

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.
JUNE 30, 2015 AND 2014**

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

JUNE 30, 2015 AND 2014

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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 statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and cash flows 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 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. 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. Additionally, an analysis relative to whether there may be variable interest entities that would be required to be consolidated has not been performed. The effects on the financial statements, as of and for the years ended June 30, 2015 and 2014, 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, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Gallagher, Flynn & Company, LLP

October 16, 2015

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30,

A S S E T S

	<u>2015</u>	<u>2014</u>
Cash	\$ 751,951	\$ 770,596
Pledges receivable, net of allowance for doubtful accounts of \$37,086 in 2015 and \$29,466 in 2014	571,201	365,745
Bequest and trust receivables	440,695	845,183
Parish receivables, net of allowance for doubtful accounts of \$69,724 in 2015 and \$31,386 in 2014	427,679	435,695
Other current assets	55,952	45,874
Due from affiliated organizations	214,214	306,795
Prepaid expenses	120,510	120,837
Notes receivable - related parties, less allowance for doubtful collection of \$220,195 in 2015 and \$225,212 in 2014	733,042	622,804
Note receivable - other, less allowance for doubtful collection of \$0 in 2015 and \$2,557,254 in 2014	-	550,000
Investment	1,060,822	-
Marketable securities	12,915,696	11,938,961
Beneficial interest in trusts	6,760,109	6,850,967
Property and equipment, net	2,871,443	2,874,923
Pension retirement plan assets	<u>2,649,521</u>	<u>2,322,178</u>
Total assets	<u>\$ 29,572,835</u>	<u>\$ 28,050,558</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Note payable	\$ -	\$ 500,000
Funds held for others	48,899	47,909
Accounts payable	77,426	146,014
Accrued liabilities and reserves	412,859	365,148
Long-term debt	518,089	498,985
Pension retirement and postretirement benefit plan liabilities	<u>2,091,118</u>	<u>1,955,296</u>
Total liabilities	<u>3,148,391</u>	<u>3,513,352</u>

NET ASSETS

Unrestricted	15,433,359	13,600,499
Temporarily restricted	1,936,429	1,806,183
Permanently restricted	<u>9,054,656</u>	<u>9,130,524</u>
Total net assets	<u>26,424,444</u>	<u>24,537,206</u>
Total liabilities and net assets	<u>\$ 29,572,835</u>	<u>\$ 28,050,558</u>

The accompanying notes are an integral part of these statements.

