

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.
JUNE 30, 2017 AND 2016**

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

JUNE 30, 2017 AND 2016

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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, 2017 and 2016, 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion

The RCDB, Inc., has not included certain activities or operating divisions, such as the Diocesan schools, the Diocesan cemetery, and The Catholic Center (see Note A1), and has not consolidated Vermont Catholic Charities, Inc., into these financial statements, which is required to be consolidated in accordance with Accounting Standards Codification 810. Additionally, an analysis relative to whether there may be variable interest entities that would be required to be consolidated has not been completed. The effects on the financial statements, as of and for the years ended June 30, 2017 and 2016, 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, 2017 and 2016, 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

September 29, 2017

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30,

A S S E T S

| | <u>2017</u> | <u>2016</u> |
|---|----------------------|----------------------|
| Cash | \$ 262,128 | \$ 1,487,801 |
| Pledges receivable, net of allowance for doubtful accounts of \$37,813 in 2017 and \$32,062 in 2016 | 565,491 | 435,423 |
| Bequest and trust receivables | 586,181 | 508,892 |
| Parish receivables, net of allowance for doubtful accounts of \$99,675 in 2017 and \$160,320 in 2016 | 453,409 | 440,313 |
| Other current assets | 104,935 | 61,704 |
| Due from affiliated organizations, net | 39,462 | 15,844 |
| Prepaid expenses | 144,639 | 144,160 |
| Notes receivable - related parties, net of allowance for doubtful collection of \$69,397 in 2017 and \$123,506 in 2016 | 1,453,936 | 1,319,087 |
| Marketable securities | 10,636,685 | 13,234,838 |
| Beneficial interests | 10,447,857 | 6,145,133 |
| Property and equipment, net | 2,837,750 | 2,808,327 |
| Prepaid pension retirement plan costs | 2,135,180 | 1,550,425 |
| Total assets | <u>\$ 29,667,653</u> | <u>\$ 28,151,947</u> |

LIABILITIES AND NET ASSETS

LIABILITIES

| | | |
|--|------------------|------------------|
| Funds held for others | \$ 58,516 | \$ 61,171 |
| Accounts payable | 131,629 | 108,463 |
| Accrued liabilities and reserves | 190,536 | 248,260 |
| Long-term debt | 498,778 | 492,612 |
| Accrued pension retirement and postretirement benefit plan costs | 2,460,485 | 2,623,431 |
| Total liabilities | <u>3,339,944</u> | <u>3,533,937</u> |

NET ASSETS

| | | |
|----------------------------------|----------------------|----------------------|
| Unrestricted | 15,045,008 | 14,216,926 |
| Temporarily restricted | 2,171,182 | 1,849,041 |
| Permanently restricted | 9,111,519 | 8,552,043 |
| Total net assets | <u>26,327,709</u> | <u>24,618,010</u> |
| Total liabilities and net assets | <u>\$ 29,667,653</u> | <u>\$ 28,151,947</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, 2017

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|----------------------|-----------------------------------|-----------------------------------|----------------------|
| REVENUES | | | | |
| Bishop's Annual Appeal | \$ 2,269,956 | \$ 565,491 | \$ - | \$ 2,835,447 |
| Diocesan assessments | 1,643,206 | - | - | 1,643,206 |
| Insurance premiums charged to parishes and other affiliates for insurance program | 1,348,724 | - | - | 1,348,724 |
| Imputed rental and administrative services charged to affiliated organization | 1,494,108 | - | - | 1,494,108 |
| Program revenue | 320,900 | - | - | 320,900 |
| St. Therese Digital Academy | 127,752 | - | - | 127,752 |
| Gifts and bequests | 548,994 | 193,500 | - | 742,494 |
| Other revenue | 139,979 | - | - | 139,979 |
| Total revenues | <u>7,893,619</u> | <u>758,991</u> | <u>-</u> | <u>8,652,610</u> |
| Reclassifications: Net assets released from restrictions | 690,219 | (690,219) | - | - |
| Total revenues and reclassifications | <u>8,583,838</u> | <u>68,772</u> | <u>-</u> | <u>8,652,610</u> |
| EXPENSES | | | | |
| Program services: | | | | |
| Social services - Vermont Catholic Charities, Inc. | 1,746,375 | - | - | 1,746,375 |
| Social services - other | 184,645 | - | - | 184,645 |
| School subsidies | 728,628 | - | - | 728,628 |
| School office | 168,966 | - | - | 168,966 |
| Parish financial services | 301,959 | - | - | 301,959 |
| Religious education | 298,442 | - | - | 298,442 |
| Youth ministry | 274,252 | - | - | 274,252 |
| Vocations/priest educational/liturgical | 654,003 | - | - | 654,003 |
| Priests' Benefit Fund and related expenses | 567,787 | - | - | 567,787 |
| Tribunal | 48,417 | - | - | 48,417 |
| St. Therese Digital Academy | 18,736 | - | - | 18,736 |
| Safe environments | 180,689 | - | - | 180,689 |
| The <i>Vermont Catholic</i> magazine | 239,014 | - | - | 239,014 |
| Catholic cemeteries | 104,940 | - | - | 104,940 |
| Insurance program and legal and related costs | 1,837,653 | - | - | 1,837,653 |
| Total program services | <u>7,354,506</u> | <u>-</u> | <u>-</u> | <u>7,354,506</u> |
| Supporting services: | | | | |
| Diocesan administration: | | | | |
| General and administrative | 1,192,825 | - | - | 1,192,825 |
| Bad debt recovery, net | (114,752) | - | - | (114,752) |
| Total supporting services - Diocesan administration | <u>1,078,073</u> | <u>-</u> | <u>-</u> | <u>1,078,073</u> |
| Development | 525,733 | - | - | 525,733 |
| Chancery | 223,937 | - | - | 223,937 |
| Total supporting services | <u>1,827,743</u> | <u>-</u> | <u>-</u> | <u>1,827,743</u> |
| Total expenses | <u>9,182,249</u> | <u>-</u> | <u>-</u> | <u>9,182,249</u> |
| OTHER GAINS | | | | |
| Total investment gain | 1,308,810 | 230,937 | - | 1,539,747 |
| Increase in value of beneficial interests | 127,985 | 22,432 | 559,476 | 709,893 |
| Other | 15,919 | - | - | 15,919 |
| Total other gains | <u>1,452,714</u> | <u>253,369</u> | <u>559,476</u> | <u>2,265,559</u> |
| INCREASE IN NET ASSETS BEFORE PENSION RELATED CHANGES OTHER THAN NET PERIODIC PENSION RECOVERY | | | | |
| | 854,303 | 322,141 | 559,476 | 1,735,920 |
| Pension related changes other than net periodic pension cost | (26,221) | - | - | (26,221) |
| INCREASE IN NET ASSETS | 828,082 | 322,141 | 559,476 | 1,709,699 |
| NET ASSETS, beginning of year | <u>14,216,926</u> | <u>1,849,041</u> | <u>8,552,043</u> | <u>24,618,010</u> |
| NET ASSETS, end of year | <u>\$ 15,045,008</u> | <u>\$ 2,171,182</u> | <u>\$ 9,111,519</u> | <u>\$ 26,327,709</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, 2016

