

Central Office of the Diocese  
of Manchester  
Manchester, New Hampshire

Financial Statements

Years Ended June 30, 2019 and 2018

**WIPFLi**<sup>LLP</sup>  
CPAs and Consultants



## INDEPENDENT AUDITOR'S REPORT

Most Reverend Peter A. Libasci  
Roman Catholic Bishop of Manchester  
Manchester, New Hampshire

### Report on the Financial Statements

We have audited the accompanying financial statements of the **Central Office of the Diocese of Manchester** (the Central Office), a nonprofit organization, which comprise the statements of financial position as of June 30, 2019 and 2018, 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 Central Office'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 Central Office'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 audit opinion.

Most Reverend Peter A. Libasci  
Roman Catholic Bishop of Manchester  
Manchester, New Hampshire

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Central Office of the Diocese of Manchester as of June 30, 2019 and 2018, 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.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 13 to the financial statements, the Central Office adopted Accounting Standards Update (ASU) No. 2016-14, *Not for Profit Entities – Presentation of Financial Statements for Not-for-Profit Entities*, as of and for the year ended June 30, 2019 to improve information provided in the financial statements and disclosure notes related to the Central Office's financial performance, cash flows and liquidity and availability of resources. Our opinion is not modified with respect to this matter.

Emphasis of Matter – Prior Period Adjustment

As discussed in Note 14 to the financial statements, the accompanying 2018 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

*Wipfli LLP*

Bedford, New Hampshire  
February 10, 2020

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Statements of Financial Position

June 30, 2019 and 2018

ASSETS

	<u>2019</u>	<u>2018</u>
Diocesan cash	971,643	2,180,579
Central fund cash	1,503,940	2,675,142
Accounts receivable, net	2,371,367	467,920
Insurance receivable, net	-	2,250
Second injury fund recoverable	559,735	-
Interest receivable	1,460	12,920
Prepaid expenses	236,343	231,972
Diocesan investments	33,098,416	33,187,756
Notes receivable, net of discounts and allowance for losses	8,054,046	8,005,137
Cash held for restrictive purposes	144,093	144,093
Central fund deposits and investments	67,800,208	65,204,279
Fixed assets, net	475,886	328,912
	<u>                    </u>	<u>                    </u>
Total assets	<u>\$ 115,217,137</u>	<u>\$ 112,440,960</u>

LIABILITIES AND NET ASSETS

Accounts payable and accrued expenses	590,654	699,253
Reserves and other liabilities	990,241	714,813
Funds held for others - special collections	556,761	472,895
Insurance liabilities	2,821,398	3,869,685
Central fund deposits and investments	61,723,885	61,384,759
Priest retirement benefit obligation	19,659,149	16,822,267
	<u>                    </u>	<u>                    </u>
Total liabilities	<u>86,342,088</u>	<u>83,963,672</u>
 NET ASSETS		
Without donor restrictions:		
Designated	6,021,934	6,582,783
Undesignated	8,453,831	7,249,501
	<u>                    </u>	<u>                    </u>
	14,475,765	13,832,284
With donor restrictions	14,399,284	14,645,004
	<u>                    </u>	<u>                    </u>
Total net assets	<u>28,875,049</u>	<u>28,477,288</u>
	<u>                    </u>	<u>                    </u>
Total	<u>\$ 115,217,137</u>	<u>\$ 112,440,960</u>

See accompanying notes to financial statements.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Statement of Activities

