,593,779</u>

The RCDB Administrative Offices also have a \$750,000 line of credit available to meet cash flow needs (see Note I).

The RCDB Administrative Offices rely upon contribution revenues to fund operations and conducts vigorous fundraising activities to achieve fundraising goals. The RCDB Administrative Offices manage its cash available to meet general expenditures following these guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Operating within the financial guidelines of its annual budget.

**C) CONCENTRATIONS OF CREDIT RISK**

The RCDB Administrative Offices maintain bank account balances which, at times, may exceed federally insured limits. The RCDB Administrative Offices have not experienced any losses with these accounts. Management believes the RCDB Administrative Offices are not exposed to any significant credit risk on cash.

The RCDB Administrative Offices also maintain cash balances in its investment accounts related to transactions with securities. These are invested in money market funds at licensed investment and brokerage firms and are insured by the Securities Investor Protection Corporation (SIPC) for up to \$500,000. In addition, some of those firms provide protection in excess of the SIPC coverage to securities customers in amounts ranging from \$5 million to \$50 million.

**ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

**D) BENEFICIAL INTERESTS**

The RCDB, Inc. is the beneficiary of three trusts at June 30, 2019.

The first trust is a perpetual charitable trust whereby the Diocese is guaranteed a minimum of 50% of all distributions from the trust, up to a maximum of 95% depending upon the level of spending for the education of seminarians for service in the State of Vermont. The trustee is required to distribute a minimum of 5% of the fair value of the trust annually; the trustee may elect to make additional discretionary distributions. Distributions from the trust must be used for the education of seminarians for service in the State of Vermont and the care of elderly Priests within the Diocese. Distributions for each fiscal year presented were disbursed subsequent to year end, and accordingly, are included in "Bequest and trust receivables" at June 30, 2019. An unconditional trust distribution receivable of \$299,999 was recognized as a gain on investments in 2019. A conditional trust distributions receivable of \$247,121 was recorded as "Gifts and bequests" in 2019. The net assets associated with this trust have been accounted for as net assets with donor restrictions (endowment fund).

The second trust allows the Diocese to direct the trustee to distribute the assets for the purpose of archival preservation. Consequently, the RCDB Administrative Offices have accounted for the related net assets as net assets with donor restrictions (restricted as to purpose).

The remaining trust requires that the trustee retain in perpetuity the assets for purposes of investment, the income of which is available to support the activities of the Diocese, and the RCDB Administrative Offices have accounted for these net assets as net assets with donor restrictions (endowment fund).

The RCDB Administrative Offices carry the beneficial interests in trusts at fair value, net of distributions expected to be made to the RCDB Administrative Offices as reimbursement of expenses already incurred.

The RCDB, Inc. is also the beneficiary of funds managed by VCCF for the Diocesan benefit. The RCDB, Inc. receives distributions from the funds to support general operations and various activities restricted by donors. The net assets associated with these funds have been accounted for based on the nature of the fund and donor restrictions.

**ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

**D) BENEFICIAL INTERESTS (continued)**

The following table presents the beneficial interests measured at fair value on a recurring basis by level within the fair value measurement valuation hierarchy as of June 30, 2019:

	Level 1	Level 2	Level 3	Total
Mutual funds - equity	\$ 5,241,512	\$ -	\$ -	\$ 5,241,512
Mutual fund - fixed income	1,089,301	-	-	1,089,301
Equities	560,791	-	-	560,791
	\$ 6,891,604	\$ -	\$ -	6,891,604
Investments measured at net asset value				
Money market funds (a)				451,952
VCCF (b)				8,832,300
Less: accrued distributions				(299,999)
Total				\$ 15,875,857

Investments consist of funds for which there are no unfunded commitments, which redemption value is computed daily, and for which there is no notification period required prior to redemption. Categories of investments and related investment strategies consist of the following:

- (a) These funds seek to preserve capital and liquidity by investing primarily in cash, repurchase agreements and U.S. Treasury instruments that are collateralized by U.S. government securities.
- (b) These funds invest in equity securities of companies in a variety of industries and fixed income securities including government and corporate bonds.

**ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

**E) MARKETABLE SECURITIES**

The following table presents investment securities measured at fair value on a recurring basis by level within the fair value measurement valuation hierarchy as of June 30, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed income:				
Government bonds	\$ -	\$ 519,313	\$ -	\$ 519,313
Corporate bonds	-	1,454,750	-	1,454,750
Total fixed income	<u>-</u>	<u>1,974,063</u>	<u>-</u>	<u>1,974,063</u>
Common stocks:				
Materials	81,630	-	-	81,630
Industrials	310,340	-	-	310,340
Consumer discretionary	383,220	-	-	383,220
Consumer staples	235,936	-	-	235,936
Energy	163,503	-	-	163,503
Financial	628,482	-	-	628,482
Health care	253,140	-	-	253,140
Utilities	119,708	-	-	119,708
Information technology	611,905	-	-	611,905
Telecommunication services	274,138	-	-	274,138
Total common stocks	<u>3,062,002</u>	<u>-</u>	<u>-</u>	<u>3,062,002</u>
Other investments	<u>-</u>	<u>-</u>	<u>29,883</u>	<u>29,883</u>
	<u>\$ 3,062,002</u>	<u>\$ 1,974,063</u>	<u>\$ 29,883</u>	5,065,948
Investments measured at net asset value:				
Money market funds				<u>33,711</u>
Total investment securities				<u>\$ 5,099,659</u>



**ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

**E) MARKETABLE SECURITIES (continued)**

The following schedule summarizes the total investment returns, and their classifications in the statements of activities, including income from the distributions from beneficial interests of approximately \$300,000, during the year ended June 30, 2019:

	<u>Without Donor</u>	<u>With Donor</u>	<u>Total</u>
	<u>Restrictions</u>	<u>Restrictions</u>	
Net realized and unrealized gains	\$ 877,572	\$ 251,118	\$ 1,128,690
Investment management fees	(28,709)	(50)	(28,759)
Interest and dividend income	<u>190,847</u>	<u>360</u>	<u>191,207</u>
Total investment gain	<u>\$ 1,039,710</u>	<u>\$ 251,428</u>	<u>\$ 1,291,138</u>

The RCDB Administrative Offices designate a portion of the cumulative investment return for support of current operations; the remainder is retained to support operations of future years and to offset potential market declines. The amount computed under the endowment spending policy of the investment pool and all investment income earned by investing cash in excess of daily requirements are used to support current operations.

**F) NOTE RECEIVABLE – RELATED PARTY**

The RCDB Administrative Offices has one outstanding loan receivable to Rice Memorial High School (Rice), an operating division of the RCDB, Inc. The unsecured term loan is due on demand, plus interest payable quarterly at 1.00%. The note allows for payment in-kind towards the principal balance by the School reducing tuition fees for children of the RCDB, Inc. employees. In-kind tuition payments were approximately \$47,300 during 2019. Interest income related to the loan receivable was approximately \$13,000 in 2019.

**ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

**G) PROPERTY AND EQUIPMENT**

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

Buildings and improvements	\$ 4,065,504
Land and land improvements	516,829
Equipment	270,668
Vehicles	<u>190,726</u>
	5,043,727
Less: accumulated depreciation	<u>1,622,375</u>
	<u>\$ 3,421,352</u>

**H) RETIREMENT AND POSTRETIREMENT PLANS**

**Employees of the RCDB, Inc.**

The RCDB, Inc., maintains a qualified salary savings plan (the Diocesan Plan) that covers employees who are, at a minimum, 20½ years of age and have two years of service. The Diocesan Plan provides a matching contribution of 3 - 7% of each employee's eligible compensation, based upon years of service. Employer and employee contributions are fully vested at the time of contribution. Contributions charged to activities were approximately \$59,000 in 2019.

**Sisters of Saint Joseph Society, Inc.**

In connection with its merger with the Sisters of Saint Joseph Society, Inc., in 2001, the RCDB, Inc., assumed responsibility for certain retirement and postretirement obligations payable to, or on behalf of, the Sisters who were members of the Society as of July 1, 2001 (the Sisters Plan). The Sisters Plan requires the RCDB, Inc., to provide postretirement health and Level III residential and nursing care for qualified individuals until such time as Level III care is no longer adequate to meet the individual's needs. The RCDB, Inc., is providing such care through Vermont Catholic Charities, Inc. As of June 30, 2019, the RCDB Administrative Offices had not recorded a liability as future costs associated with the Sisters Plan were neither probable or estimable. Accordingly, there were no charges to activities related to the Sisters Plan in 2019.

**ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

**H) RETIREMENT AND POSTRETIREMENT PLANS (continued)**

**Priests' Retirement and Postretirement Plans under Priests' Benefit Fund of the RCDB, Inc.**

A summary of the defined benefit and postretirement health benefit plans for the priests and the pension cost for the RCDB Administrative Offices is as follows as of and for the year ended June 30, 2019:

	Pension Benefit Plan	Postretirement Benefit Plan	Total
Accumulated benefit obligation	\$ 8,204,446	\$ 2,387,078	\$ 10,591,524
Funded status:			
Benefit obligation	\$ 8,204,446	\$ 2,387,078	\$ 10,591,524
Fair value of plan assets	(10,524,437)	(312,757)	(10,837,194)
Accrued (prepaid) benefit cost	\$ (2,319,991)	\$ 2,074,321	\$ (245,670)
Net periodic pension costs charged to operations consist of:			
Service cost	\$ 122,877	\$ 61,614	\$ 184,491
Interest cost	302,682	93,103	395,785
Expected return on plan assets	(700,025)	(19,390)	(719,415)
Amortization of net actuarial (gain) loss	21,254	(23,394)	(2,140)
Amortization of prior service cost	166,044	-	166,044
Amortization of transition obligation	31,000	-	31,000
Net periodic pension cost (benefit)	\$ (56,168)	\$ 111,933	\$ 55,765
Significant activities during the year:			
Employer contributions to the Plan	\$ 90,000	\$ 135,898	
Benefits paid	\$ 624,000	\$ 105,898	
Contributions from employer expected to be made during the year ending June 30, 2020	\$ 90,000	\$ 84,600	
Amounts included in "pension-related changes other than net periodic pension cost" expected to be recognized in 2020:			
Amortization of net actuarial (gain) loss	\$ 40,681	\$ (23,436)	\$ 17,245
Prior service cost	\$ 166,044	\$ -	\$ 166,044
Transition obligation	\$ 31,000	\$ -	\$ 31,000
Amounts included in unrestricted net assets arising from the plans, but not yet reclassified as components of net periodic pension cost:			
Unrecognized net actuarial (gain) loss	\$ 1,863,621	\$ (709,769)	\$ 1,153,852
Unrecognized prior service cost	1,397,158	-	1,397,158
Unrecognized transition obligation	26,000	-	26,000
	<u>\$ 3,286,779</u>	<u>\$ (709,769)</u>	<u>\$ 2,577,010</u>

**ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

**H) RETIREMENT AND POSTRETIREMENT PLANS (continued)**

**Priests' Retirement and Postretirement Plans under Priests' Benefit Fund of the RCDB, Inc. (continued)**

The change included in net assets without donor restrictions arising from the plans consists of the following:

	Pension Benefit Plan	Postretirement Benefit Plan	Total
Balance, July 1, 2018	\$ 3,076,218	\$ (694,974)	\$ 2,381,244
Net actuarial (gain) loss arising during the year	428,859	(38,189)	390,670
Reclassification from amortization of prior service cost and transition obligation	(197,044)	-	(197,044)
Reclassification from amortization of net actuarial (gain) loss recognized this year	(21,254)	23,394	2,140
Balance, June 30, 2019	<u>\$ 3,286,779</u>	<u>\$ (709,769)</u>	<u>\$ 2,577,010</u>

Weighted-average assumptions used to determine the net periodic benefit cost consisted of the following as of and for the year ended June 30, 2019:

	Pension Benefit Plan	Postretirement Benefit Plan
Monthly stipend without a Pastoral Assignment	\$ 1,700	N/A
Monthly stipend with a Pastoral Assignment	\$ 1,600	N/A
Discount Rate	3.25%	3.50%
Expected rate of return on plan assets	7.00%	7.00%

In 2019, the change in discount rate (4.00% in 2018) resulted in an increase in the plan liability of approximately \$615,000.

**ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

**H) RETIREMENT AND POSTRETIREMENT PLANS (continued)**

**Priests' Retirement and Postretirement Plans under Priests' Benefit Fund of the RCDB, Inc. (continued)**

The allocation of plan assets by category is as follows at June 30, 2019:

Cash	3%
Equity securities	59%
Debt securities	38%

The RCDB Administrative Office's overall strategy to fund the plans is to invest in high-grade securities and other assets to diversify risk. In general, the RCDB Administrative Office's goal is to maintain the following allocation ranges:

Equity securities	60%
Debt securities and other fixed income	40%

The overall expected long-term rate of return on plan assets represents a weighted-average composite rate based on the expected rates of return for the following individual asset categories which are estimated by adjusting historical results for each category of investment for anticipated market movement:

Equity securities	7 – 9.5%
Debt securities	5 – 6%

The Plans' investment policies include various guidelines and procedures designed to ensure assets are invested in a manner necessary to meet expected future benefits earned by participants. The investment guidelines consider a broad range of economic conditions. Central to the policy are target allocation ranges by major asset categories. Target allocations ranges are consistent with actual allocations (shown above) at Plan year end.