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|----------------------|-----------------------------------|-----------------------------------|----------------------|
| REVENUES | | | | |
| Bishop's Annual Appeal | \$ 2,033,348 | \$ 435,423 | \$ - | \$ 2,468,771 |
| Diocesan assessments | 1,648,409 | - | - | 1,648,409 |
| Insurance premiums charged to parishes and other affiliates for insurance program | 1,425,031 | - | - | 1,425,031 |
| Imputed rental and administrative services charged to affiliated organization | 1,509,927 | - | - | 1,509,927 |
| Program revenue | 353,252 | - | - | 353,252 |
| Gifts and bequests | 410,067 | 200,230 | 105,687 | 715,984 |
| Other revenue | 14,002 | - | - | 14,002 |
| Total revenues | <u>7,394,036</u> | <u>635,653</u> | <u>105,687</u> | <u>8,135,376</u> |
| Reclassifications: Net assets released from restrictions | 809,184 | (809,184) | - | - |
| Total revenues and reclassifications | <u>8,203,220</u> | <u>(173,531)</u> | <u>105,687</u> | <u>8,135,376</u> |
| EXPENSES | | | | |
| Program services: | | | | |
| Social services - Vermont Catholic Charities, Inc. | 1,818,028 | - | - | 1,818,028 |
| Social services - other | 112,108 | - | - | 112,108 |
| School subsidies | 614,109 | - | - | 614,109 |
| School office | 150,439 | - | - | 150,439 |
| Parish financial services | 188,543 | - | - | 188,543 |
| Religious education | 424,992 | - | - | 424,992 |
| Vocations/priest educational/liturgical | 604,258 | - | - | 604,258 |
| Priests' Benefit Fund and related expenses | 571,863 | - | - | 571,863 |
| Tribunal | 55,879 | - | - | 55,879 |
| Safe environments | 199,038 | - | - | 199,038 |
| The <i>Vermont Catholic</i> magazine | 336,061 | - | - | 336,061 |
| Catholic cemeteries | 107,102 | - | - | 107,102 |
| Insurance program and legal and related costs | 1,240,639 | - | - | 1,240,639 |
| Total program services | <u>6,423,059</u> | <u>-</u> | <u>-</u> | <u>6,423,059</u> |
| Supporting services: | | | | |
| Diocesan administration: | | | | |
| General and administrative | 1,380,865 | - | - | 1,380,865 |
| Bad debt recovery, net | (6,093) | - | - | (6,093) |
| Total supporting services - Diocesan administration | 1,374,772 | - | - | 1,374,772 |
| Development | 394,445 | - | - | 394,445 |
| Chancery | 222,994 | - | - | 222,994 |
| Total supporting services | <u>1,992,211</u> | <u>-</u> | <u>-</u> | <u>1,992,211</u> |
| Total expenses | <u>8,415,270</u> | <u>-</u> | <u>-</u> | <u>8,415,270</u> |
| OTHER GAINS (LOSSES) | | | | |
| Total investment gain | 599,888 | 86,538 | - | 686,426 |
| Increase (decrease) in value of beneficial interest in trusts | 35,501 | (395) | (608,300) | (573,194) |
| Other | 22,712 | - | - | 22,712 |
| Total other gains (losses) | <u>658,101</u> | <u>86,143</u> | <u>(608,300)</u> | <u>135,944</u> |
| INCREASE IN NET ASSETS BEFORE | | | | |
| PENSION RELATED CHANGES OTHER THAN NET | | | | |
| PERIODIC PENSION RECOVERY | | | | |
| Pension related changes other than net periodic pension cost | 446,051 | (87,388) | (502,613) | (143,950) |
| | <u>(1,662,484)</u> | <u>-</u> | <u>-</u> | <u>(1,662,484)</u> |
| DECREASE IN NET ASSETS | | | | |
| | (1,216,433) | (87,388) | (502,613) | (1,806,434) |
| NET ASSETS, beginning of year | <u>15,433,359</u> | <u>1,936,429</u> | <u>9,054,656</u> | <u>26,424,444</u> |
| NET ASSETS, end of year | <u>\$ 14,216,926</u> | <u>\$ 1,849,041</u> | <u>\$ 8,552,043</u> | <u>\$ 24,618,010</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>2017</u> | <u>2016</u> |
|---|-----------------------|-------------------|
| INCREASE (DECREASE) IN CASH | | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Increase (decrease) in net assets | \$ 1,709,699 | \$ (1,806,434) |
| Noncash items included in increase (decrease) in net assets: | | |
| Depreciation and amortization | 117,119 | 103,804 |
| Net realized and unrealized gains on investments | (938,607) | (26,798) |
| Net recovery of bad debt | (114,752) | (6,093) |
| Gain on sale of property and equipment | (2,532) | - |
| Change in value of beneficial interests | (709,893) | 573,194 |
| Pension-related changes other than net periodic pension cost | 26,221 | 1,662,484 |
| In-kind payments received on notes receivable - related parties | 19,260 | - |
| Changes in assets and liabilities: | | |
| Receivables | (159,810) | (35,649) |
| Other current assets | (43,231) | (5,752) |
| Due from affiliated organizations | (23,618) | 198,370 |
| Prepaid expenses | (479) | (23,650) |
| Funds held for others | (2,655) | 12,272 |
| Accounts payable and accrued liabilities and reserves | (34,558) | (133,562) |
| Pension retirement and postretirement benefit plan costs | (773,922) | (31,075) |
| | <u>(2,641,457)</u> | <u>2,287,545</u> |
| Net cash provided by (used in) operating activities | <u>(931,758)</u> | <u>481,111</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Capital acquisitions | (174,010) | (40,688) |
| Distributions from beneficial interests | 141,730 | 41,782 |
| Beneficial interest in Vermont Catholic Community Foundation | (3,692,035) | - |
| Proceeds from sale of investment | - | 1,060,822 |
| Proceeds from sale of property and equipment | 30,000 | - |
| Proceeds from sale of marketable securities | 7,164,276 | 4,148,346 |
| Purchases of marketable securities | (3,670,042) | (4,440,690) |
| Advances made on notes receivable - related parties | (100,000) | (563,042) |
| Principal payments received on notes receivable - related parties | - | 73,686 |
| Principal payments received on notes receivable - other | - | - |
| Net cash provided by (used in) investing activities | <u>(300,081)</u> | <u>280,216</u> |
| Subtotal (forward) | <u>\$ (1,231,839)</u> | <u>\$ 761,327</u> |

