

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.
JUNE 30, 2020 AND 2019**

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

JUNE 30, 2020 AND 2019

CONTENTS

	<u>Pages</u>
INDEPENDENT AUDITOR’S REPORT	1 - 2
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	3
STATEMENTS OF ACTIVITIES	4
STATEMENTS OF FUNCTIONAL EXPENSES	5 - 6
STATEMENTS OF CASH FLOWS	7 - 8
NOTES TO FINANCIAL STATEMENTS	9 - 39



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, 2020 and 2019, and the related statements of activities, functional expenses, 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 are required to be consolidated in accordance with Accounting Standards Codification Topic 958. The effects on the financial statements, as of and for the years ended June 30, 2020 and 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, 2020 and 2019, and the changes in its net assets, its functional expenses, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Guidance

As described in Note J to the financial statements, the RCDB, Inc. adopted new accounting guidance related to the accounting for pension and postretirement plan expenses which resulted in the reclassification of \$128,726 of credits from operating expenses to a non-operating increase in net assets in the accompanying statement of activities for the year ended June 30, 2019. Our opinion is not modified with respect to this matter.

Gallagher, Flynn & Company, LLP

South Burlington, Vermont
February 2, 2021

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30,

ASSETS

	<u>2020</u>	<u>2019</u>
Cash	\$ 1,533,524	\$ 102,727
Pledges receivable, net of allowance for doubtful accounts of \$20,609 in 2020 and \$26,885 in 2019	181,487	318,631
Bequest and trust receivables	797,877	575,232
Parish receivables, net of allowance for doubtful accounts of \$42,743 in 2020 and \$163,031 in 2019	542,011	459,703
Due from affiliated organizations, net	-	98,710
Prepaid expenses and other current assets	138,276	228,393
Notes receivable - related parties	1,350,188	1,263,631
Marketable securities	1,784,079	5,099,659
Beneficial interests	15,863,448	15,875,857
Property and equipment, net	3,308,327	3,421,352
Prepaid pension plan costs	1,845,250	2,319,991
Total assets	<u>\$ 27,344,467</u>	<u>\$ 29,763,886</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Funds held for others	\$ 45,465	\$ 66,012
Accounts payable	292,528	175,864
Accrued liabilities and reserves	1,429,696	344,171
Due to affiliated organizations, net	621,548	-
Long-term debt	1,073,138	439,868
Accrued postretirement benefit plan costs	<u>2,615,614</u>	<u>2,074,321</u>
Total liabilities	<u>6,077,989</u>	<u>3,100,236</u>

NET ASSETS

Without donor restrictions	10,040,496	15,179,000
With donor restrictions	<u>11,225,982</u>	<u>11,484,650</u>
Total net assets	<u>21,266,478</u>	<u>26,663,650</u>
Total liabilities and net assets	<u>\$ 27,344,467</u>	<u>\$ 29,763,886</u>

The accompanying notes are an integral part of these statements.

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30,

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES						
Bishop’s Annual Appeal	\$ 1,854,953	\$ 161,782	\$ 2,016,735	\$ 1,992,830	\$ 318,631	\$ 2,311,461
Diocesan assessments	1,514,992	-	1,514,992	1,423,435	-	1,423,435
Insurance premiums charged to parishes and other affiliates for insurance program	1,323,607	-	1,323,607	1,295,492	-	1,295,492
Imputed rental and administrative services charged to affiliated organization	1,504,072	-	1,504,072	1,501,446	-	1,501,446
Program revenue	249,325	-	249,325	288,432	-	288,432
Gifts and bequests	204,195	175,610	379,805	310,024	176,539	486,563
Investment return designated for current operations	737,947	210,433	948,380	865,258	201,267	1,066,525
Other revenue	404,127	-	404,127	381,841	-	381,841
Total revenues	7,793,218	547,825	8,341,043	8,058,758	696,437	8,755,195
Reclassifications: Net assets released from restrictions	756,164	(756,164)	-	806,832	(806,832)	-
Total revenues and reclassifications	8,549,382	(208,339)	8,341,043	8,865,590	(110,395)	8,755,195
EXPENSES						
Program services:						
General program expenses	6,233,317	-	6,233,317	4,987,717	-	4,987,717
Priests' benefit fund	740,308	-	740,308	719,054	-	719,054
Diocesan insurance	1,240,926	-	1,240,926	1,228,630	-	1,228,630
Total program services	8,214,551	-	8,214,551	6,935,401	-	6,935,401
Supporting services:						
General and administrative	3,446,139	-	3,446,139	2,511,254	-	2,511,254
Development	553,440	-	553,440	551,554	-	551,554
Total supporting services	3,999,579	-	3,999,579	3,062,808	-	3,062,808
Total expenses	12,214,130	-	12,214,130	9,998,209	-	9,998,209
LOSS FROM OPERATIONS	(3,664,748)	(208,339)	(3,873,087)	(1,132,619)	(110,395)	(1,243,014)
OTHER GAINS (LOSSES)						
Investment return (loss) in excess of amounts designated for current operations	(64,829)	(45,628)	(110,457)	174,452	50,161	224,613
Increase (decrease) in value of beneficial interests	36,199	(34,415)	1,784	36,699	80,078	116,777
Contributions to capital campaign	178,208	29,714	207,922	-	-	-
Development - capital campaign	(541,928)	-	(541,928)	-	-	-
Other	-	-	-	12,642	-	12,642
Total other gains (losses)	(392,350)	(50,329)	(442,679)	223,793	130,239	354,032
INCREASE (DECREASE) IN NET ASSETS BEFORE PENSION RELATED CHANGES OTHER THAN PENSION SERVICE COST	(4,057,098)	(258,668)	(4,315,766)	(908,826)	19,844	(888,982)
Retirement and postretirement plan benefit other than service costs	185,811	-	185,811	128,726	-	128,726
Pension related changes other than net periodic pension cost	(1,267,217)	-	(1,267,217)	(195,766)	-	(195,766)
INCREASE (DECREASE) IN NET ASSETS	(5,138,504)	(258,668)	(5,397,172)	(975,866)	19,844	(956,022)
NET ASSETS, beginning of year	15,179,000	11,484,650	26,663,650	16,154,866	11,464,806	27,619,672
NET ASSETS, end of year	\$ 10,040,496	\$ 11,225,982	\$ 21,266,478	\$ 15,179,000	\$ 11,484,650	\$ 26,663,650