The overall strategy is to maintain an investment portfolio that diversifies risk through prudent asset allocation parameters, achieves asset returns that meet or exceed the Plans' actuarial assumptions, and achieves asset returns that are competitive with like organizations employing similar investment strategies.

The investment policy is periodically reviewed by the RCDB Administrative Offices and a designated third-party fiduciary for investment matters. The policy is established and administered in a manner that complies at all times with applicable government regulations.

**ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

**H) RETIREMENT AND POSTRETIREMENT PLANS (continued)**

**Priests' Retirement and Postretirement Plans under Priests' Benefit Fund of the RCDB, Inc. (continued)**

The following table presents the plans' investment securities measured at fair value on a recurring basis by level within the fair value measurement valuation hierarchy as of June 30, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Plans' investment securities:				
Cash	\$ 296,102	\$ -	\$ -	\$ 296,102
Equity securities	6,363,295	-	-	6,363,295
Fixed income securities	<u>4,177,797</u>	<u>-</u>	<u>-</u>	<u>4,177,797</u>
Total	<u>\$ 10,837,194</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,837,194</u>

Benefits expected to be paid by the Plans during the ensuing five years are approximately as follows for the years ending June 30:

	<u>Pension Benefit Plan</u>	<u>Postretirement Benefit Plan</u>	<u>Total</u>
2020	\$ 589,200	\$ 113,600	\$ 702,800
2021	617,400	120,000	737,400
2022	623,700	126,300	750,000
2023	589,500	124,700	714,200
2024	<u>574,500</u>	<u>126,600</u>	<u>701,100</u>
	<u>\$ 2,994,300</u>	<u>\$ 611,200</u>	<u>\$ 3,605,500</u>

Additional information related to the **postretirement health benefit plan** is as follows:

For measurement purposes, rates of increase in the cost of covered health care benefits assumed for the year ended 2020 and thereafter were 3.60% for medical care benefits and 3.00% for other benefits.

A one-percentage-point change in the assumed rates of increase in health care costs would have the following effects relative to the amounts included above:

	<u>Increase</u>	<u>Decrease</u>
Effect on total of service and interest cost components	\$ 35,872	\$ (26,670)
Effect on accumulated postretirement benefit obligation	\$ 389,303	\$ (306,271)

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

I) NOTE PAYABLE

The RCDB, Inc. has a line of credit agreement with TD Bank, N.A. that has an available balance of \$750,000 and expires on January 31, 2020. Interest is payable at the *Wall Street Journal* prime rate (5.50% at June 30, 2019). There was no balance outstanding on the line of credit at June 30, 2019. The line of credit is secured by a required minimum marketable securities balance of \$1,801,000.

J) LONG-TERM DEBT

Long-term debt consists of the following at June 30, 2019:

TD Bank, N.A. -

Payable in monthly installments of \$2,656, including interest at 4.12%, due May 2024 with a balloon payment approximating \$355,000. Secured by cash, marketable securities, and property and equipment.

\$ 430,643

Audi Financial Services -

Payable in monthly installments of \$1,339, including interest at 4.00%, due January 2020. Secured by certain property and equipment.

9,225

\$ 439,868

Principal payments are due as follows:

Years ending <u>June 30,</u>	<u>Amount</u>
2020	\$ 23,340
2021	14,766
2022	15,394
2023	16,050
2024	<u>370,318</u>
	<u>\$ 439,868</u>

**ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

**K) NET ASSETS**

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

***Endowment funds:***

Amounts required to be maintained in perpetuity:

Pizzagalli for maintaining a family plot	\$ 10,000
Boucher trust for general purposes of the Diocese	724,244
Nolin-Mooney fund for seminary education	1,052,563
Buckley fund for charity, care of the poor and support of vocations	541,909
Buckley fund for Priests' Benefit Fund	541,909
Roman Catholic schools and charities of the City of Burlington - Turk fund	478,637
Fearons trust for seminary education and for the benefit of priests	<u>6,084,652</u>
	9,433,914

Accumulated investment earnings, subject to spending policy  
and appropriation for the following purposes:

Pizzagalli for maintaining a family plot	2,960
Nolin-Mooney fund for seminary education	466,879
Buckley fund for charity, care of the poor and support of vocations	274,454
Buckley fund for Priests' Benefit Fund	274,515
Roman Catholic schools and charities of the City of Burlington - Turk fund	<u>229,352</u>

Total of endowment funds with donor restrictions 10,682,074

***Restricted by donors as to time:***

Bishop's Annual Appeal - pledges received to be used during the succeeding  
fiscal year 318,631