(CONTINUED)

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

| | <u>2017</u> | <u>2016</u> |
|--|-------------------|---------------------|
| Subtotal (forwarded) | \$ (1,231,839) | \$ 761,327 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net payments on note payable | - | - |
| Proceeds from long-term debt | 45,368 | - |
| Principal payments on long-term debt | <u>(39,202)</u> | <u>(25,477)</u> |
| Net cash provided by (used in) financing activities | <u>6,166</u> | <u>(25,477)</u> |
| Net increase (decrease) in cash | (1,225,673) | 735,850 |
| CASH, beginning of year | <u>1,487,801</u> | <u>751,951</u> |
| CASH, end of year | <u>\$ 262,128</u> | <u>\$ 1,487,801</u> |
| <u>Supplemental Disclosures of Cash Flows Information</u> | | |
| Cash paid during the year for: | | |
| Interest expense | <u>\$ 22,839</u> | <u>\$ 17,168</u> |

The accompanying notes are an integral part of these statements.

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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.

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, 2017 AND 2016

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>2017</u> | <u>2016</u> |
|--|-------------------|-------------------|
| Program administration costs | \$ 90,216 | \$ 110,580 |
| Health and dental insurance premiums for active priests | 394,914 | 481,406 |
| Net periodic pension costs (benefits) of the retirement and postretirement plans (see Note G) | <u>82,657</u> | <u>(20,123)</u> |
| Total priest benefit fund expenses | <u>\$ 567,787</u> | <u>\$ 571,863</u> |

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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 report information regarding their 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 J).

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 J). 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 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.

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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 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.

7. Fair value measurements

Under the Financial Accounting Standards Board (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.

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

7. Fair value measurements (continued)

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

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

Level 2: Inputs to the valuation methodology include:

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

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

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

For the years ended June 30, 2017 and 2016, 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.