The accompanying notes are an integral part of these statements.

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2020

	Program Expenses				Supporting Expenses			Total Expenses
	General Program	Priests' Benefit Fund	Diocesan Insurance	Total Program	General and Administrative	Development	Total Supporting	
Operating:								
Salaries and wages	\$ 1,110,141	\$ 46,923	\$ 108,029	\$ 1,265,093	\$ 616,082	\$ 365,560	\$ 981,642	\$ 2,246,735
Employee benefits	287,605	21,200	25,796	334,601	177,644	58,502	236,146	570,747
Total personnel	1,397,746	68,123	133,825	1,599,694	793,726	424,062	1,217,788	2,817,482
Buildings and grounds	106,975	-	3,370	110,345	49,508	6,899	56,407	166,752
Contracted services	75,885	-	-	75,885	128,200	916	129,116	205,001
Forgiveness of related-party debt subsidy	1,263,631	-	-	1,263,631	-	-	-	1,263,631
Insurance	-	-	1,098,782	1,098,782	30,253	-	30,253	1,129,035
Interest	-	-	-	-	27,258	-	27,258	27,258
Legal and related	94	-	-	94	1,596,938	-	1,596,938	1,597,032
Other	280,844	-	268	281,112	543,952	56,857	600,809	881,921
Priest benefits	-	661,068	-	661,068	-	-	-	661,068
Professional and technical	79,795	8,415	-	88,210	125,135	37,673	162,808	251,018
Seminary education	315,941	-	-	315,941	-	-	-	315,941
Social services and other subsidies	2,457,649	-	-	2,457,649	12,700	-	12,700	2,470,349
Supplies and postage	159,342	2,702	1,675	163,719	67,326	20,880	88,206	251,925
	6,137,902	740,308	1,237,920	8,116,130	3,374,996	547,287	3,922,283	12,038,413
Depreciation and amortization	95,415	-	3,006	98,421	71,143	6,153	77,296	175,717
Total operating	6,233,317	740,308	1,240,926	8,214,551	3,446,139	553,440	3,999,579	12,214,130
Non-operating:								
Professional and technical	-	-	-	-	-	541,928	541,928	541,928
Total	\$ 6,233,317	\$ 740,308	\$ 1,240,926	\$ 8,214,551	\$ 3,446,139	\$ 1,095,368	\$ 4,541,507	\$ 12,756,058

The accompanying notes are an integral part of these statements.

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	-	619,895	-	619,895	-	-	-	619,895
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	719,054	1,226,124	6,853,337	2,451,935	546,424	2,998,359	9,851,696
Depreciation and amortization	79,557	-	2,506	82,064	59,319	5,130	64,449	146,513
Total	<u>\$ 4,987,717</u>	<u>\$ 719,054</u>	<u>\$ 1,228,630</u>	<u>\$ 6,935,401</u>	<u>\$ 2,511,254</u>	<u>\$ 551,554</u>	<u>\$ 3,062,808</u>	<u>\$ 9,998,209</u>

The accompanying notes are an integral part of these statements.

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30,

	<u>2020</u>	<u>2019</u>
INCREASE (DECREASE) IN CASH		
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	\$ (5,397,172)	\$ (956,022)
Noncash items included in decrease in net assets:		
Depreciation and amortization	175,717	146,513
Net realized and unrealized gains on investments	(494,069)	(828,691)
Bad debt expense (recoveries), net	(120,288)	42,003
Contributions and other changes in value of beneficial interests	(31,498)	(116,777)
Pension-related changes other than net periodic pension costs	1,267,217	195,766
In-kind payments received on note receivable - related party	29,423	47,260
Forgiveness of note receivable - related party	1,263,631	-
Change in operating assets and liabilities:		
Receivables	(47,521)	443
Other current assets	-	(2,068)
Due to and from affiliated organizations	720,258	(18,876)
Prepaid expenses	90,117	(2,126)
Funds held for others	(20,547)	(43,141)
Accounts payable and accrued liabilities and reserves	1,202,189	(27,931)
Pension and postretirement benefit plan costs	(251,183)	(42,109)
	<u>3,783,446</u>	<u>(649,734)</u>
Net cash used in operating activities	<u>(1,613,726)</u>	<u>(1,605,756)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital acquisitions	(368,102)	(111,233)
Proceeds from sale of property and equipment	305,410	-
Distributions from beneficial interests	443,397	405,033
Beneficial interest in Vermont Catholic Community Foundation	-	(1,500,500)
Advances to related parties on notes receivable	(1,379,611)	-
Proceeds from sale of marketable securities	4,932,804	4,168,209
Purchases of marketable securities	(1,522,645)	(1,690,485)
Net cash provided by investing activities	<u>2,411,253</u>	<u>1,271,024</u>
Subtotal (forward)	<u>\$ 797,527</u>	<u>\$ (334,732)</u>