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES				
Bishop's Fund	\$ 2,210,154	\$ 571,201	\$ -	\$ 2,781,355
Diocesan assessments	1,654,506	-	-	1,654,506
Insurance premiums charged to parishes and other affiliates for insurance program	1,383,909	-	-	1,383,909
Imputed rental and administrative services charged to affiliated organization	-	-	-	-
	1,491,221	-	-	1,491,221
Program revenue	367,522	-	-	367,522
Gifts and bequests	471,577	72,092	-	543,669
Other revenue	37,675	-	-	37,675
	<u>7,616,564</u>	<u>643,293</u>	<u>-</u>	<u>8,259,857</u>
Total revenues				
Reclassification: Net assets released from restrictions	657,216	(657,216)	-	-
Total revenues and reclassifications	<u>8,273,780</u>	<u>(13,923)</u>	<u>-</u>	<u>8,259,857</u>
EXPENSES				
Program services:				
Social services - Vermont Catholic Charities, Inc.	1,805,132	-	-	1,805,132
Social services - other	176,707	-	-	176,707
School subsidies	637,966	-	-	637,966
School office	117,460	-	-	117,460
Parish financial services	190,571	-	-	190,571
Religious education	276,346	-	-	276,346
Vocations/Priest Educational/Liturgical	472,227	-	-	472,227
Priests' Benefit Fund and related expenses	366,525	-	-	366,525
Tribunal	65,349	-	-	65,349
Safe Environments	230,709	-	-	230,709
The <i>Vermont Catholic</i> magazine	325,126	-	-	325,126
Catholic Cemeteries	103,330	-	-	103,330
Insurance program and legal and related costs	1,439,163	-	-	1,439,163
	<u>6,206,611</u>	<u>-</u>	<u>-</u>	<u>6,206,611</u>
Total program services				
Supporting services:				
Diocesan administration:				
General and administrative	1,288,832	-	-	1,288,832
Bad debt recovery, net	(1,527,500)	-	-	(1,527,500)
Total supporting services - Diocesan administration	(238,668)	-	-	(238,668)
Development	241,961	-	-	241,961
Chancery	181,859	-	-	181,859
	<u>185,152</u>	<u>-</u>	<u>-</u>	<u>185,152</u>
Total supporting services				
Total expenses	<u>6,391,763</u>	<u>-</u>	<u>-</u>	<u>6,391,763</u>
OTHER GAINS (LOSSES)				
Total investment gain	519,103	131,403	-	650,506
Increase (decrease) in value of beneficial interest in trusts	49,214	12,766	(75,868)	(13,888)
Other	39,213	-	-	39,213
	<u>607,530</u>	<u>144,169</u>	<u>(75,868)</u>	<u>675,831</u>
Total other gains (losses)				
INCREASE (DECREASE) IN NET ASSETS BEFORE PENSION RELATED CHANGES OTHER THAN NET PERIODIC PENSION RECOVERY				
	2,489,547	130,246	(75,868)	2,543,925
Pension related changes other than net periodic pension cost	(656,687)	-	-	(656,687)
INCREASE (DECREASE) IN NET ASSETS	1,832,860	130,246	(75,868)	1,887,238
NET ASSETS, beginning of year	13,600,499	1,806,183	9,130,524	24,537,206
NET ASSETS, end of year	<u>\$ 15,433,359</u>	<u>\$ 1,936,429</u>	<u>\$ 9,054,656</u>	<u>\$ 26,424,444</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, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES				
Bishop's Fund	\$ 2,443,409	\$ 365,745	\$ -	\$ 2,809,154
Diocesan assessments	1,683,517	-	-	1,683,517
Insurance premiums charged to parishes and other affiliates for insurance program	1,490,537	-	-	1,490,537
Imputed rental and administrative services charged to affiliated organization	1,488,610	-	-	1,488,610
Program revenue	369,311	-	-	369,311
Gifts and bequests	1,327,671	84,985	571,635	1,984,291
Other revenue	2,281	-	-	2,281
Total revenues	<u>8,805,336</u>	<u>450,730</u>	<u>571,635</u>	<u>9,827,701</u>
Reclassifications: Net assets released from restrictions	<u>575,841</u>	<u>(575,841)</u>	<u>-</u>	<u>-</u>
Total revenues and reclassifications	<u>9,381,177</u>	<u>(125,111)</u>	<u>571,635</u>	<u>9,827,701</u>
EXPENSES				
Program services:				
Social services - Vermont Catholic Charities, Inc.	1,803,930	-	-	1,803,930
Social services - other	193,223	-	-	193,223
School subsidies	680,299	-	-	680,299
School office	148,980	-	-	148,980
Parish financial services	180,301	-	-	180,301
Religious education	284,270	-	-	284,270
Vocations/Priest Educational/Liturgical	510,490	-	-	510,490
Priests' Benefit Fund and related expenses	527,398	-	-	527,398
Tribunal	80,408	-	-	80,408
Safe Environments	249,121	-	-	249,121
The <i>Vermont Catholic</i> magazine	319,666	-	-	319,666
Catholic Cemeteries	86,612	-	-	86,612
Insurance program and legal and related costs	1,626,931	-	-	1,626,931
Total program services	<u>6,691,629</u>	<u>-</u>	<u>-</u>	<u>6,691,629</u>
Supporting services:				
Diocesan administration:				
General and administrative	1,027,380	-	-	1,027,380
Bad debt expense	2,695,628	-	-	2,695,628
Total supporting services - Diocesan administration	<u>3,723,008</u>	<u>-</u>	<u>-</u>	<u>3,723,008</u>
Development	377,673	-	-	377,673
Chancery	201,512	-	-	201,512
Total supporting services	<u>4,302,193</u>	<u>-</u>	<u>-</u>	<u>4,302,193</u>
Total expenses	<u>10,993,822</u>	<u>-</u>	<u>-</u>	<u>10,993,822</u>
OTHER GAINS (LOSSES)				
Total investment gain	1,360,485	490,621	-	1,851,106
Increase in value of beneficial interest in trusts	284,941	31,464	445,349	761,754
Other	<u>(130,565)</u>	<u>-</u>	<u>-</u>	<u>(130,565)</u>
Total other gains, net	<u>1,514,861</u>	<u>522,085</u>	<u>445,349</u>	<u>2,482,295</u>
INCREASE (DECREASE) IN NET ASSETS BEFORE RELATED CHANGES OTHER THAN NET PERIODIC PENSION COST				
	<u>(97,784)</u>	<u>396,974</u>	<u>1,016,984</u>	<u>1,316,174</u>
Pension related changes other than net periodic pension cost	<u>1,302,326</u>	<u>-</u>	<u>-</u>	<u>1,302,326</u>
INCREASE IN NET ASSETS				
	<u>1,204,542</u>	<u>396,974</u>	<u>1,016,984</u>	<u>2,618,500</u>
NET ASSETS, beginning of year	<u>12,395,957</u>	<u>1,409,209</u>	<u>8,113,540</u>	<u>21,918,706</u>
NET ASSETS, end of year	<u>\$ 13,600,499</u>	<u>\$ 1,806,183</u>	<u>\$ 9,130,524</u>	<u>\$ 24,537,206</u>

The accompanying notes are an integral part of this statement.