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

7. Fair value measurements (continued)

Beneficial interests

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

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

Pension plan investment securities

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

Investments measured using net asset value

Certain investments are valued based on the net asset value (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, 2017 AND 2016

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 (loss) 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. 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, 2017 AND 2016

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 958-2-5-05, *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, 2017 and 2016.

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 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.

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.

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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.

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, 2017 and 2016.

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

12. Endowment (continued)

Return objectives and risk parameters

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

Strategies employed for achieving objectives

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

Spending policy and how the investment objectives relate to spending policy

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

13. 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.

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

14. 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.

15. 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.

16. Recently issued accounting pronouncements

Not-for-profit reporting standards

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. The most significant elements of the ASU will include reduction of net asset classes from three to two classes (unrestricted and donor restricted) and enhanced disclosures related to investments, financial liquidity, and expense allocation. The ASU is effective for the RCDB, Inc. for the year ending June 30, 2019. The RCDB, Inc. has not yet evaluated the impact of the ASU on its financial statements.

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

16. Recently issued accounting pronouncements (continued)

Revenue recognition

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which provides a robust framework for addressing revenue recognition issues and, upon its effective date, replaces almost all existing revenue recognition guidance, including industry-specific guidance, in current U.S. generally accepted accounting principles. The revenue recognition policies of almost all entities will be affected by the new guidance in the ASU. The degree to which an entity's revenue recognition policies will change upon the adoption of the ASU, and the effects the changes will have on the entity's financial statements will vary depending on the nature and terms of the entity's revenue-generating transactions. In addition, entities in some industries likely will be affected by the new guidance in the ASU more than entities in other industries. Given the broad applicability and potentially significant ramifications of the guidance in the ASU, the FASB provided significantly delayed effective dates for its guidance. The ASU is effective for the RCDB, Inc. for the year ending June 30, 2020. The RCDB, Inc. has not yet evaluated the impact of the ASU on its financial statements.

17. Evaluation of subsequent events

In preparing these financial statements, the RCDB Administrative Offices have evaluated events and transactions for potential recognition or disclosure through September 29, 2017 the date the financial statements were available to be issued.

B) CONCENTRATIONS OF CREDIT RISK

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

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

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

C) BENEFICIAL INTERESTS

The RCDB, Inc. is the beneficiary of three trusts at June 30, 2017 and 2016.

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, 2017 and 2016. Unconditional trust distributions receivable of \$290,000 and \$250,000 were recognized as gains on investments in 2017 and 2016, respectively. Conditional trust distributions receivable of \$251,178 and \$212,225 were recorded as "Gifts and bequests" in 2017 and 2016, 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 have accounted for the related net assets as temporarily restricted as to purpose.

The remaining trust requires that the trustee retain in perpetuity the assets for purposes of investment, the income of which is available to support the activities of the Diocese, and the RCDB Administrative Offices have accounted for these net assets as permanently restricted.

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. At June 30, 2017 and 2016, the fair value of assets in the trusts allocable to the RCDB Administrative Offices have been reduced by \$290,000 and \$250,000, respectively, for accrued distributions. Total revenue from beneficial interests in trusts of \$251,178 and \$212,225 was recorded in "gifts and bequests" in 2017 and 2016, respectively.

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

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

C) BENEFICIAL INTERESTS (continued)

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

| | 2017 | | | |
|--|--------------|---------|---------|---------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Mutual funds - equity | \$ 4,917,512 | \$ - | \$ - | \$ 4,917,512 |
| Mutual fund - fixed income | 1,192,724 | - | - | 1,192,724 |
| Equities | 568,401 | - | - | 568,401 |
| | \$ 6,678,637 | \$ - | \$ - | 6,678,637 |
| Investments measured at net asset value: | | | | |
| Money market funds | | | | 324,940 |
| VCCF | | | | 3,734,280 |
| Less: accrued distributions | | | | (290,000) |
| Total | | | | \$ 10,447,857 |

| | 2016 | | | |
|--|--------------|---------|---------|--------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Mutual funds - equity | \$ 4,680,604 | \$ - | \$ - | \$ 4,680,604 |
| Mutual fund - fixed income | 793,890 | - | - | 793,890 |
| Equities | 518,694 | - | - | 518,694 |
| | \$ 5,993,188 | \$ - | \$ - | 5,993,188 |
| Investments measured at net asset value: | | | | |
| Money market funds | | | | 401,945 |
| Less: accrued distributions | | | | (250,000) |
| Total | | | | \$ 6,145,133 |