(CONTINUED)

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30,

	<u>2020</u>	<u>2019</u>
Subtotal (forwarded)	\$ <u>797,527</u>	\$ <u>(334,732)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	654,360	-
Principal payments on long-term debt	<u>(21,090)</u>	<u>(29,898)</u>
Net cash provided by (used in) financing activities	<u>633,270</u>	<u>(29,898)</u>
Net increase (decrease) in cash	1,430,797	(364,630)
CASH, beginning of year	<u>102,727</u>	<u>467,357</u>
CASH, end of year	<u><u>\$ 1,533,524</u></u>	<u><u>\$ 102,727</u></u>
Supplemental Disclosures of Cash Flows Information		
Cash paid during the year for:		
Interest expense	<u><u>\$ 27,258</u></u>	<u><u>\$ 35,639</u></u>

The accompanying notes are an integral part of these statements.

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 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, 2020 AND 2019

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

1. Scope of financial statements (continued)

These financial statements include the following activities:

General program:

General program includes 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 general category also includes all accounts related to net assets with donor restrictions for the purpose of producing income for general or specific purposes.

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>2020</u>	<u>2019</u>
Program administrative costs	\$ 79,240	\$ 99,159
Health and dental insurance premiums for active priests	448,374	435,404
Net periodic pension costs of the retirement and postretirement plans (see Note J)	<u>212,694</u>	<u>184,491</u>
Total priest benefit fund expenses	<u>\$ 740,308</u>	<u>\$ 719,054</u>

Diocesan insurance:

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.

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 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.

The RCDB Administrative Offices' 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

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update ("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 reciprocal (i.e., exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. This ASU was adopted July 1, 2019 and did not have an impact on the amounts of contribution revenues recorded in the financial statements of the RCDB Administrative Offices in 2020 and 2019.

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 support 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, 2020 AND 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

Pledges, bequests, trusts and notes receivable are stated at the amount the RCDB Administrative Offices expects to collect. The allowances for doubtful accounts are the RCDB Administrative Offices' 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, 2020 AND 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.

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

7. Fair value measurements (continued)

For the years ended June 30, 2020 and 2019, the application of valuation techniques applied to similar assets and liabilities has been consistent.

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 Offices' 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 interests in Vermont Catholic Community Foundation, Inc. ("VCCF") are valued based on the net asset value ("NAV") of units within the funds of assets, as further described hereafter.

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, 2020 AND 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, 2020 AND 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, 2020 and 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, 2020 AND 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, 2020 and 2019.

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 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.

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

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, capital campaigns, and other activities considered to be not material to operations or that are unusual or nonrecurring in nature.

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 2020, the RCDB, Inc. launched a capital campaign (see Note M) and incurred fundraising expenses of approximately \$542,000 related to managing the planning and fundraising efforts of the campaign. These amounts are included in non-operating professional and technical expenses as supporting expenses (development) in the statement of functional expenses and in other gains (losses) in the statement of activities.

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.

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

16. Use of estimates

In preparing financial statements in accordance 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. Recently issued accounting pronouncements

The RCDB Inc. is currently evaluating the impact of adopting the following on its financial position and results of operations:

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. On June 3, 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606)*, which provides for an optional one-year deferral for adopting the guidance in Topic 606. The RCDB Inc. elected the option to defer the adoption of this guidance until 2021.

Contributed nonfinancial assets

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU modifies certain presentation and disclosure requirements that were previously required for contributed nonfinancial assets. The ASU should be applied on a retrospective basis and is effective for years beginning after December 15, 2021.

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

17. Recently issued accounting pronouncements (continued)

Fair value measurement disclosures

ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*, modifies or removes certain disclosure requirements that were previously required. The ASU is effective for years beginning after December 15, 2019.

Defined Benefit Pension Plan disclosures

ASU 2018-14, *Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20): Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans*, provides certain additional disclosure requirements and removes or modifies certain previously required disclosures. The ASU is effective for years beginning after December 15, 2021.

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 February 2, 2021, 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, 2020 and 2019. This includes amounts pledged by donors for general operating use in 2021 and 2020, and excludes note receivable – related party, beneficial interests, and marketable securities.

	<u>2020</u>	<u>2019</u>
Total financial assets considered current assets	\$ 3,054,899	\$ 1,555,003
Cash required to satisfy donor restrictions	(10,000)	(10,000)
Anticipated distributions from marketable securities and beneficial interests based upon 5% spending policy	<u>882,376</u>	<u>1,048,776</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,927,275</u>	<u>\$ 2,593,779</u>

The RCDB Administrative Offices rely upon contribution revenues to fund operations and conduct 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.