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30,

	<u>2015</u>	<u>2014</u>
INCREASE (DECREASE) IN CASH		
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 1,887,238	\$ 2,618,500
Noncash items included in increase in net assets:		
Depreciation and amortization	91,000	98,777
Net realized and unrealized gains on investments	(141,304)	(1,337,068)
Net expense (recovery) of bad debt	(1,527,500)	2,695,628
Gain on sale of property and equipment	(12,124)	(6,570)
Loss on sale of other current assets	-	164,969
Contributions for receipt of beneficial interest in trust	-	(571,635)
Decrease (increase) in value of beneficial interest in trusts	13,888	(761,754)
Pension-related changes other than net periodic pension cost	656,687	(1,302,326)
Changes in assets and liabilities:		
Receivables	168,709	(66,454)
Other current assets	(10,078)	(44,124)
Due from affiliated organizations	92,581	(120,505)
Prepaid expenses	327	171,315
Funds held for others	990	1,931
Accounts payable and accrued liabilities and reserves	(20,877)	49,169
Pension retirement and postretirement benefit plan assets and liabilities	(848,208)	(851,530)
Contributions restricted for long-term purposes	-	(571,635)
	<u>(1,535,909)</u>	<u>(2,451,812)</u>
Net cash provided by operating activities	<u>351,329</u>	<u>166,688</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital acquisitions	(86,280)	(80,667)
Distributions from beneficial interest in trusts	76,970	49,768
Proceeds from sale of other current assets	-	310,031
Proceeds from sale of property and equipment	10,884	30,300
Proceeds from sale of marketable securities	3,965,895	3,257,120
Purchases of marketable securities	(4,801,326)	(3,486,721)
Advances made on notes receivable - related parties	(324,336)	-
Principal payments received on notes receivable - related parties	219,115	20,827
Principal payments received on notes receivable - other	1,050,000	542,746
Net cash provided by investing activities	<u>110,922</u>	<u>643,404</u>
Subtotal (forward)	<u>\$ 462,251</u>	<u>\$ 810,092</u>

(CONTINUED)

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30,

	<u>2015</u>	<u>2014</u>
Subtotal (forwarded)	\$ 462,251	\$ 810,092
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions received for long-term purposes	-	571,635
Net proceeds from (payments on) note payable	(500,000)	500,000
Capital lease obligation payoff	-	(2,241,636)
Proceeds from long-term debt	36,936	500,000
Principal payments on long-term debt	(17,832)	(1,015)
Net cash used in financing activities	<u>(480,896)</u>	<u>(671,016)</u>
Net increase (decrease) in cash	(18,645)	139,076
CASH, beginning of year	<u>770,596</u>	<u>631,520</u>
CASH, end of year	<u>\$ 751,951</u>	<u>\$ 770,596</u>
<u>Supplemental Disclosures of Cash Flows Information</u>		
Cash paid during the year for:		
Interest expense	<u>\$ 18,809</u>	<u>\$ 180,962</u>
Noncash investing and financing activities:		
During 2015, \$1,000,000 of the note receivable – other was settled through an investment (see Notes A8 and F).		

The accompanying notes are an integral part of these statements.

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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 presbyterium, 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.

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 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, 2015 AND 2014

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 temporarily and permanently restricted net assets established by a donor 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" includes:

	<u>2015</u>	<u>2014</u>
Program administration costs	\$ 76,395	\$ 83,426
Health and dental insurance premiums for active priests	348,696	351,938
Net periodic benefit costs of the retirement and postretirement plans (see Note H)	<u>(58,566)</u>	<u>92,034</u>
Total priest benefit fund expenses	<u>\$ 366,525</u>	<u>\$ 527,398</u>

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

2. Basis of 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.

The RCDB Administrative Offices reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets (see Note K).

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 unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Temporarily restricted net assets are reclassified to unrestricted net assets 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 unrestricted. Pledges receivable, which are primarily related to the Bishop's Fund Appeal, are expected to be collected in one year.

Gifts of property and equipment are presented as unrestricted support 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 restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the RCDB Administrative Offices reports 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 Diocesan schools.

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

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 determines 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 reviews its allowances for doubtful accounts and maintains 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 and non-marketable investments, 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, 2015 AND 2014

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

7. 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 utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and 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 utilizes 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 is 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: Quoted prices for identical assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.
- Level 2: Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data. The level 2 investments in “money market funds” have fair values determined on a net asset value basis. The mutual funds are invested in low risk investments. There are no unfunded commitments, and redemption of the investments is available on an as needed basis with no redemption period requirements.
- Level 3: Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for nonbinding single dealer quotes not corroborated by observable market data.

For the years ended June 30, 2015 and 2014, 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, 2015 AND 2014

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 interest in trusts

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.

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 Level 2 investments have fair values that are determined on a net asset value basis. These investments are invested in low risk investments. There are no unfunded commitments, and redemption of the investments is available on an as needed basis with no redemption period requirements.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the RCDB Administrative Offices believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

7. Fair value measurements (continued)

To assess the appropriate classification of investments within the fair value hierarchy, the availability of market data is monitored. Changes in economic conditions or valuation techniques may require the transfer of investments from one fair value level to another. In such instances, the transfer is reported at the end of the reporting period.

8. Investment

During 2015, the RCDB, Inc. was issued a 16.67% member interest in a Vermont limited liability company in settlement of the remaining balance of the note receivable from Burlington College (see Note F). In accordance with the operating agreement, the RCDB, Inc. is guaranteed a 15% annual preferred return.

The RCDB, Inc. has an option to put the investment, as defined, on February 2, 2016 at the original investment plus the 15% annual preferred return. Management intends to exercise the put option and has recorded the investment at cost plus accrued preferred returns totaling \$60,822 at June 30, 2015. Management has evaluated the investment and determined there to be no impairment at June 30, 2015.

9. Beneficial interest in trusts

In accordance with ASC Topic 958, *Not for Profit Entities*, the RCDB Administrative Offices records its beneficial interest in trusts in which it is named or has been legally determined to be a beneficiary at the lesser of estimated discounted cash flows of income to be received or its 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 (loss) due to change in value of beneficial interest in trusts.