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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, 2017:

| | Level 1 | Level 2 | Level 3 | Total |
|--|--------------|--------------|-----------|---------------|
| Fixed income: | | | | |
| Government bonds | \$ - | \$ 1,009,137 | \$ - | \$ 1,009,137 |
| Corporate bonds | - | 3,176,776 | - | 3,176,776 |
| Total fixed income | - | 4,185,913 | - | 4,185,913 |
| Common stocks: | | | | |
| Materials | 197,685 | - | - | 197,685 |
| Industrials | 680,770 | - | - | 680,770 |
| Consumer discretionary | 963,829 | - | - | 963,829 |
| Consumer staples | 593,173 | - | - | 593,173 |
| Energy | 367,995 | - | - | 367,995 |
| Financial | 1,267,426 | - | - | 1,267,426 |
| Health care | 620,973 | - | - | 620,973 |
| Utilities | 209,204 | - | - | 209,204 |
| Information technology | 1,203,560 | - | - | 1,203,560 |
| Telecommunication services | 198,404 | - | - | 198,404 |
| Total common stocks | 6,303,019 | - | - | 6,303,019 |
| Mutual funds - equity | 2,322 | - | - | 2,322 |
| Other investments | - | - | 29,883 | 29,883 |
| | \$ 6,305,341 | \$ 4,185,913 | \$ 29,883 | 10,521,137 |
| Investments measured at net asset value: | | | | |
| Money market funds | | | | 115,548 |
| Total investment securities | | | | \$ 10,636,685 |

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

D) MARKETABLE SECURITIES (continued)

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, 2016:

| | Level 1 | Level 2 | Level 3 | Total |
|--|--------------|--------------|-----------|---------------|
| Fixed income: | | | | |
| Government bonds | \$ - | \$ 725,588 | \$ - | \$ 725,588 |
| Corporate bonds | - | 4,284,559 | - | 4,284,559 |
| Total fixed income | - | 5,010,147 | - | 5,010,147 |
| Common stocks: | | | | |
| Materials | 269,130 | - | - | 269,130 |
| Industrials | 793,264 | - | - | 793,264 |
| Consumer discretionary | 1,223,058 | - | - | 1,223,058 |
| Consumer staples | 859,085 | - | - | 859,085 |
| Energy | 517,876 | - | - | 517,876 |
| Financial | 1,403,735 | - | - | 1,403,735 |
| Health care | 836,800 | - | - | 836,800 |
| Utilities | 304,388 | - | - | 304,388 |
| Information technology | 1,338,853 | - | - | 1,338,853 |
| Telecommunication services | 285,471 | - | - | 285,471 |
| Total common stocks | 7,831,660 | - | - | 7,831,660 |
| Mutual funds - equity | 46,488 | - | - | 46,488 |
| Other investments | - | - | 29,883 | 29,883 |
| | \$ 7,878,148 | \$ 5,010,147 | \$ 29,883 | 12,918,178 |
| Investments measured at net asset value: | | | | |
| Money market funds | | | | 316,660 |
| Total investment securities | | | | \$ 13,234,838 |

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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:

| | 2017 | | |
|-----------------------------------|--------------|------------|--------------|
| | Temporarily | | |
| | Unrestricted | Restricted | Total |
| Net realized and unrealized gains | \$ 1,035,356 | \$ 193,251 | \$ 1,228,607 |
| Investment management fees | (41,377) | (6,779) | (48,156) |
| Interest and dividend income | 314,831 | 44,465 | 359,296 |
| Total investment gain | \$ 1,308,810 | \$ 230,937 | \$ 1,539,747 |
| | 2016 | | |
| | Temporarily | | |
| | Unrestricted | Restricted | Total |
| Net realized and unrealized gains | \$ 272,711 | \$ 4,087 | \$ 276,798 |
| Investment management fees | (47,169) | (17,192) | (64,361) |
| Interest and dividend income | 374,346 | 99,643 | 473,989 |
| Total investment gain | \$ 599,888 | \$ 86,538 | \$ 686,426 |

E) NOTES RECEIVABLE – RELATED PARTIES

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

| | 2017 | 2016 |
|--|--------------|--------------|
| Rice Memorial High School (1) | \$ 1,438,702 | \$ 1,357,962 |
| Resurrection Park Cemetery (2) | 84,631 | 84,631 |
| Total notes receivable | 1,523,333 | 1,442,593 |
| Less allowance for doubtful collection | 69,397 | 123,506 |
| | \$ 1,453,936 | \$ 1,319,087 |

Rice Memorial High School (Rice) and Resurrection Park Cemetery are operating divisions of the RCDB, Inc.

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

E) NOTES RECEIVABLE – RELATED PARTIES (continued)

(1) The Rice balance includes two notes at June 30, 2017 and three notes at June 30, 2016. Effective July 1, 2016, the RCDB, Inc. and Rice entered into a new memorandum of understanding to consolidate the three existing notes receivable into a single note receivable. The agreement does not have a specific repayment schedule and calls for interest to accrue at 1% per annum. The agreement allows for payment in-kind towards the principal balance by the School reducing tuition fees for children of the RCDB, Inc. employees.

The Rice note receivable balance consists of the following at June 30:

| | <u>2017</u> | <u>2016</u> |
|--|---------------------|---------------------|
| Unsecured term loan receivable on demand, plus interest payable quarterly at 1.00%. | \$ 1,338,702 | \$ - |
| Unsecured, non-interest bearing term loan receivable, maturing July 2017. | 100,000 | - |
| Unsecured term loan, maturing June 2031, receivable in quarterly installments of \$8,896, including interest at 5.00%. | - | 370,587 |
| Unsecured term loan, maturing June 2017, receivable in annual installments of \$50,000, plus interest receivable quarterly at 3.50%. | - | 100,000 |
| Unsecured, non-interest-bearing term loan receivable on demand. | <u>-</u> | <u>887,375</u> |
| | <u>\$ 1,438,702</u> | <u>\$ 1,357,962</u> |

(2) The Resurrection Park Cemetery note is non-interest bearing, and receivable in quarterly installments of \$2,867. The note has been fully reserved based on management's assessment of collectability, net of \$15,234 due to Resurrection Park Cemetery at June 30, 2017 and including \$38,875 due from Resurrection Park Cemetery at June 30, 2016.