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

C) RISKS AND UNCERTAINTIES

General economic conditions

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a “Public Health Emergency of International Concern” and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus (COVID-19) and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical areas in which the RCDB, Inc. operates. While the impact to the RCDB, Inc. is expected to be temporary, the current circumstances are dynamic and the impact on their business operations, including the duration and impact on continuing parish assessments, other contribution revenues, and investment earnings, cannot be reasonably estimated at this time. The RCDB, Inc. anticipates this may have an adverse impact on their activities, financial position and cash flows in 2021.

As of June 30, 2020, there have been no significant effects on the RCDB, Inc.’s activities that have materially or adversely impacted estimates made in the financial statements, including allowances for doubtful accounts. Additionally, there have been no triggering events indicating that property and equipment should be evaluated for impairment. However, it remains reasonably possible that these estimates made in the financial statements could be adversely impacted in the near term as a result of changes in investment earnings and charitable contributions, including amounts provided from parish assessments and other contribution revenues, due to these conditions.

Concentration 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, 2020 AND 2019

D) BENEFICIAL INTERESTS

Trusts

The Diocese is the beneficiary of three trusts at June 30, 2020 and 2019, the net assets of which have been accounted for as net assets with donor restrictions. 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 first trust is a perpetual charitable trust which names the Diocese as a beneficiary. The trustee is required to distribute a minimum of 5% of the fair value of the trust annually and may elect to make additional discretionary distributions to beneficiaries. As a beneficiary, distributions received by the RCDB, Inc. must be used for the education of seminarians for service in the State of Vermont and the care of elderly Priests within the Diocese. The RCDB, Inc. is guaranteed a minimum of 50% of all distributions from the trust to a maximum of 95%, depending upon the level of spending for the education of seminarians for service in the State of Vermont. Distributions for each fiscal year to reimburse the Diocese for expenses already incurred are received following the end of the fiscal year, but are accrued for as of the end of the fiscal year and, accordingly, are included in "Bequest and trust receivables" totaling \$250,000 and \$299,999 at June 30, 2020 and 2019, respectively. Conditional trust distributions receivable of \$162,353 and \$247,121 are included in beneficial interests at June 30, 2020 and 2019, respectively, and were recorded as "Gifts and bequests" revenue in 2020 and 2019. RCDB, Inc. carries the beneficial interest in trust at 50% of the fair value of the underlying assets in the trust; the increase in the RCDB, Inc.'s portion of the trust's value of \$249,908 and \$376,085 were recognized as gains on investments in 2020 and 2019, respectively.

A second trust allows the Diocese to direct the trustee to distribute the assets for the purpose of archival preservation.

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 general activities of the Diocese.

Vermont Catholic Community Foundation

The RCDB, Inc. is also the beneficiary of funds owned and managed by VCCF for the Diocesan benefit. Funds are established through contributions by third parties to benefit the Diocese and through transfers of RCDB, Inc. assets into VCCF funds pursuant to agreements that limit the RCDB, Inc. from access to those assets, as defined. 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, 2020 AND 2019

D) BENEFICIAL INTERESTS (continued)

The following table presents the beneficial interests measured at fair value on, a recurring basis as of June 30:

	<u>2020</u>	<u>2019</u>
Fair value determined by level 1:		
Mutual funds - equity	\$ 5,282,301	\$ 5,241,512
Mutual fund - fixed income	1,307,326	1,089,301
Equities	<u>537,498</u>	<u>560,791</u>
	7,127,125	6,891,604
Investments measured at net asset value:		
Money market funds (a)	119,926	451,952
VCCF (b)	8,866,397	8,832,300
Less: accrued distributions	<u>(250,000)</u>	<u>(299,999)</u>
Total	<u>\$ 15,863,448</u>	<u>\$ 15,875,857</u>

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, 2020 AND 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, 2020				
	Level 1	Level 2	Level 3	Total
Fixed income:				
Government bonds	\$ -	\$ 205,692	\$ -	\$ 205,692
Corporate bonds	-	414,668	-	414,668
Total fixed income	-	620,360	-	620,360
Common stocks	1,043,461	-	-	1,043,461
Other investments	-	32,613	29,883	62,496
	<u>\$ 1,043,461</u>	<u>\$ 652,973</u>	<u>\$ 29,883</u>	<u>1,726,317</u>
Investments measured at net asset value:				
Money market funds				57,762
Total investment securities				<u>\$ 1,784,079</u>

June 30, 2019				
	Level 1	Level 2	Level 3	Total
Fixed income:				
Government bonds	\$ -	\$ 519,313	\$ -	\$ 519,313
Corporate bonds	-	1,454,750	-	1,454,750
Total fixed income	-	1,974,063	-	1,974,063
Common stocks	3,062,002	-	-	3,062,002
Other investments	-	-	29,883	29,883
	<u>\$ 3,062,002</u>	<u>\$ 1,974,063</u>	<u>\$ 29,883</u>	<u>5,065,948</u>
Investments measured at net asset value:				
Money market funds				33,711
Total investment securities				<u>\$ 5,099,659</u>

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 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, during the years ended June 30:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Net realized and unrealized gains	\$ 579,677	\$ 164,392	\$ 744,069
Interest and dividend income	108,860	413	109,273
Investment management fees	(15,419)	-	(15,419)
Total investment gain	<u>\$ 673,118</u>	<u>\$ 164,805</u>	<u>\$ 837,923</u>

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Net realized and unrealized gains	\$ 877,572	\$ 251,118	\$ 1,128,690
Interest and dividend income	190,847	360	191,207
Investment management fees	(28,709)	(50)	(28,759)
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.