10. 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.

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

11. 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.

12. 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. 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.

13. Endowment

The RCDB Administrative Offices endowment consists of five 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 958-2-5-05, *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, 2015 and 2014.

Interpretation of relevant law

The RCDB Administrative Offices follows 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 classifies as permanently restricted net assets (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.

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

13. Endowment (continued)

Interpretation of relevant law (continued)

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the RCDB Administrative Offices considers 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.

Funds with deficiencies

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 unrestricted net assets. 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, 2015 and 2014.

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

13. Endowment (continued)

Return objectives and risk parameters

The RCDB Administrative Offices has 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 expects its endowment funds, over time, to provide an average rate of return of approximately 7.5% 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 relies 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 targets 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 has 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 expects the current spending policy to allow its endowments to grow at an average of 2.5% annually.

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

14. Functional allocation of expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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.

17. Evaluation of subsequent events

In preparing these financial statements, the RCDB Administrative Offices has evaluated events and transactions for potential recognition or disclosure through October 16, 2015, the date the financial statements were available to be issued.

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

B) CONCENTRATIONS OF CREDIT RISK

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

The RCDB Administrative Offices also maintains 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.

C) BENEFICIAL INTERESTS IN TRUSTS

The RCDB, Inc., is the beneficiary of three trusts at June 30, 2015 and 2014.

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, 2015 and 2014. Unconditional trust distributions receivable of \$225,000 were recognized as gains on investments in 2015 and 2014. Conditional trust distributions receivable of \$167,444 and \$188,929 were recorded as "Gifts and bequests" in 2015 and 2014, respectively. The net assets associated with this trust have been accounted for as permanently restricted.

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 has accounted for the related net assets as temporarily restricted as to purpose.

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

C) BENEFICIAL INTERESTS IN TRUSTS (continued)

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 Diocese has accounted for these net assets as permanently restricted.

The RCDB Administrative Offices carries 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. At June 30, 2015 and 2014, the fair value of assets in the trusts allocable to the RCDB Administrative Offices have been reduced by \$225,000 for accrued distributions. Total revenue from beneficial interests in trusts of \$167,444 and \$760,564 was recorded in “gifts and bequests” in 2015 and 2014, respectively.

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

	2015			Total
	Level 1	Level 2	Level 3	
Mutual funds - equity	\$ 5,033,474	\$ -	\$ -	\$ 5,033,474
Mutual fund - fixed income	908,772	-	-	908,772
Equities	573,877	-	-	573,877
	<u>\$ 6,516,123</u>	<u>\$ -</u>	<u>\$ -</u>	6,516,123
Investments measured using net asset value:				
Money market funds				468,986
Less: accrued distributions				(225,000)
Total				<u>\$ 6,760,109</u>
	2014			Total
	Level 1	Level 2	Level 3	
Mutual funds - equity	\$ 4,787,901	\$ -	\$ -	\$ 4,787,901
Mutual fund - fixed income	992,506	-	-	992,506
Government bonds	-	24,784	-	24,784
Equities	581,304	-	-	581,304
	<u>\$ 6,361,711</u>	<u>\$ 24,784</u>	<u>\$ -</u>	6,386,495
Investments measured using net asset value:				
Money market funds				689,472
Less: accrued distributions				(225,000)
Total				<u>\$ 6,850,967</u>

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

D) 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:

	2015			Total
	Level 1	Level 2	Level 3	
Fixed income:				
Government bonds	\$ -	\$ 1,088,504	\$ -	\$ 1,088,504
Corporate bonds	-	3,905,985	-	3,905,985
Total fixed income	-	4,994,489	-	4,994,489
Common stocks:				
Materials	265,344	-	-	265,344
Industrials	781,914	-	-	781,914
Consumer discretionary	1,195,449	-	-	1,195,449
Consumer staples	740,579	-	-	740,579
Energy	525,954	-	-	525,954
Financial	1,494,320	-	-	1,494,320
Health care	881,387	-	-	881,387
Utilities	246,084	-	-	246,084
Information technology	1,341,037	-	-	1,341,037
Telecommunication services	228,908	-	-	228,908
Total common stocks	7,700,976	-	-	7,700,976
Mutual funds - equity	45,886	-	-	45,886
Other investments	-	-	29,883	29,883
	<u>\$ 7,746,862</u>	<u>\$ 4,994,489</u>	<u>\$ 29,883</u>	12,771,234
Investments measured using net asset value:				
Money market funds				144,462
Total investment securities				<u>\$ 12,915,696</u>

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

D) MARKETABLE SECURITIES (continued)

	2014			Total
	Level 1	Level 2	Level 3	
Fixed income:				
Government bonds	\$ -	\$ 1,211,564	\$ -	\$ 1,211,564
Corporate bonds	-	3,115,557	-	3,115,557
Total fixed income	-	4,327,121	-	4,327,121
Common stocks:				
Materials	265,809	-	-	265,809
Industrials	796,323	-	-	796,323
Consumer discretionary	1,057,099	-	-	1,057,099
Consumer staples	695,578	-	-	695,578
Energy	729,644	-	-	729,644
Financial	1,405,259	-	-	1,405,259
Health care	679,727	-	-	679,727
Utilities	270,730	-	-	270,730
Information technology	1,234,092	-	-	1,234,092
Telecommunication services	209,300	-	-	209,300
Total common stocks	7,343,561	-	-	7,343,561
Mutual funds - equity	46,403	-	-	46,403
Other investments	-	-	29,883	29,883
	<u>\$ 7,389,964</u>	<u>\$ 4,327,121</u>	<u>\$ 29,883</u>	11,746,968
Investments measured using net asset value:				
Money market funds				191,993
Total investment securities				<u>\$ 11,938,961</u>