For the Year Ended June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES:			
Program revenue and assessments	6,467,102	-	6,467,102
Donations and bequests	211,068	267,955	479,023
Insurance	5,497,453	-	5,497,453
Miscellaneous	141,193	-	141,193
Net assets released from restriction	1,011,632	(1,011,632)	-
	<u>13,328,448</u>	<u>(743,677)</u>	<u>12,584,771</u>
Total revenues			
EXPENSES:			
Program	12,180,143	-	12,180,143
Operations and administration	3,191,821	-	3,191,821
	<u>15,371,964</u>	<u>-</u>	<u>15,371,964</u>
Total expenses			
Retirement-related changes other than net periodic retirement costs	569,983	-	569,983
Change in net assets before investment return, net	(2,613,499)	(743,677)	(3,357,176)
INVESTMENT RETURN, NET			
Diocesan investments	2,014,468	497,957	2,512,425
Central fund deposits and investments	1,892,209	-	1,892,209
	<u>3,906,677</u>	<u>497,957</u>	<u>4,404,634</u>
Total investment return, net			
INTEREST EXPENSE	(649,697)	-	(649,697)
CHANGE IN NET ASSETS	643,481	(245,720)	397,761
NET ASSETS - beginning of year	13,832,284	14,645,004	28,477,288
NET ASSETS - end of year	<u>\$ 14,475,765</u>	<u>\$ 14,399,284</u>	<u>\$ 28,875,049</u>

See accompanying notes to financial statements.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Statement of Activities

For the Year Ended June 30, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES:			
Program revenue and assessments	6,558,162	-	6,558,162
Donations and bequests	3,340,935	391,743	3,732,678
Insurance	5,454,444	-	5,454,444
Miscellaneous	440,759	-	440,759
Net assets released from restriction	529,912	(529,912)	-
	<u>16,324,212</u>	<u>(138,169)</u>	<u>16,186,043</u>
Total revenues			
EXPENSES:			
Program	10,624,133	-	10,624,133
Operations and administration	2,653,443	-	2,653,443
	<u>13,277,576</u>	<u>-</u>	<u>13,277,576</u>
Total expenses			
Retirement-related changes other than net periodic retirement costs	1,936,989	-	1,936,989
Change in net assets before investment return, net	1,109,647	(138,169)	971,478
INVESTMENT RETURN, NET			
Diocesan investments	2,022,662	608,296	2,630,958
Central fund deposits and investments	2,286,851	-	2,286,851
	<u>4,309,513</u>	<u>608,296</u>	<u>4,917,809</u>
Total investment return, net			
INTEREST EXPENSE	(589,838)	(3,000)	(592,838)
CHANGE IN NET ASSETS	4,829,322	467,127	5,296,449
NET ASSETS - beginning of year			
As previously reported	9,966,283	13,214,556	23,180,839
Prior-period adjustments	(963,321)	963,321	-
	<u>9,002,962</u>	<u>14,177,877</u>	<u>23,180,839</u>
As restated			
NET ASSETS - end of year	<u>\$ 13,832,284</u>	<u>\$ 14,645,004</u>	<u>\$ 28,477,288</u>

See accompanying notes to financial statements.

**CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER**

Statement of Functional Expenses  
For the Years Ended June 30, 2019 and 2018

	2019								Supporting Services		
	Program								Operations and administration	Total	
	Canonical Services	Catholic Formation	Development and Communication	Insurance	Ministries	Pastoral services	Seminarian Formation	Other Programs	Total Program		
Benefits and taxes	106,930	271,764	160,911	30,850	36,415	177,599	82,642	-	867,111	454,834	1,321,945
General and administrative	9,613	76,070	45,934	438,994	6,408	87,734	19,145	-	683,898	525,641	1,209,539
Grants and donations	-	166,170	5,248	72,800	16,903	194,928	952	100	457,101	142,490	599,591
Insurance	-	-	-	1,236,001	-	756	1,575	-	1,238,332	2,010	1,240,342
Occupancy	123,074	155,626	89,870	18,533	34,241	109,940	21,400	-	552,684	299,967	852,651
Other	215	-	79	16,618	-	232,128	-	2,738,051	2,987,091	12,568	2,999,659
Program services	400	1,754,682	158,928	-	205,566	268,998	563,562	-	2,952,136	110,054	3,062,190
Salaries and wages	279,202	796,470	523,984	-	114,180	474,109	85,157	-	2,273,102	1,597,200	3,870,302
Supplies and equipment	1,749	58,591	77,957	-	347	25,773	4,271	-	168,688	47,057	215,745
<b>Total functional expenses</b>	<b>\$ 521,183</b>	<b>\$ 3,279,373</b>	<b>\$ 1,062,911</b>	<b>\$ 1,813,796</b>	<b>\$ 414,060</b>	<b>\$ 1,571,965</b>	<b>\$ 778,704</b>	<b>\$ 2,738,151</b>	<b>\$ 12,180,143</b>	<b>\$ 3,191,821</b>	<b>\$ 15,371,964</b>
	<b>2018</b>										
	Program								Supporting Services		
	Canonical Services	Catholic Formation	Development and Communication	Insurance	Ministries	Pastoral services	Seminarian Formation	Other Programs	Total Program	Operations and administration	Total
Benefits and taxes	81,239	225,643	101,452	46,225	27,751	175,216	86,887	-	744,413	366,845	1,111,258
General and administrative	13,644	84,601	37,720	331,268	2,876	79,449	9,183	2,500	561,241	363,399	924,640
Grants and donations	-	65,078	11,081	-	-	485,438	601	165,466	727,664	139,237	866,901
Insurance	-	-	-	1,562,166	-	-	-	-	1,562,166	411	1,562,577
Occupancy	113,705	165,785	81,055	18,334	37,454	150,758	17,434	-	584,525	225,526	810,051
Other	288	-	140	19,784	60	182,035	347,598	1,249,031	1,798,936	5,020	1,803,956
Program services	-	1,686,060	181,775	-	118,151	346,806	14,381	-	2,347,173	28,251	2,375,424
Salaries and wages	277,492	788,463	393,264	-	97,998	575,237	61,190	-	2,193,644	1,483,724	3,677,368
Supplies and equipment	1,798	11,176	72,639	-	35	17,693	1,030	-	104,371	41,030	145,401
<b>Total functional expenses</b>	<b>\$ 488,166</b>	<b>\$ 3,026,806</b>	<b>\$ 879,126</b>	<b>\$ 1,977,777</b>	<b>\$ 284,325</b>	<b>\$ 2,012,632</b>	<b>\$ 538,304</b>	<b>\$ 1,416,997</b>	<b>\$ 10,624,133</b>	<b>\$ 2,653,443</b>	<b>\$ 13,277,576</b>

See accompanying notes to financial statements.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Statements of Cash Flows

For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	397,761	5,296,449
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	71,703	65,479
Gain (loss) on disposal of fixed assets	21,273	(121,154)
Reinvested investment income	(83,850)	(78,031)
Net realized and unrealized gains	(2,565,110)	(3,362,298)
Provision for losses (recoveries) on notes receivable	(211,000)	142,826
Provision for losses on accounts receivable	202,680	119,420
Non-cash grants	107,500	-
Non-cash donations	(200,000)	(200,000)
Decrease (increase) in:		
Accounts receivable	(2,188,627)	(93,166)
Insurance receivable	2,250	22,422
Second injury fund recoverable	(559,735)	-
Interest receivable	11,460	(4,346)
Prepaid expenses	(4,371)	(32,375)
Increase (decrease) in:		
Accounts payable and accrued expenses	(108,599)	189,511
Reserves and other liabilities	275,428	73,375
Funds held for others - special collections	83,866	(43,438)
Insurance liabilities	(1,048,287)	(266,845)
Priest retirement benefit obligation	2,836,882	2,565,389
	<u>(2,958,776)</u>	<u>4,273,218</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investments	(77,928,888)	(67,023,469)
Proceeds from sale of investments	79,594,099	60,067,856
Amounts advanced on notes receivable	(3,842,203)	(119,641)
Collections on notes receivable	3,979,294	1,462,046
Proceeds from sale of fixed assets	2,250	148,976
Purchase of fixed assets	(242,200)	(105,106)
	<u>1,562,352</u>	<u>(5,569,338)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Increase (decrease) in central fund deposits and investments, net	<u>(983,714)</u>	<u>1,446,796</u>
	<u>(983,714)</u>	<u>1,446,796</u>

(Continued)



CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Statements of Cash Flows

For the Years Ended June 30, 2019 and 2018

(Continued)