The following schedule summarizes the investment returns (losses) and their classification in the statements of activities:

	Without Donor Restrictions	With Donor Restrictions	Total
2020			
Operating	\$ 737,947	\$ 210,433	\$ 948,380
Other	(64,829)	(45,628)	(110,457)
Total return on investments, net	<u>\$ 673,118</u>	<u>\$ 164,805</u>	<u>\$ 837,923</u>

2019			
Operating	\$ 865,258	\$ 201,267	\$ 1,066,525
Other	174,452	50,161	224,613
Total return on investments, net	<u>\$ 1,039,710</u>	<u>\$ 251,428</u>	<u>\$ 1,291,138</u>

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

F) NOTES RECEIVABLE – RELATED PARTIES / SUBSEQUENT EVENTS

Rice Memorial High School

At June 30, 2019, the RCDB, Inc. had one outstanding loan receivable from Rice Memorial High School (Rice), an operating division of the RCDB, Inc., in the amount of \$1,263,631. In conjunction with Rice's *Investing in our Legacy* capital campaign, the RCDB, Inc. matched donor contributions made during 2020 by forgiving this balance of the note in full effective April 1, 2020. The forgiveness of this note was recognized as an expense during 2020 and is included within general program expenses in the statement of activities. Interest income related to the note receivable was not significant in 2020 and 2019. Prior to forgiveness, the note allowed 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 applied to this note were approximately \$0 and \$47,300 during 2020 and 2019, respectively.

During 2020, the RCDB, Inc. made a series of cash advances to Rice, which on July 1, 2020, was formalized into a note receivable. Similar to the aforementioned loan receivable, the agreement allows for in-kind payments toward the principal balance by the School reducing tuition fees for children of RCDB, Inc. employees with interest accruing at 1% per annum and no formal repayment schedule. The note is subordinated to the bonds and term debt due to TD Bank by Rice (see Note O). During 2020 in-kind payments of \$29,400 reduced the principal balance of the note receivable, which was \$781,754 at June 30, 2020.

St. Joseph Co-Cathedral Parish Charitable Trust

During 2020, the RCDB, Inc. also made a series of cash advances to St. Joseph Co-Cathedral Parish Charitable Trust totaling \$568,434, which, on August 10, 2020, were formalized into a note receivable. The agreement is non-interest-bearing and has no formal repayment schedule.

G) PROPERTY AND EQUIPMENT

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

	<u>2020</u>	<u>2019</u>
Buildings and improvements	\$ 4,065,504	\$ 4,065,504
Land and land improvements	516,829	516,829
Equipment	219,471	270,668
Vehicles	<u>190,726</u>	<u>190,726</u>
	4,992,530	5,043,727
Less: accumulated depreciation and amortization	<u>1,684,203</u>	<u>1,622,375</u>
	<u><u>\$ 3,308,327</u></u>	<u><u>\$ 3,421,352</u></u>

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

H) NOTE PAYABLE

During 2020 and 2019, the RCDB, Inc. had a line of credit agreement with TD Bank, N.A. that had an available balance of \$750,000. Interest was payable at the *Wall Street Journal* prime rate. The line of credit expired on January 31, 2020 and was not renewed. There was no balance outstanding on the line of credit at June 30, 2019.

I) LONG-TERM DEBT/SUBSEQUENT EVENT

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

	<u>2020</u>	<u>2019</u>
TD Bank, N.A. -		
Payable in monthly installments of \$2,656, including interest at 4.12%. Three months of payments were suspended beginning May 2020, with accrued interest over this time to be paid in three equal installments during 2021. Accrued interest is not significant at June 30, 2020. Due August 2024 with a balloon payment approximating \$356,000. Secured by cash, marketable securities, and property and equipment.	\$ 418,778	\$ 430,643
Term loan pursuant to the Paycheck Protection Program administered by the US Small Business Administration and due May 2022 including interest at 1%. All or a portion of the loan may be forgiven if the RCDB, Inc. uses the proceeds of the loan for payroll costs and other allowed expenses. Amounts forgiven will be recognized when the RCDB, Inc. is legally released from their obligation to repay all or part of this loan.	654,360	-
Other	<u>-</u>	<u>9,225</u>
	<u>\$ 1,073,138</u>	<u>\$ 439,868</u>

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

I) LONG-TERM DEBT/SUBSEQUENT EVENT (continued)

Principal payments are due as follows:

Years ending <u>June 30,</u>	<u>Amount</u>
2021	\$ 13,539
2022	15,394
2023	16,050
2024	16,701
2025	357,094
PPP loan expected to be forgiven	<u>654,360</u>
	<u>\$ 1,073,138</u>

Subsequent event

In October 2020, the US Small Business Administration clarified that lenders of loans from the Paycheck Protection Program must recognize the extended deferral period according to the Paycheck Protection Flexibility Act of 2020 for payments on the principal, interest, and fees, even if the executed promissory note indicates only a six-month deferral. The Paycheck Protection Flexibility Act of 2020 provides for the deferral of loan payments to either the date that the US Small Business Administration remits the loan forgiveness amount to the lender or, if the borrower does not apply for forgiveness, ten months after the end of the borrower's loan forgiveness covered period, as defined. Accordingly, amounts in long-term debt of \$654,360 related to the Paycheck Protection Program term loan have been separately stated in the schedule of principal payments with the expectation that they will be forgiven.