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

D) MARKETABLE SECURITIES (continued)

The following schedule summarizes the total investment returns, and their classifications in the statements of activities, including income from distributions of trusts, during the years ended June 30:

	2015		
	Unrestricted	Temporarily Restricted	Total
	Net realized and unrealized gains	\$ 315,404	\$ 50,900
Investment management fees	(51,629)	(21,782)	(73,411)
Interest and dividend income	255,328	102,285	357,613
Total investment gain	\$ 519,103	\$ 131,403	\$ 650,506
	2014		
	Unrestricted	Temporarily Restricted	Total
Net realized and unrealized gains	\$ 1,148,482	\$ 413,586	\$ 1,562,068
Investment management fees	(46,517)	(20,687)	(67,204)
Interest and dividend income	258,520	97,722	356,242
Total investment gain	\$ 1,360,485	\$ 490,621	\$ 1,851,106

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

E) NOTES RECEIVABLE – RELATED PARTIES

Notes receivable – related parties consists of the following at June 30:

	<u>2015</u>	<u>2014</u>
Rice Memorial High School, (1)	\$ 868,606	\$ 613,385
Resurrection Park Cemetery (2)	<u>84,631</u>	<u>234,631</u>
Total notes receivable	953,237	848,016
Less allowance for doubtful collection	<u>220,195</u>	<u>225,212</u>
	<u>\$ 733,042</u>	<u>\$ 622,804</u>

Rice Memorial High School and Resurrection Park Cemetery are operating divisions of the RCDB, Inc. The RCDB Administrative Offices has paid for certain operating costs on behalf of these related parties.

- (1) The Rice Memorial High School (Rice) balance includes three notes at June 30, 2015 and two notes at June 30, 2014.
 - a. The first note has an outstanding balance of \$150,000 at June 30, 2015 and \$200,000 at June 30, 2014, receivable in annual installments of \$50,000 through June 2017, plus interest at 3.5% receivable quarterly. A \$50,000 payment was past due at June 30, 2015 and was paid in July 2015.
 - b. The second note has an outstanding balance of \$394,270 at June 30, 2015 and \$413,385 at June 30, 2014, receivable in quarterly installments of \$8,896 through June 2031, including interest at 5%.
 - c. The third note is related to fees paid by the RCDB Administrative Offices on behalf of Rice in conjunction with a renovation project (see Note M). There is currently no repayment schedule or interest provision. The terms are set forth in a memorandum of understanding between the RCDB Administrative Offices and Rice.
- (2) The Resurrection Park Cemetery note is non-interest bearing, and receivable in quarterly installments of \$2,867. The RCDB Administrative Offices received \$150,000 as a payment on the note in 2015. The remainder of the note has been fully reserved based on management's assessment of collectability, along with \$135,564 of amounts due from Resurrection Park Cemetery.

Interest income related to the above notes receivable approximated \$27,000 in 2015 and 2014.

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

F) NOTE RECEIVABLE - OTHER

On December 31, 2010, the RCDB, Inc., sold its former headquarters facility on North Avenue in Burlington, Vermont. The total selling price of \$10,000,000 was paid in cash of \$6,350,000 and a note receivable of \$3,650,000. Management believes it received full fair market value in cash at closing. The amount due on the note receivable was \$3,107,254 at June 30, 2014. The RCDB Administrative Offices reviewed financial information provided by the note maker and other publicly available information at June 30, 2014, and determined that it was probable that the balance of the note and accrued interest would not be collected. Consequently, management recorded a reserve for the remaining amount of principal and accrued interest as of June 30, 2014, less \$550,000 which was the estimated fair market value of the remaining property owned by the note maker in which the RCDB, Inc. held a first mortgage. An allowance for doubtful collection of \$2,557,254 was recorded at June 30, 2014.

During 2015, the note receivable was settled through a \$1,050,000 cash payment plus a \$1,000,000 investment in an LLC (see Note A8). Consequently, a bad debt recovery totaling \$1,560,822 was recorded in 2015 and there was no remaining balance on the note receivable at June 30, 2015.

G) PROPERTY AND EQUIPMENT

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

	<u>2015</u>	<u>2014</u>
Buildings and improvements	\$ 3,190,350	\$ 3,190,350
Land and land improvements	507,129	504,689
Equipment	369,726	373,718
Vehicles	<u>127,377</u>	<u>126,888</u>
	4,194,582	4,195,645
Less: accumulated depreciation	<u>1,323,139</u>	<u>1,320,722</u>
	<u>\$ 2,871,443</u>	<u>\$ 2,874,923</u>

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

H) RETIREMENT PLAN/POSTRETIREMENT PLANS

Employees of the RCDB, Inc.