Interest income related to the above notes receivable approximated \$13,000 in 2017 and \$23,000 in 2016.

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

F) PROPERTY AND EQUIPMENT

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

| | <u>2017</u> | <u>2016</u> |
|--------------------------------|---------------------|---------------------|
| Buildings and improvements | \$ 3,322,445 | \$ 3,217,630 |
| Land and land improvements | 507,129 | 507,129 |
| Equipment | 383,134 | 383,134 |
| Vehicles | <u>143,837</u> | <u>127,377</u> |
| | 4,356,545 | 4,235,270 |
| Less: accumulated depreciation | <u>1,518,795</u> | <u>1,426,943</u> |
| | <u>\$ 2,837,750</u> | <u>\$ 2,808,327</u> |

G) 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 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 \$51,600 in 2017 and \$52,100 in 2016.

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 \$3,700 in 2017 and \$10,600 in 2016.

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

G) RETIREMENT AND POSTRETIREMENT PLANS (continued)

Sisters of Saint Joseph Society, Inc. (continued)

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

| | <u>2017</u> | <u>2016</u> |
|---|-------------------|-------------------|
| Accrued benefit cost: | | |
| Benefit obligation | \$ 249,117 | \$ 304,764 |
| Fair value of plan assets | <u>-</u> | <u>-</u> |
| Accrued benefit cost | <u>\$ 249,117</u> | <u>\$ 304,764</u> |
| Weighted-average assumptions: | | |
| Discount rate on the benefit obligation | 3.50% | 3.50% |
| 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, 2017 AND 2016

G) RETIREMENT AND POSTRETIREMENT PLANS (continued)

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

A summary of the defined benefit and postretirement health benefit plans for the priests and the pension cost for the RCDB Administrative Offices is as follows as of and for the year ended June 30, 2017:

| | Pension Benefit Plan | Postretirement Benefit Plan | Total |
|--|-------------------------|--------------------------------|---------------|
| Accumulated benefit obligation | \$ 7,874,418 | \$ 2,399,659 | \$ 10,274,077 |
| Funded status: | | | |
| Benefit obligation | \$ 7,874,418 | \$ 2,399,659 | \$ 10,274,077 |
| Fair value of plan assets | (10,009,598) | (188,291) | (10,197,889) |
| Accrued (prepaid) benefit cost | \$ (2,135,180) | \$ 2,211,368 | \$ 76,188 |
| Net periodic pension costs charged to operations consist of : | | | |
| Service cost | \$ 117,757 | \$ 68,595 | |
| Interest cost | 256,334 | 80,535 | |
| Expected return on plan assets | (634,323) | (9,188) | |
| Amortization of net actuarial (gain) loss | 52,056 | (22,304) | |
| Amortization of prior service cost | 142,195 | - | |
| Amortization of transition obligation | 31,000 | - | |
| Net periodic pension cost (benefit) | \$ (34,981) | \$ 117,638 | \$ 82,657 |
| Significant activities during the year: | | | |
| Employer contributions to the Plan | \$ 525,000 | \$ 275,933 | |
| Benefits paid | \$ 628,500 | \$ 100,933 | |
| Contributions from employer expected to be made during the year ending June 30, 2018 | \$ 375,000 | \$ 84,600 | |
| Amounts included in "pension-related changes other than net periodic pension cost" expected to be recognized in 2018: | | | |
| Amortization of net actuarial (gain) loss | \$ 52,056 | \$ (22,669) | \$ 29,387 |
| 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 | \$ 1,934,825 | \$ (652,660) | |
| Unrecognized prior service cost | 1,279,923 | - | |
| Unrecognized transition obligation | 88,000 | - | |
| | \$ 3,302,748 | \$ (652,660) | \$ 2,650,088 |

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

G) RETIREMENT AND POSTRETIREMENT PLANS (continued)

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

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, 2016:

| | Pension Benefit Plan | Postretirement Benefit Plan | Total |
|--|-------------------------|--------------------------------|---------------------|
| Accumulated benefit obligation | <u>\$ 7,625,445</u> | <u>\$ 2,318,667</u> | <u>\$ 9,944,112</u> |
| Funded status: | | | |
| Benefit obligation | \$ 7,625,445 | \$ 2,318,667 | \$ 9,944,112 |
| Fair value of plan assets | <u>(9,175,870)</u> | <u>-</u> | <u>(9,175,870)</u> |
| Accrued (prepaid) benefit cost | <u>\$ (1,550,425)</u> | <u>\$ 2,318,667</u> | <u>\$ 768,242</u> |
| Net periodic pension costs charged to operations consist of : | | | |
| Service cost | \$ 107,816 | \$ 50,703 | |
| Interest cost | 312,750 | 90,944 | |
| Expected return on plan assets | (706,593) | - | |
| Amortization of net actuarial gain | - | (48,938) | |
| Amortization of prior service cost | 142,195 | - | |
| Amortization of transition obligation | <u>31,000</u> | <u>-</u> | |
| Net periodic pension cost (benefit) | <u>\$ (112,832)</u> | <u>\$ 92,709</u> | <u>\$ (20,123)</u> |
| Significant activities during the year: | | | |
| Employer contributions to the Plan | \$ - | \$ 94,555 | |
| Benefits paid | \$ 568,400 | \$ 94,555 | |
| Contributions from employer expected to be made during the year ending June 30, 2017 | \$ 375,000 | \$ 117,800 | |
| Amounts included in "pension-related changes other than net periodic pension cost" expected to be recognized in 2017: | | | |
| Amortization of net actuarial gain | \$ - | \$ (27,433) | \$ (27,433) |
| 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 | \$ 1,786,405 | \$ (703,656) | |
| Unrecognized prior service cost | 1,422,118 | - | |
| Unrecognized transition obligation | <u>119,000</u> | <u>-</u> | |
| | <u>\$ 3,327,523</u> | <u>\$ (703,656)</u> | <u>\$ 2,623,867</u> |

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

G) RETIREMENT AND POSTRETIREMENT PLANS (continued)

Priests' Retirement and Postretirement Plans under Priests' Benefit Fund of the RCDB, Inc. (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, 2015 | \$ 2,159,323 | \$ (1,197,940) | \$ 961,383 |
| Net actuarial loss arising during the year | 1,341,395 | 445,346 | 1,786,741 |
| Reclassification from amortization of prior service cost and transition obligation | (173,195) | - | (173,195) |
| Reclassification from amortization of net actuarial loss recognized this year | - | 48,938 | 48,938 |
| Balance, June 30, 2016 | <u>\$ 3,327,523</u> | <u>\$ (703,656)</u> | <u>\$ 2,623,867</u> |
| Balance, July 1, 2016 | \$ 3,327,523 | \$ (703,656) | \$ 2,623,867 |
| Net actuarial loss arising during the year | 200,476 | 28,692 | 229,168 |
| Reclassification from amortization of prior service cost and transition obligation | (173,195) | - | (173,195) |
| Reclassification from amortization of net actuarial (gain) loss recognized this year | (52,056) | 22,304 | (29,752) |
| Balance, June 30, 2017 | <u>\$ 3,302,748</u> | <u>\$ (652,660)</u> | <u>\$ 2,650,088</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 | |
|---|----------------------|----------|-----------------------------|-------|
| | 2017 | 2016 | 2017 | 2016 |
| Monthly stipend without a Pastoral assignment | \$ 1,600 | \$ 1,600 | N/A | N/A |
| Monthly stipend with a Pastoral assignment | \$ 1,500 | \$ 1,500 | N/A | N/A |
| Discount rate | 3.50% | 3.50% | 3.50% | 3.50% |
| Expected rate of return on plan assets | 7.00% | 7.50% | 7.00% | N/A |

During 2016, RCDB, Inc. changed its methodology relating to the determination of the pension plan discount rate, resulting in an increase in the Plan liability of \$375,000. There were no significant changes in 2017.

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

G) RETIREMENT AND POSTRETIREMENT PLANS (continued)

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

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

| | <u>2017</u> | <u>2016</u> |
|-------------------|-------------|-------------|
| Cash | 3% | 4% |
| Equity securities | 60% | 59% |
| Debt securities | 37% | 37% |

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

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

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

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

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

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

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

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

G) RETIREMENT AND POSTRETIREMENT PLANS (continued)

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

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

| | 2017 | | | |
|-------------------------------|---------------------|-------------|-------------|---------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Plans' investment securities: | | | | |
| Cash | \$ 321,993 | \$ - | \$ - | \$ 321,993 |
| Equity securities | 6,086,539 | - | - | 6,086,539 |
| Fixed income securities | 3,789,357 | - | - | 3,789,357 |
| Total | <u>\$10,197,889</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$10,197,889</u> |
| | | | | |
| | 2016 | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Plans' investment securities: | | | | |
| Cash | \$ 343,618 | \$ - | \$ - | \$ 343,618 |
| Equity securities | 5,408,000 | - | - | 5,408,000 |
| Fixed income securities | 3,424,252 | - | - | 3,424,252 |
| Total | <u>\$ 9,175,870</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 9,175,870</u> |

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 |
|------|-------------------------|--------------------------------|---------------------|
| 2018 | \$ 610,000 | \$ 110,500 | \$ 720,500 |
| 2019 | 616,000 | 121,400 | 737,400 |
| 2020 | 582,000 | 131,300 | 713,300 |
| 2021 | 602,000 | 145,300 | 747,300 |
| 2022 | 602,000 | 151,800 | 753,800 |
| | <u>\$ 3,012,000</u> | <u>\$ 660,300</u> | <u>\$ 3,672,300</u> |

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

G) RETIREMENT AND POSTRETIREMENT PLANS (continued)