J) 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 \$62,000 in 2020 and \$59,000 in 2019.

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

J) RETIREMENT AND POSTRETIREMENT PLANS (continued)

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

Funded status:

The following is the funded status of the pension benefit and postretirement health benefit plans for the priests and the pension cost for the RCDB Administrative Offices as of June 30:

<u>2020</u>	<u>Pension Benefit Plan</u>	<u>Postretirement Benefit Plan</u>	<u>Total</u>
Accumulated benefit obligation	\$ 9,617,016	\$ 3,007,354	\$ 12,624,370
Funded status:			
Benefit obligation	\$ 9,617,016	\$ 3,007,354	\$ 12,624,370
Fair value of plan assets	(11,462,266)	(391,740)	(11,854,006)
Accrued (prepaid) benefit cost	\$ (1,845,250)	\$ 2,615,614	\$ 770,364
<u>2019</u>			
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)

Amounts recognized in the statements of financial position are as follows at June 30:

	<u>Pension Benefit Plan</u>		<u>Postretirement Benefit Plan</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Accrued (prepaid) benefit cost	\$ (1,845,250)	\$ (2,319,991)	\$ 2,615,614	\$ 2,074,321
Accumulated related charges other than net periodic benefit costs included in net assets without donor restrictions				
Unrecognized net actuarial (gain) loss	\$ 3,483,282	\$ 1,863,621	\$ (97,432)	\$ (709,769)
Unrecognized prior service cost	1,231,114	1,397,158	-	-
Unrecognized transition obligation	-	26,000	-	-
	<u>\$ 4,714,396</u>	<u>\$ 3,286,779</u>	<u>\$ (97,432)</u>	<u>\$ (709,769)</u>

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

J) RETIREMENT AND POSTRETIREMENT PLANS (continued)

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

Cash flows:

Contributions and benefit payments made during the years ended June 30:

	Pension Benefit Plan		Postretirement Benefit Plan	
	2020	2019	2020	2019
Employer contributions to the Plan	\$ 997,737	\$ 90,000	\$ 178,805	\$ 135,898
Benefits paid	\$ 613,400	\$ 624,000	\$ 103,805	\$ 105,898

The RCDB, Inc. expects to contribute approximately \$225,000 to the pension benefit plan and \$333,000 to the postretirement benefit plan in 2021.

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

	Pension Benefit Plan	Postretirement Benefit Plan	Total
2021	\$ 652,900	\$ 134,600	\$ 787,500
2022	658,900	140,900	799,800
2023	623,700	139,300	763,000
2024	607,900	141,400	749,300
2025	591,400	143,100	734,500
	<u>\$ 3,134,800</u>	<u>\$ 699,300</u>	<u>\$ 3,834,100</u>

Statements of Activities:

On July 1, 2019, the RCDB, Inc. adopted 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 separately from the other components of net benefit cost as an Other increase (decrease) in net assets. Implementation of the ASU resulted in the RCDB, Inc. restating the 2019 statements of activities and functional expenses to reclassify credits of \$128,726 included in expenses of priests' benefit fund and program expenses to "retirement and postretirement plan benefits other than service costs." The service cost components of net periodic pension cost continue to be allocated to priests' benefit fund and program expenses in a manner consistent with other employee benefits (see Note A14).

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

J) RETIREMENT AND POSTRETIREMENT PLANS (continued)

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

Statements of Activities (continued):

In addition, during 2020 the pension benefit plan trust received contributions of approximately \$773,000 from third parties, which is included in employer contributions and reduced the RCDB, Inc.'s obligation to the pension benefit plan. Accordingly, the RCDB, Inc. recognized the effect of the reduction of the liability as a component of "pension related changes other than net periodic pension costs" in 2020.

Amounts recognized in the statements of activities related to the retirement and postretirement plans are as follows during the years ended June 30:

	Pension Benefit Plan		Postretirement Benefit Plan	
	2020	2019	2020	2019
Service cost	\$ 144,090	\$ 122,877	\$ 68,604	\$ 61,614
Pension plan charges other than service costs:				
Interest cost	257,070	302,682	81,559	93,103
Expected return on plan assets	(714,763)	(700,025)	(18,966)	(19,390)
Other	232,725	218,298	(23,436)	(23,394)
	<u>(224,968)</u>	<u>(179,045)</u>	<u>39,157</u>	<u>50,319</u>
Pension related changes other than net periodic pension cost:				
Net actuarial (gain) loss arising during the year	1,427,617	210,561	612,337	(14,795)
Other contributions	<u>(772,737)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>654,880</u>	<u>210,561</u>	<u>612,337</u>	<u>(14,795)</u>
Net decrease in net assets without donor restrictions related to pension benefit and post retirement benefit plans	<u>\$ 574,002</u>	<u>\$ 154,393</u>	<u>\$ 720,098</u>	<u>\$ 97,138</u>

The estimated net loss that will be amortized from accumulated related charges other than net periodic benefit cost in 2021 is approximately \$280,400.