	<u>2019</u>	<u>2018</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(2,380,138)	150,676
CASH AND CASH EQUIVALENTS - beginning of year	<u>4,855,721</u>	<u>4,705,045</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 2,475,583</u>	<u>\$ 4,855,721</u>
RECONCILIATION TO STATEMENTS OF FINANCIAL POSITION:		
Diocesan cash	971,643	2,180,579
Central fund cash	<u>1,503,940</u>	<u>2,675,142</u>
TOTAL CASH AND CASH EQUIVALENTS - end of year	<u>\$ 2,475,583</u>	<u>\$ 4,855,721</u>
<u>SUPPLEMENTAL DISCLOSURES:</u>		
Interest paid (including interest paid on deposits payable)	<u>\$ 649,697</u>	<u>\$ 589,838</u>

For the years ended June 30, 2019 and 2018, net activity on investment funds held for related entities was \$1,322,840 and \$1,689,792, respectively.

See accompanying notes to financial statements.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2019 and 2018

Note 1 - Summary of Significant Accounting Policies

The Central Office of the Diocese of Manchester (the Central Office) provides certain programs and administrative support functions for the Diocese of Manchester (the Diocese), which encompasses the State of New Hampshire. Included in these financial statements are the assets, liabilities, net assets and financial activities of program offices and departments of the Diocese described below that are fiscally responsible to the Bishop and referred to herein as the Central Office.

The accompanying financial statements reflect the application of the accounting policies described in this note.

(A) Basis of Presentation

The accompanying financial statements include the assets, liabilities and activities of the Operating Fund, the Central Fund and the Insurance Fund, as well as net assets with donor restrictions of the Diocese. The Operating Fund includes program, administrative and support services of the Central Office which are comprised of canonical services, Catholic formation, development and communication, insurance, ministries, pastoral services, seminarian formation, other programs, and administrative support services. The Central Fund holds and manages the deposits and investments of various entities of the Diocese of Manchester as described in Note 5 (\$61,723,885 in 2019 and \$61,384,759 in 2018) (Diocesan entities). The Insurance Fund administers the insurance program for the Diocese of Manchester as described in Note 8. Revenues are derived primarily from assessments charged to the various Diocesan entities. For the purpose of these financial statement disclosures, Diocesan entities include primarily the parishes, schools and cemeteries that are considered part of the Diocese of Manchester.

The accompanying financial statements exclude the assets, liabilities, net assets and financial activities of various Diocesan entities which maintain separate financial records and carry on their own services and programs, including the individual parishes, schools, cemeteries, camps, the Aquinas House and Catholic Student Center, and various Diocesan employee benefit plans. Consequently, these financial statements do not present the assets, liabilities, net assets, or changes therein, of the Diocese of Manchester taken as a whole.

(B) Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets during the reporting period. Actual results could differ from those estimates. Significant estimates used by the Central Office include those used to determine the projected retirement benefit obligation (Note 7), the liability for unpaid insurance claims (Note 8), losses on accounts, notes and insurance receivable (Notes 1, 3, and 8).

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2019 and 2018

Note 1 - (C) Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Central Office considers certificates of deposit and other highly liquid debt instruments with a maturity of three months or less from the date of purchase to be cash equivalents.

The Central Office customarily maintains amounts on deposit in various bank accounts in excess of the Federal deposit insurance coverage amounts. Deposits totaling approximately \$2,617,000 (prior to outstanding items clearing the bank) at June 30, 2019 are not covered by Federal deposit insurance.

In addition to the above amounts on deposit, the Central Office reports certain cash equivalents managed by its investment advisors as investments and not as cash equivalents in the accompanying statements of financial position, since it is the Central Office's intention to invest these funds for long-term purposes. Cash and cash equivalents reported as investments totaling approximately \$1,052,000 are not covered by Federal deposit insurance.