***Restricted by donors for the following purposes:***

Vermont Catholic Education Endowment Fund	53,407
Christmas Fund, poor and needy parishes	80,632
Goss Trust	234,662
Priest Benefit Fund - collection for senior priests	85,105
Other	<u>30,139</u>
	<u>483,945</u>
	<u>\$ 11,484,650</u>



**ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

**K) NET ASSETS (continued)**

Changes in endowment fund – related net assets were as follows during the year ended June 30, 2019:

July 1, 2018	\$ 10,561,847
Change in value of beneficial interests	61,220
Net investment return	248,012
Appropriations	<u>(189,005)</u>
June 30, 2019	<u>\$ 10,682,074</u>

**L) RELATED PARTY TRANSACTIONS**

Vermont Catholic Charities, Inc., provides residential and nursing care for the RCDB, Inc., in connection with the RCDB, Inc.'s obligation to the Sisters of Saint Joseph Society, Inc. (see Note H).

The RCDB Administrative Offices provide cash and in-kind contributions to Vermont Catholic Charities, Inc. The fair values of these contributions are charged to activities and included in general program expense. In-kind contributions include the provision of certain administrative services and the rent-free use of facilities owned by the RCDB, Inc. These subsidies were comprised of the following during the year ended June 30, 2019:

In-Kind subsidies:

Rent-free use of facilities for residential care homes	\$ 1,350,000
Rent-free use of facilities for administration and counseling	32,880
Administrative services	<u>118,566</u>
Total in-kind subsidies	1,501,446
Cash subsidies for use in general operations	200,004
Allocation of administrative facilities costs	<u>55,468</u>
Total social services - Vermont Catholic Charities, Inc.	<u>\$ 1,756,918</u>

In 2019, the RCDB Administrative Offices also provided cash and in-kind contributions to Diocesan schools totaling \$526,604 and other related parties totaling \$184,161. The fair values of these contributions are charged to activities and included in general program expenses.

The RCDB Administrative Offices also provides accounting services to related parties. Revenue from this service totaled approximately \$306,000 in 2019 and is included in other revenue in the statement of activities.

**ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

**M) COMMITMENTS AND CONTINGENT LIABILITIES**

In July 2014, the RCDB, Inc., issued a series of bonds payable (known as the “Rice Memorial High School Issue, Series 2014”) to provide for construction costs to be incurred to provide for improvements to the Rice Memorial High School (“renovation project”). The bonds are secured by a first priority mortgage on the Rice Memorial High School (“Rice”) real estate and other Rice accounts at TD Bank, N.A., including any remaining capital campaign funds raised for the purpose of the renovation project. The final maturity date is October 2025. The debt for this obligation, and all related transactions, is recorded in the financial statements of Rice, an operating division of the RCDB, Inc., and had an outstanding balance of \$5,847,251 at June 30, 2019.

In December 2014, the RCDB, Inc. also became obligated to TD Bank, N.A. under a term note which is also recorded in the financial statements of Rice. This note had an outstanding balance of \$16,215 at June 30, 2019 and matures in December 2019. The note is secured by an investment account of the RCDB Administrative Offices.

All of the debt obligations with TD Bank, N.A. require the RCDB, Inc. to comply with certain financial covenants, as defined. The RCDB, Inc. is directly liable as the borrower for these obligations and, therefore, if an event of default were to occur and the collateral was not sufficient to pay the debt, other assets owned by the RCDB, Inc. would be required to settle the obligations.

The RCDB, Inc., may be contingently liable as a co-maker on certain obligations for which parishes or other Catholic organizations have primary responsibility. The RCDB, Inc. can be required to perform on the guarantees only in the event of the non-payment of related debt by the original maker. Management assesses its exposure to loss at each statement of financial position date and provides for accruals as deemed necessary. At June 30, 2019, no accrual was necessary.

**N) CONTINGENCIES AND SUBSEQUENT EVENTS**

The RCDB, Inc. is involved in various claims and legal actions arising in the course of operations. Subsequent to June 30, 2019, RCDB, Inc. has been named in five lawsuits which have been filed, and is aware of one additional threatened lawsuit, related to alleged actions of misconduct by priests prior to June 30, 2019. The suits seek unspecified damages. RCDB, Inc. believes that at this stage of the proceedings it is unable to assess the likelihood of an unfavorable outcome. Outside legal counsel for the RCDB, Inc. has advised that, at this stage of the proceedings, they are unable to offer an opinion as to the probable outcome. However, the RCDB, Inc. intends to apply every reasonable defense of its position. Thus, no reserve has been established for this possible liability at June 30, 2019.