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

J) RETIREMENT AND POSTRETIREMENT PLANS (continued)

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

Significant assumptions:

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	
	2020	2019	2020	2019
Monthly stipend without a pastoral assignment	\$ 1,700	\$ 1,700	N/A	N/A
Monthly stipend with a pastoral assignment	\$ 1,600	\$ 1,600	N/A	N/A
Discount rate	2.25%	3.25%	2.50%	3.50%
Expected rate of return on plan assets	7.00%	7.00%	7.00%	7.00%

In 2020, there were two significant changes in assumptions including the change in the discount rate and participant experience related to actual experience compared to actuarial assumptions used to calculate the pension benefit plan-related liability as of the end of the year. These changes resulted in an increase in the pension benefit plan liability of approximately \$1,057,000 and \$659,000, respectively. In 2019, the change in discount rate (4.00% in 2018) resulted in an increase in the pension benefit plan liability of approximately \$615,000.

Additional information related to the Pension Benefit and Postretirement Benefit Plans – Investments:

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

	2020	2019
Cash	3%	3%
Equity securities	60%	59%
Debt securities	37%	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 %

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

J) RETIREMENT AND POSTRETIREMENT PLANS (continued)

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

Additional information related to the Pension Benefit Plan and Postretirement Benefit Plan – Investments (continued):

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.

The following table presents the plans' investment securities measured at fair value (all Level 1) on a recurring basis by level within the fair value measurement valuation hierarchy as of June 30:

	<u>2020</u>	<u>2019</u>
Cash	\$ 388,788	\$ 296,102
Equity securities	7,071,014	6,363,295
Fixed income securities	<u>4,394,204</u>	<u>4,177,797</u>
Total	<u>\$ 11,854,006</u>	<u>\$ 10,837,194</u>

Additional information related to the Postretirement Benefit Plan –Health care benefits:

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	\$ 40,216	\$ (28,891)
Effect on accumulated postretirement benefit obligation	\$ 543,865	\$ (420,421)

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

K) NET ASSETS

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

<i>Endowment funds:</i>	<u>2020</u>	<u>2019</u>
Amounts required to be maintained in perpetuity:		
Pizzagalli for maintaining a family plot	\$ 10,000	\$ 10,000
Boucher trust for general purposes of the Diocese	663,260	724,244
Nolin-Mooney fund for seminary education	1,052,563	1,052,563
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
Faith Formation Fund - Christ Our Hope	29,714	-
Fearons trust for seminary education and for the benefit of priests	<u>6,084,562</u>	<u>6,084,652</u>
	9,402,554	9,433,914
Accumulated investment earnings, subject to spending policy and appropriation for the following purposes:		
Pizzagalli for maintaining a family plot	3,737	2,960
Nolin-Mooney fund for seminary education	449,715	466,879
Buckley fund for charity, care of the poor and support of vocations	270,742	274,454
Buckley fund for Priests' Benefit Fund	270,820	274,515
Roman Catholic schools and charities of the City of Burlington - Turk fund	<u>220,256</u>	<u>229,352</u>
Total of endowment funds with donor restrictions	<u>10,617,824</u>	<u>10,682,074</u>
<i>Restricted by donors as to time:</i>		
Bishop's Annual Appeal - pledges received to be used during the succeeding fiscal year	<u>161,782</u>	<u>318,631</u>
<i>Restricted by donors for the following purposes:</i>		
Vermont Catholic Education Endowment Fund	52,759	53,407
Christmas Fund, poor and needy parishes	49,778	80,632
Goss Trust	249,230	234,662
Priest Benefit Fund - collection for senior priests	68,554	85,105
Other	<u>26,055</u>	<u>30,139</u>
	<u>446,376</u>	<u>483,945</u>
	<u><u>\$ 11,225,982</u></u>	<u><u>\$ 11,484,650</u></u>

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

K) NET ASSETS (continued)

Changes in endowment fund – related net assets were as follows:

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	10,682,074
Contributions	29,714
Change in value of beneficial interests	(61,074)
Net investment return	162,748
Appropriations	<u>(195,638)</u>
June 30, 2020	<u><u>\$ 10,617,824</u></u>

L) RELATED PARTY TRANSACTIONS

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 years ended June 30:

In-kind subsidies:	<u>2020</u>	<u>2019</u>
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>121,192</u>	<u>118,566</u>
Total in-kind subsidies	1,504,072	1,501,446
Cash subsidies for use in general operations	200,005	200,004
Allocation of administrative facilities costs	<u>62,702</u>	<u>55,468</u>
Total social services - Vermont Catholic Charities, Inc.	<u><u>\$ 1,766,779</u></u>	<u><u>\$ 1,756,918</u></u>

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

L) RELATED PARTY TRANSACTIONS (continued)

During 2020, the RCDB Administrative Offices received amounts from a third party related to a charitable endowment fund established for the benefit of Rice Memorial High School (Rice). Amounts will be distributed to Rice in annual installments of \$10,000 through 2023; thereafter, the RCDB Administrative Offices will determine annually the percentage of the fund to distribute to Rice. Distributions will provide scholarships to students of Rice, which will be awarded by Rice's School Board. Amounts related to the charitable endowment fund included in marketable securities, and due to affiliated organizations were \$151,729, and \$537,254 at June 30, 2020, respectively.