The RCDB, Inc., maintains a qualified salary savings plan (the Diocesan Plan) that covers employees who are 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 \$44,800 in 2015 and \$45,600 in 2014.

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. The RCDB Administrative Offices has recorded a liability in an amount that represents the estimated excess of the actual costs of care provided by Vermont Catholic Charities, Inc., over the related reimbursements provided by third-party insurers and governmental programs. Total charges to activities were approximately \$6,100 in 2015 and \$10,900 in 2014.

The following amounts relate to the Sisters Plan as of June 30:

	<u>2015</u>	<u>2014</u>
Accrued benefit cost:		
Benefit obligation	\$ 264,889	\$ 291,508
Fair value of plan assets	<u>-</u>	<u>-</u>
Accrued benefit cost	<u>\$ 264,889</u>	<u>\$ 291,508</u>
Weighted-average assumptions:		
Discount rate on the benefit obligation	4.75%	4.50%
Inflation rate for Level III housing	4.00%	4.00%
Aggregate third-party revenue inflation rate	2.00%	2.00%
Estimated percentage of covered participants who will utilize Level III care	45%	45%

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

H) RETIREMENT PLAN/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, 2015:

	Pension Benefit Plan	Postretirement Benefit Plan	Total
Accumulated benefit obligation	<u>\$ 6,864,718</u>	<u>\$ 1,826,229</u>	<u>\$ 8,690,947</u>
Funded status:			
Benefit obligation	\$ 6,864,718	\$ 1,826,229	\$ 8,690,947
Fair value of plan assets	<u>(9,514,239)</u>	-	<u>(9,514,239)</u>
Accrued (prepaid) benefit cost	<u>\$ (2,649,521)</u>	<u>\$ 1,826,229</u>	<u>\$ (823,292)</u>
Net periodic pension costs charged to operations consist of:			
Service cost	\$ 107,558	\$ 50,933	
Interest cost	309,402	80,497	
Expected return on plan assets	(674,215)	-	
Amortization of net actuarial gain	(43,728)	(62,208)	
Amortization of prior service cost	142,195	-	
Amortization of transition obligation	<u>31,000</u>	-	
Net periodic pension cost	<u>\$ (127,788)</u>	<u>\$ 69,222</u>	<u>\$ (58,566)</u>
Significant activities during the year:			
Employer contributions to the Plan	\$ 678,349	\$ 84,675	
Benefits paid	\$ 543,500	\$ 84,675	
Contributions from employer expected to be made during the year ending June 30, 2016	\$ 375,000	\$ 96,700	
Amounts included in "pension-related changes other than net periodic pension cost" expected to be recognized in 2016:			
Amortization of net actuarial gain	\$ (43,728)	\$ (62,208)	\$ (105,936)
Prior service cost	\$ 142,195	\$ -	\$ 142,195
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	\$ 445,010	\$(1,197,940)	
Unrecognized prior service cost	1,564,313	-	
Unrecognized transition obligation	<u>150,000</u>	-	
	<u>\$ 2,159,323</u>	<u>\$(1,197,940)</u>	<u>\$ 961,383</u>

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

H) RETIREMENT PLAN/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, 2014:

	Pension Benefit Plan	Postretirement Benefit Plan	Total
Accumulated benefit obligation	<u>\$ 6,758,852</u>	<u>\$ 1,663,788</u>	<u>\$ 8,422,640</u>
Funded status:			
Benefit obligation	\$ 6,758,852	\$ 1,663,788	\$ 8,422,640
Fair value of plan assets	<u>(9,081,030)</u>	<u>-</u>	<u>(9,081,030)</u>
Accrued (prepaid) benefit cost	<u>\$ (2,322,178)</u>	<u>\$ 1,663,788</u>	<u>\$ (658,390)</u>
Net periodic pension costs charged to operations consist of :			
Service cost	\$ 99,749	\$ 43,195	
Interest cost	340,160	73,312	
Expected return on plan assets	(568,459)	-	
Amortization of net actuarial (gain) loss	33,311	(80,195)	
Amortization of prior service cost	119,961	-	
Amortization of transition obligation	<u>31,000</u>	<u>-</u>	
Net periodic pension cost	<u>\$ 55,722</u>	<u>\$ 36,312</u>	<u>\$ 92,034</u>
Significant activities during the year:			
Employer contributions to the Plan	\$ 826,001	\$ 81,734	
Benefits paid	\$ 604,667	\$ 81,734	
Contributions from employer expected to be made during the year ending June 30, 2015	\$ 375,000	\$ 87,900	
Amounts included in "pension-related changes other than net periodic pension cost" expected to be recognized in 2015:			
Amortization of net actuarial (gain) or loss	\$ 33,311	\$ (80,195)	\$ (46,884)
Prior service cost	\$ 119,961	\$ -	\$ 119,961
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	\$ 158,774	\$ (1,375,834)	
Unrecognized prior service cost	1,340,756	-	
Unrecognized transition obligation	<u>181,000</u>	<u>-</u>	
	<u>\$ 1,680,530</u>	<u>\$ (1,375,834)</u>	<u>\$ 304,696</u>

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

H) RETIREMENT PLAN/POSTRETIREMENT PLANS (continued)

The change included in the unrestricted net assets arising from the plans consists of the following:

	Pension Benefit Plan	Postretirement Benefit Plan	Total
Balance, July 1, 2013	\$ 3,001,731	\$ (1,394,709)	\$ 1,607,022
Net actuarial gain arising during the year	(1,136,929)	(61,320)	(1,198,249)
Reclassification from amortization of prior service cost and transition obligation	(119,961)	-	(119,961)
Reclassification from amortization of net actuarial (gain) or loss recognized this year.	(33,311)	80,195	46,884
Reclassification from amortization of transition obligation recognized this year	<u>(31,000)</u>	<u>-</u>	<u>(31,000)</u>
Balance, June 30, 2014	<u>\$ 1,680,530</u>	<u>\$ (1,375,834)</u>	<u>\$ 304,696</u>
Balance, July 1, 2014	\$ 1,680,530	\$ (1,375,834)	\$ 304,696
Net actuarial loss arising during the year	242,508	115,686	358,194
Periodic service cost due to amendment	365,752	-	365,752
Reclassification from amortization of prior service cost and transition obligation	(173,195)	-	(173,195)
Reclassification from amortization of net actuarial loss recognized this year	<u>43,728</u>	<u>62,208</u>	<u>105,936</u>
Balance, June 30, 2015	<u>\$ 2,159,323</u>	<u>\$ (1,197,940)</u>	<u>\$ 961,383</u>

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

	Pension Benefit Plan		Postretirement Benefit Plan	
	2015	2014	2015	2014
Monthly stipend without a Pastoral assignment	\$ 1,600	\$ 1,500	N/A	N/A
Monthly stipend with a Pastoral assignment	\$ 1,500	\$ 1,500	N/A	N/A
Discount rate	4.75%	4.50%	4.75%	4.50%
Expected rate of return on plan assets	7.50%	7.50%	N/A	N/A

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

H) RETIREMENT PLAN/POSTRETIREMENT PLANS (continued)

Additional information related to the **defined benefit pension plan** is as follows:

The benefit paid to the qualified priests as a monthly stipend under the Plan is a discretionary amount determined by the administrative board and is subject to change. Effective July 1, 2015, the RCDB Administrative Offices increased the monthly stipend for priests without a Pastoral assignment from \$1,500 to \$1,600 per month resulting in an actuarial charge to the Plan in 2015 of \$365,752.

The allocation of plan assets by category at plan year end is as follows:

	<u>2015</u>	<u>2014</u>
Cash	3%	3%
Equity securities	59%	61%
Debt securities	38%	36%

The RCDB Administrative Office's overall strategy to fund the defined benefit pension plan 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	7.5 - 10%
Debt securities	5.5 - 6.5%

The Plan's 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) as of the 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 Plan's actuarial assumptions, and achieves asset returns that are competitive with like organizations employing similar investment strategies.

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

H) RETIREMENT PLAN/POSTRETIREMENT PLANS (continued)

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.

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

	2015			
	Level 1	Level 2	Level 3	Total
Pension plan investment securities:				
Cash	\$ 302,598	\$ -	\$ -	\$ 302,598
Equity securities	5,633,071	-	-	5,633,071
Fixed income securities	3,578,570	-	-	3,578,570
Total	<u>\$ 9,514,239</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,514,239</u>
	2014			
	Level 1	Level 2	Level 3	Total
Pension plan investment securities:				
Cash	\$ 327,187	\$ -	\$ -	\$ 327,187
Equity securities	5,509,651	-	-	5,509,651
Fixed income securities	3,244,192	-	-	3,244,192
Total	<u>\$ 9,081,030</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,081,030</u>

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

2016	\$ 626,000
2017	\$ 592,000
2018	\$ 593,000
2019	\$ 557,000
2020	\$ 573,000

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

H) RETIREMENT PLAN/POSTRETIREMENT PLANS (continued)

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

For measurement purposes, at the end of the years included in the foregoing tables, rates of increase in the cost of covered health care benefits assumed for 2016 and thereafter were as follows for the years ending June 30:

	Medical Care Benefits	Other Benefits
2016	4.70%	5.00%
2017	5.00%	5.00%
2018	5.30%	5.00%
2019	5.40%	5.00%
2020	5.50%	5.00%
2021	5.40%	5.00%
2022	5.30%	5.00%
2023	5.20%	5.00%
2024	5.10%	5.00%
Thereafter	5.00%	5.00%

A one-percentage-point change in the assumed rates of increase in health care costs would have the following effects relative to 2015 amounts included above:

	Increase	Decrease
Effect on total of service and interest cost components	\$ 155,914	\$ 111,938
Effect on accumulated postretirement benefit obligation	\$2,076,411	\$1,618,408

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

2016	\$ 96,700
2017	\$ 114,800
2018	\$ 121,300
2019	\$ 135,200
2020	\$ 138,900

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

D) NOTE PAYABLE

The note payable represents the amount outstanding under a line of credit agreement with TD Bank, N.A. that has an available balance of \$750,000 and expires on January 31, 2016. Interest is payable at *The Wall Street Journal* prime rate (3.25% at June 30, 2015). The balance outstanding on the line of credit at June 30, 2015 and 2014 was \$0 and \$500,000, respectively. The line of credit is secured by a required minimum marketable securities balance of \$1,500,000, plus the balance on a specified loan payable to the bank by a related party. The total minimum required balance was approximately \$1,600,000 at June 30, 2015.