Cash and cash equivalents are included in the accompanying financial statements as follows:

	<u>2019</u>	<u>2018</u>
Diocesan cash	971,643	2,180,579
Central fund cash	<u>1,503,940</u>	<u>2,675,142</u>
	<u>\$ 2,475,583</u>	<u>\$ 4,855,721</u>

(D) Accounts Receivable

Accounts receivable are reported at estimated net collectible amounts. The accounts receivable arise in the normal course of the operation of the Central Office and are primarily due from the parishes and schools of the Diocese of Manchester. Credit is generally extended on a short-term basis; thus, accounts receivable do not bear interest. The Central Office periodically reviews the outstanding accounts receivable for the purposes of establishing an allowance for uncollectible accounts based on the average bad debt write-offs experienced in the past and its current knowledge of the accounts. It is management's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. Accounts receivable at June 30, 2019 and 2018 are reported net of an allowance for uncollectible accounts of \$634,341 and \$431,661, respectively. Aggregate accounts receivable past due 90 days or more were approximately \$1,606,000 and \$493,000 as of June 30, 2019 and 2018, respectively. Delinquency status is based on normal credit terms. The Central Office does not generally require collateral for the extension of credit.

(E) Investments

Investments represent marketable securities as well as units owned in a hedge fund portfolio. Investments in marketable securities are valued at their fair values in the statements of financial position. The measurement of fair value is made using the fair value hierarchy established under current accounting standards (Note 11). Net asset value (NAV) is used as a practical expedient to estimate fair value of the hedge funds (Note 11).

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2019 and 2018

Note 1 - (E) Investments (Continued)

Net investment return is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment expenses. For purposes of determining realized gains and losses, the cost of securities sold is based on a trade-date basis.

(F) Notes Receivable

The Central Office has notes receivable from Diocesan entities (see Note 3). These receivables are evaluated for impairment annually and are placed on non-accrual status on a case by case basis. Interest income on non-accrual loans is recognized only to the extent that cash payments are received. Loans are classified as impaired when they are greater than 60 days past due, on non-accrual status, or additional borrowing is needed due to operational deficits. Generally, loans are restored to performing status when the obligation is brought current, has performed in accordance with contractual terms for a reasonable period of time as determined by the Central Office, and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

The Central Office reviews each outstanding note receivable from Diocesan entities and has provided an allowance for losses at a level that the Central Office believes to be representative of inherent losses estimated on the basis of factors such as the risk characteristics of the borrower, average historical bad debt write-offs, and current economic conditions that may affect the borrower's ability to pay. Delinquency status is determined based on contractual terms. It is the Central Office's policy to charge off uncollectible notes receivable when management determines the receivable will not be collected. Additionally, on the aggregate remaining balance of notes receivable the Central Office estimates an additional allowance covering those amounts not specifically identified (see Note 3).

(G) Fixed Assets

It is the Central Office's policy to capitalize fixed assets with a cost of at least \$2,500. Lesser amounts are charged to operations.

Fixed assets are recorded at cost, if purchased, or at estimated fair market value as of the date of donation, if donated. The composition of net fixed assets at June 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Land	2,129	2,129
Buildings	651,646	651,646
Building improvements	1,480,642	1,286,906
Furniture and other equipment	342,253	335,816
Computer equipment and software	<u>303,646</u>	<u>318,680</u>
	2,780,316	2,595,177
Less: accumulated depreciation	<u>2,304,430</u>	<u>2,266,265</u>
Fixed assets, net	<u>\$ 475,886</u>	<u>\$ 328,912</u>

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2019 and 2018

Note 1 - (G) Fixed Assets (Continued)

The Central Office provides for depreciation on the straight-line method by charges to income in amounts estimated to amortize the cost or donated value of the assets over the periods of their useful lives.

Depreciation expense was \$71,703 and \$65,479 during 2019 and 2018, respectively.

Included in fixed assets in the accompanying statements of financial position are assets with a net book value of \$137,424 and \$110,348 as of June 30, 2019 and 2018, respectively, which are restricted by the donor for use as the Bishop's residence.

(H) Restricted Support

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. Net assets without donor restrictions include both undesignated and designated net assets, which are revenues not restricted by outside sources and revenues designated by the Central Office for special purposes and their related expenses.