The RCDB Administrative Offices also provided cash and in-kind contributions to Diocesan schools totaling \$581,092 in 2020 and \$526,604 in 2019, and to other related parties totaling \$172,480 in 2020 and \$184,161 in 2019. The fair values of these operating contributions are charged to activities and included in general program expenses. In addition, the RCDB Administrative Offices also provided Rice an additional subsidy of \$1,263,631 through forgiveness of related party debt (see Note F).

The RCDB Administrative Offices also provides accounting services to related parties. Revenue from this service totaled approximately \$287,000 and \$306,000 in 2020 and 2019, respectively, and is included in other revenue in the statements of activities.

Amounts due from Vermont Catholic Charities included in "Due to affiliated organization, net" was approximately \$126,000 and \$261,000 at June 30, 2020 and 2019, respectively.

There were additional amounts due to other affiliates of the RCDB, Inc. of approximately \$210,000 and \$162,000 at June 30, 2020 and 2019, respectively.

M) CAPITAL CAMPAIGN

During 2020, the RCDB, Inc. launched its "Christ Our Hope: Building a Vibrant Church" capital campaign drive ("the campaign"). The campaign's primary goal is to raise a total of \$10,000,000 for various purposes aligned with the RCDB, Inc.'s goals to strengthen and secure the future of the Roman Catholic Church in Vermont. The funds, net of fundraising expenses, will be allocated to the following beneficiaries: 60% to Diocesan parishes to fund parish activities and priorities, 20% to fund an endowment fund, the investment earnings of which will be for the benefit of RCDB, Inc. to support Diocesan Catholic schools, youth ministry and evangelization, and 20% to fund an endowment fund for the benefit of Vermont Catholic Charities, Inc., the investment earnings of which are to be distributed to VCC to provide support for those experiencing poverty. Pursuant to an agreement with RCDB, Inc., the campaign activities, including contributions, are managed by the Vermont Catholic Community Foundation and, unless specifically altered in writing, are allocated to the beneficiaries based on aforementioned percentages above, net of an allocation of fundraising expenses.

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

M) CAPITAL CAMPAIGN (continued)

As of June 30, 2020, the RCDB, Inc. has recognized \$49,419 in revenues related to its portion of the campaign, all of which is held by VCCF and includes a pledge receivable of \$19,705 and a beneficial interest of \$29,714 at June 30, 2020.

The Diocese expects to incur approximately \$770,000 in direct costs of fundraising. In conjunction with the campaign, the RCDB, Inc. entered into an agreement with an unrelated party for assistance with campaign's fundraising and administration efforts. In 2020, the RCDB, Inc. incurred approximately \$542,000 in expenses related to the campaign, of which approximately \$43,000 is included in accounts payable at June 30, 2020. Additional campaign expenses expected to be incurred in 2021 under this agreement are approximately \$192,000.

The campaign is designed such that RCDB, Inc. is responsible for all of the fundraising expenses and is reimbursed from collected and distributed campaign funds by parishes and VCC at an agreed-upon percentage of funds raised. Therefore, all campaign-related fundraising expenses are charged by RCDB, Inc. to capital campaign activities as incurred and reimbursements to RCDB, Inc. are recognized as capital campaign contribution revenues as campaign-related distributions to beneficiaries are made by VCCF. During 2020, the Administrative Offices of the Diocese has recognized approximately \$159,000 of contribution revenues related to recoveries of campaign-related fundraising expenses from other beneficiaries, of which approximately \$139,000 and \$20,000 are included in parish receivables and due to affiliated organizations, respectively, at June 30, 2020.

N) LITIGATION-RELATED LIABILITIES

The RCDB, Inc. is a defendant in various lawsuits alleging priest misconduct occurring years ago. The RCDB, Inc. settled several lawsuits during 2020 and subsequent to year end; accordingly, the RCDB, Inc. has recognized a charge to operations of \$1,355,000 in 2020 and a liability at June 30, 2020 in the amount of \$1,010,000. Several additional lawsuits have been filed. Outside legal counsel for the RCDB, Inc. has advised that, at this stage of the proceedings, they are unable to provide an opinion as to the outcome of these additional lawsuits and the RCDB, Inc. intends to apply every reasonable defense of its position. Based upon prior experience in such matters, in which settlements in other such lawsuits having occurred, it is probable that a liability has been incurred related to these additional lawsuits. Management cannot reasonably estimate the amount of the liability due to the stage of the proceedings, accordingly no reserve has been established for these additional lawsuits at June 30, 2020; however, the settlement of these additional lawsuits could have a material impact on the RCDB, Inc.'s financial position, results of operations and liquidity.

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

N) LITIGATION-RELATED LIABILITIES (continued)

The RCDB, Inc. is involved in various other claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the RCDB, Inc.'s financial position, results of operations, or liquidity.

O) COMMITMENTS AND OTHER 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. The final maturity date is January 2026. 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 \$4,389,488 and \$5,847,251 at June 30, 2020 and 2019, respectively.

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, 2020 and 2019, no accruals were necessary.