J) LONG-TERM DEBT

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

	<u>2015</u>	<u>2014</u>
TD Bank, N.A. -		
Payable in monthly installments of \$2,509, including interest at 3.47%, due May 2019 with a balloon payment approximating \$433,000. Secured by cash, marketable securities, and property and equipment.	\$ 486,222	\$ 498,985
Chrysler Capital -		
Payable in monthly installments of \$1,041, including interest at 0.90%, due January 2018. Secured by certain property and equipment.	<u>31,867</u>	<u>-</u>
	<u>\$ 518,089</u>	<u>\$ 498,985</u>

Principal payments are due as follows:

<u>Years ending June 30,</u>	<u>Amount</u>
2016	\$ 25,416
2017	26,044
2018	21,424
2019	<u>445,205</u>
	<u>\$ 518,089</u>

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

K) NET ASSETS

Net assets are temporarily restricted as follows at June 30:

	<u>2015</u>	<u>2014</u>
<i>Temporarily restricted as to purpose:</i>		
<i>Endowment-related:</i>		
Nolin-Mooney fund for seminary education	\$ 383,409	\$ 401,398
Buckley fund for charity, care of the poor and support of vocations	218,278	228,519
Buckley fund for the benefit of priests	218,278	228,519
Roman Catholic schools and charities of the City of Burlington - Turk fund	<u>192,792</u>	<u>201,837</u>
	<u>1,012,757</u>	<u>1,060,273</u>
<i>Non-endowment-related:</i>		
Vermont Catholic Education Endowment Fund	48,506	48,320
Christmas Fund, poor and needy parishes	61,844	67,744
Goss Trust	219,783	234,773
Other	<u>22,338</u>	<u>29,328</u>
	<u>352,471</u>	<u>380,165</u>
Total temporarily restricted as to purpose	1,365,228	1,440,438
<i>Temporarily restricted as to time:</i>		
Bishop's Fund - pledges received to be used during the succeeding fiscal year	<u>571,201</u>	<u>365,745</u>
Total temporarily restricted	<u>\$ 1,936,429</u>	<u>\$ 1,806,183</u>

Net assets are permanently restricted for investment in perpetuity, the income from which is expendable to support the following as of June 30:

	<u>2015</u>	<u>2014</u>
Boucher trust for general purposes of the Diocese	\$ 722,827	\$ 792,450
Nolin-Mooney fund for seminary education	951,876	951,876
Buckley fund for charity, care of the poor and support of vocations	541,909	541,909
Buckley fund for Priests' Benefit Fund	541,909	541,909
Roman Catholic schools and charities of the City of Burlington - Turk fund	478,637	478,637
Fearons trust for seminary education and for the benefit of priests	<u>5,817,498</u>	<u>5,823,743</u>
Total permanently restricted	<u>\$ 9,054,656</u>	<u>\$ 9,130,524</u>

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

K) NET ASSETS (continued)

Changes in endowment fund- related net assets were as follows during the years ended June 30:

	Temporarily Restricted	Permanently Restricted	Total
July 1, 2013	\$ 733,583	\$ 8,113,540	\$ 8,847,123
Contributions	-	571,635	571,635
Change in value of beneficial interest in trust	-	445,349	445,349
Investment gain	489,086	-	489,086
Appropriations	<u>(162,396)</u>	<u>-</u>	<u>(162,396)</u>
June 30, 2014	1,060,273	9,130,524	10,190,797
Contributions	-	-	-
Change in value of beneficial interest in trust	-	(75,868)	(75,868)
Investment gain	131,214	-	131,214
Appropriations	<u>(178,730)</u>	<u>-</u>	<u>(178,730)</u>
June 30, 2015	<u>\$ 1,012,757</u>	<u>\$ 9,054,656</u>	<u>\$ 10,067,413</u>

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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 provides cash and in-kind contributions to Vermont Catholic Charities, Inc. The fair values of these contributions are charged to activities and included in social services expense. In-kind contributions include the provision of certain administrative services and the rent-free use of facilities leased or owned by the RCDB, Inc. These subsidies were comprised of the following during the years ended June 30:

	<u>2015</u>	<u>2014</u>
In-kind subsidies:		
Rent-free use of facilities for residential care homes	\$ 1,350,000	\$ 1,350,000
Rent-free use of facilities for administration and counseling	32,880	32,880
Administrative services	<u>108,341</u>	<u>105,730</u>
Total in-kind subsidies	1,491,221	1,488,610
Cash subsidies for use in general operations	249,996	249,996
Allocation of administrative facilities cost	<u>63,915</u>	<u>65,324</u>
 Total social services - Vermont Catholic Charities, Inc.	 <u>\$ 1,805,132</u>	 <u>\$ 1,803,930</u>

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, the Rice restricted cash account representing the bond proceeds, 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 at June 30, 2015 of \$7,500,000.

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

M) COMMITMENTS AND CONTINGENT LIABILITIES (continued)

The RCDB, Inc. has contracted with a construction contractor to perform the work on the renovation project for Rice. Related balances are recorded in the financial statements of Rice. The unpaid commitment to this contractor at June 30, 2015 is approximately \$1,400,000.

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 \$136,928 at June 30, 2015 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, 2015 and 2014, no accruals were necessary.