*Net Assets with Donor Restrictions* – Net assets subject to donor or certain grantor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted, has been fulfilled, or both. Restricted contributions that are received and utilized in accordance with donor stipulations in the same year are reported as contributions without donor restrictions. The Central Office follows a similar policy for investment return on these funds.

Designated net assets have been designated by the Central Office for the following purposes at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Priest housing	2,524,138	3,304,889
School education fund	320,173	307,898
Priests continuing formation	890,614	788,547
Medical needs of priests	771,746	765,384
Worship and world youth day	10,070	10,070
Campus ministry	124,925	124,925
Youth ministry	442,705	442,705
St. Joseph Cathedral	40,716	42,809
Permanent Diaconate Continuing Formation	<u>896,847</u>	<u>795,556</u>
	<u>\$ 6,021,934</u>	<u>\$ 6,582,783</u>

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2019 and 2018

Note 1 - (H) Restricted Support (Continued)

Net assets with donor restrictions as of June 30, 2019 and 2018 are restricted for the following purposes:

	<u>2019</u>	<u>2018</u>
Seminarians	125,119	252,899
Missionary support	986,059	953,169
Parish masses	371,181	357,126
For specific schools	190,718	183,406
Education	444,733	363,871
Non-capital purposes	232,123	233,705
For specific geographical region	168,164	220,215
Other various purposes	<u>255,289</u>	<u>247,148</u>
	<u>2,773,386</u>	<u>2,811,539</u>

Endowments restricted in perpetuity (including amounts above the original gift amount of \$8,499,788 in 2019 and \$8,305,536 in 2018):

	<u>2019</u>	<u>2018</u>
Missionary, Catholic education, retired priests and parish support	5,963,536	5,972,114
Seminarians	789,946	994,305
Care of gravesites	49,960	49,954
Scholarships, education and tuition	3,400,874	3,400,963
Care of needy	17,681	17,679
General purposes for specific parishes	1,126,754	1,121,859
Other various purposes	<u>277,147</u>	<u>276,591</u>
	<u>11,625,898</u>	<u>11,833,465</u>
Total net assets with donor restrictions	<u>\$ 14,399,284</u>	<u>\$ 14,645,004</u>

(I) Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the program and other activities as benefited.

The Central Office allocates the salary of each Diocesan employee to various salary expense classifications. This allocation is based on an estimate made by management of the percentage of time each individual devotes to each type of service. The percentages used to allocate salaries in each year vary depending upon the Central Office's estimate. The Central Office also allocates administrative expenses to the various programs based on estimates of square footage and number of employees.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2019 and 2018

Note 1 - (J) Federal and State Income Taxes

The Diocese is exempt from Federal and state income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. The Diocese must, however, pay income taxes on the net profit from its unrelated business activities, if any.

The Central Office recognizes the tax benefit of an uncertain tax position only if management determines that it is more likely than not that the tax position would be sustained upon examination by taxing authorities based on the technical merit of the position. Management has determined that through June 30, 2019, the Central Office did not take any material tax positions which do not meet the criteria for recognition.

Note 2 - Investments

The Central Office and various Diocesan entities deposit money into the Central Fund. The Central Fund pools all of the money received for the purpose of making loans (Note 3) and investing in marketable securities and hedge funds, primarily consisting of cash and cash equivalents, equities, fixed income securities, and alternative investments.

The Central Office's policy is to invest in a manner consistent with teachings of the Roman Catholic Church as expressed in guidelines published by the US Conference of Catholic Bishops, in order to preserve capital and realize a sufficient return with minimal risk. In general, the Central Office's current policy is to maintain the following allocations:

Equity securities – domestic	10% - 50%
Equity securities – international and emerging markets	10% - 35%
Fixed income securities	30% - 38%
Alternative investments	5% - 25%
Private equities	0% - 10%
Cash and cash equivalents	.5% - 5%