Priests' Retirement and Postretirement Plans under Priests' Benefit Fund of the RCDB, Inc. (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 2018 and thereafter were as follows for the years ending June 30:

| | <u>Medical Care Benefits</u> | <u>Other Benefits</u> |
|------------|----------------------------------|---------------------------|
| 2018 | 0.00% | 5.00% |
| 2019 | 2.80% | 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% |
| 2025 | 5.00% | 5.00% |
| 2026 | 5.00% | 5.00% |
| Thereafter | 4.90% | 5.00% |

A one-percentage-point change in the assumed rates of increase in health care costs would have the following effects relative to 2017 amounts included above:

| | <u>Increase</u> | <u>Decrease</u> |
|---|-----------------|-----------------|
| Effect on total of service and interest cost components | \$ 181,650 | \$ 124,253 |
| Effect on accumulated postretirement benefit obligation | \$2,750,460 | \$2,112,981 |

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

H) NOTE PAYABLE

The RCDB, Inc. has a line of credit agreement with TD Bank, N.A. that has an available balance of \$750,000 and expires on January 31, 2018. Interest is payable at the *Wall Street Journal* prime rate (4.25% at June 30, 2017). There was no balance outstanding on the line of credit at June 30, 2017 and 2016. The line of credit is secured by a required minimum marketable securities balance of \$1,500,000.

I) LONG-TERM DEBT

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

| | <u>2017</u> | <u>2016</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. | \$ 459,305 | \$ 472,997 |
| Audi Financial Services - | | |
| Payable in monthly installments of \$1,339, including interest at 4.00%, due January 2020. Secured by certain property and equipment. | 39,473 | - |
| Chrysler Capital - | | |
| Payable in monthly installments of \$1,041, including interest at 0.90%, due January 2018. Secured by certain property and equipment. Paid in full in 2017. | <u>-</u> | <u>19,615</u> |
| | <u>\$ 498,778</u> | <u>\$ 492,612</u> |

Principal payments are due as follows:

| <u>Years ending</u> <u>June 30,</u> | <u>Amount</u> |
|--|-------------------|
| 2018 | \$ 28,936 |
| 2019 | 460,503 |
| 2020 | <u>9,339</u> |
| | <u>\$ 498,778</u> |

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

J) NET ASSETS

Net assets are temporarily restricted as follows at June 30:

-

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

| | <u>2017</u> | <u>2016</u> |
|--|---------------------|---------------------|
| Pizzagalli for maintaining a family plot | \$ 10,000 | \$ 10,000 |
| Boucher trust for general purposes of the Diocese | 709,171 | 666,332 |
| Nolin-Mooney fund for seminary education | 1,047,563 | 1,047,563 |
| 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 |
| Fearons trust for seminary education and for the benefit of priests | <u>5,782,330</u> | <u>5,265,693</u> |
| Total permanently restricted | <u>\$ 9,111,519</u> | <u>\$ 8,552,043</u> |

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

J) NET ASSETS (continued)

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

| | Temporarily Restricted | Permanently Restricted | Total |
|---|---------------------------|---------------------------|----------------------|
| June 30, 2015 | \$ 1,012,757 | \$ 9,054,656 | \$ 10,067,413 |
| Contributions | - | 105,687 | 105,687 |
| Change in value of beneficial interests | - | (608,300) | (608,300) |
| Investment gain | 85,392 | - | 85,392 |
| Appropriations | (177,253) | - | (177,253) |
| June 30, 2016 | <u>920,896</u> | <u>8,552,043</u> | <u>9,472,939</u> |
| Change in value of beneficial interests | - | 559,476 | 559,476 |
| Investment gain | 229,353 | - | 229,353 |
| Appropriations | (76,177) | - | (76,177) |
| June 30, 2017 | <u>\$ 1,074,072</u> | <u>\$ 9,111,519</u> | <u>\$ 10,185,591</u> |

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

K) 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 G).

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 social services 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:

| | <u>2017</u> | <u>2016</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>111,228</u> | <u>127,047</u> |
| Total in-kind subsidies | 1,494,108 | 1,509,927 |
| Cash subsidies for use in general operations | 200,004 | 249,996 |
| Allocation of administrative facilities cost | <u>52,263</u> | <u>58,105</u> |
| Total social services - Vermont Catholic Charities, Inc. | <u>\$ 1,746,375</u> | <u>\$ 1,818,028</u> |

ROMAN CATHOLIC DIOCESE OF BURLINGTON, VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

L) COMMITMENTS AND CONTINGENT LIABILITIES

In July 2014, the RCDB, Inc., issued a series of bonds payable (known as the “Rice Memorial High School Issue, Series 2014”) to provide for construction costs to be incurred to provide for improvements to the Rice Memorial High School (“renovation project”). The bonds are secured by a first priority mortgage on the Rice Memorial High School (“Rice”) real estate and other Rice accounts at TD Bank, N.A., including any remaining capital campaign funds raised for the purpose of the renovation project. The final maturity date is October 2025. The debt for this obligation, and all related transactions, is recorded in the financial statements of Rice, an operating division of the RCDB, Inc., and had an outstanding balance of \$6,213,007 at June 30, 2017.

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 \$78,515 at June 30, 2017 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, 2017 and 2016, no accruals were necessary.