The Diocese is the sole remainder beneficiary of an irrevocable charitable remainder trust. Under the terms of the trust, the income beneficiaries of the trust receive a unitrust amount equal to 8% of the fair market value of the trust assets determined annually, paid in equal monthly installments. Upon the death of the surviving income beneficiary, the trustee is to distribute all remaining principal and income of the trust to the Diocese to be used to establish a scholarship fund to benefit students in Catholic regional schools within New Hampshire. The net present value of the beneficial interest in the trust is included in Diocesan investments in the accompanying financial statements using an assumed rate of return of 6% in 2019 and 2018 and discounted at 3.35% in 2019 and 4.10% in 2018 (\$1,338,870 and \$1,150,730 at June 30, 2019 and 2018, respectively). The fair value of the trust assets was \$2,133,955 and \$1,943,311 at June 30, 2019 and 2018, respectively.

Investments are included in the accompanying financial statements as follows:

	<u>2019</u>	<u>2018</u>
Diocesan investments	33,098,416	33,187,756
Central fund deposits and investments	<u>67,800,208</u>	<u>65,204,279</u>
	<u>\$ 100,898,624</u>	<u>\$ 98,392,035</u>

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER  
Notes to Financial Statements  
June 30, 2019 and 2018

Note 2 - Investments (Continued)

Net investment income in the statements of activities is comprised of the following:

	2019	2018
Dividends, interest and other income	1,964,068	1,663,656
Investment fees paid, net	(124,544)	(108,145)
Net realized and unrealized gains	2,565,110	3,362,298
Total investment income, net	\$ 4,404,634	\$ 4,917,809

See Note 11 for fair value measurements and the fair value of investments classified by major type.

Investment income is accounted for in the fund holding the assets, except for certain income from the investment of donor restricted funds, which is accounted for as revenue with donor restrictions. The Central Office follows the guidance established by the Financial Accounting Standards Board when accounting for losses in donor-designated endowment funds (see Note 12).

Note 3 - Notes Receivable

Notes receivable from Diocesan entities (parishes, cemeteries, and schools) are unsecured and are reported at their unpaid principal balances less an allowance for losses.

Interest on notes receivable is recognized over the term of the loan and is calculated using either the simple interest method or the amortization method on principal amounts outstanding. Notes to certain Diocesan entities are non-interest bearing or are at a reduced rate of interest. These notes generally have been recorded net of applicable discounts to reflect the present value of the notes, based on the interest rates normally charged on other notes (4.6% in 2019 and 4.25% in 2018).

Interest income on notes receivable was \$356,971 in 2019. Interest income was \$381,318 in 2018.

Due to the nature of the relationships with Diocesan entities, the Central Office has been willing, under appropriate circumstances, to make concessions for borrowers whose payments were not current or to refinance outstanding obligations. At the time of restructuring, the loan is evaluated for an allowance for credit losses. The Central Office continues to specifically reevaluate the loan in subsequent periods, regardless of the borrower's performance under the modified terms. There were no troubled debt restructurings for the years ended June 30, 2019 and 2018.

In assessing performance of notes receivables on an annual basis, the Central Office considers notes receivable less than 30 days past due to be current and classified as performing. The Central Office also classifies loans which have contractual terms that require no payments in a given year as current and performing. Performing notes receivables as of June 30, 2019 and 2018 were \$8,972,847 and \$7,944,718, respectively. Non-performing notes receivables as of June 30, 2019 and 2018 were \$1,253,198 and \$2,443,419, respectively.



CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER  
Notes to Financial Statements  
June 30, 2019 and 2018

Note 3 - Notes Receivable (Continued)

The following reflects the age analysis of notes receivable as of June 30, 2019 and 2018, respectively:

	<u>2019</u>	<u>2018</u>
Current	8,972,847	7,944,718
30 - 59 days	72,949	647,768
60 - 89 days	-	233,711
90+ days	<u>1,180,249</u>	<u>1,561,940</u>
Total notes receivable	<u>\$ 10,226,045</u>	<u>\$ 10,388,137</u>
Total notes receivable on non-accrual status	<u>\$ 1,446,216</u>	<u>\$ 1,503,643</u>
Notes receivable 90+ days past due and still accruing	<u>\$ 336,273</u>	<u>\$ 313,582</u>

The following provides informative data at June 30, 2019 and 2018, and for the years then ended separately presented based on whether or not management has recognized an allowance for credit losses with respect to the impaired loans:

	<u>2019</u>	<u>2018</u>
Impaired loans for which no allowance for credit losses is recognized:		
Recorded investment	\$ 3,091,128	\$ 2,401,467
Unpaid principal balance	3,091,128	2,401,467
Average recorded investment	2,746,298	2,240,951
Interest income recognized while impaired	82,348	69,118
Impaired loans for which an allowance for credit losses is recognized:		
Recorded investment	2,570,400	2,905,884
Unpaid principal balance	2,570,400	2,905,884
Average recorded investment	2,738,142	2,868,550
Interest income recognized while impaired	73,381	84,513

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER  
Notes to Financial Statements  
June 30, 2019 and 2018

Note 3 - Notes Receivable (Continued)

The following reflects the allowance for losses and the related recorded investment in notes receivable as of June 30, 2019 and 2018, respectively:

	2019	2018
<b>Allowance for losses:</b>		
Beginning balance	2,383,000	2,240,174
Provision	(211,000)	142,826
Ending balance	\$ 2,172,000	\$ 2,383,000
Ending balance: individually evaluated for impairment	2,045,226	2,231,000
Ending balance: aggregate remaining balance evaluated for impairment	126,774	152,000
Ending balance	\$ 2,172,000	\$ 2,383,000
<b>Recorded investment in notes receivable:</b>		
Ending balance: individually evaluated for impairment	5,661,528	5,307,351
Ending balance: aggregate remaining balance evaluated for impairment	4,564,517	5,080,786
Ending balance	\$ 10,226,045	\$ 10,388,137

There were no changes to the accounting policy for notes receivable for the years ended June 30, 2019 and 2018. There were no purchases, sales, or reclassifications of notes receivables for the years ended June 30, 2019 and 2018.

Note 4 - Related Party Transactions

The Central Office rents space at the property located at the St. Joseph Cathedral Parish, a Diocesan entity, for storing its archive files. The total rent paid was \$5,580 in 2019 and 2018.

The Central Office enters into various transactions with Catholic Charities New Hampshire (CCNH), which has its main office located in facilities owned and shared by the Central Office. Below is a summary of rent and program related expenses paid to CCNH:

	2019	2018
Rent received	\$ 112,614	\$ 98,556
Program costs paid	-	69,000

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2019 and 2018

Note 4 - Related Party Transactions (Continued)

The Central Office receives assessment revenue from parishes for specific programs and administrative and other services. In addition, the Central Office receives revenue from Diocesan entities (parishes, schools, cemeteries and Diocesan employee benefit plans) and CCNH for insurance coverage and provides grants and subsidies to certain parishes, schools and mission churches to support their programs. A summary of these transactions is as follows:

	<u>2019</u>	<u>2018</u>
Assessments received (excluding insurance)	\$ 5,965,493	\$ 5,976,520
Insurance revenue (see Note 8)	5,497,453	5,454,444
Grants, subsidies and donations paid	1,890,529	1,905,258
Investment management fees earned	328,038	322,113

Amounts due from the parishes and other Diocesan entities, primarily for assessments, insurance and interest (net of allowance) was \$954,610 and \$467,920 at June 30, 2019 and 2018, respectively. Amounts due to the parishes and other related parties at June 30, 2019 and 2018 were \$192,056 and \$299,722, respectively.

As of June 30, 2019, the Central Office has an account receivable of \$1,416,757 due from Holy Trinity at St. Andre Bessette in Laconia, New Hampshire for a construction project. No amounts were due to the Central Office as of June 30, 2018. Management anticipates a portion of this receivable will be converted to a note within the next year.

As of June 30, 2019, the Central Office has a note receivable of \$706,506 due from CCNH. In 2019, the Central Office entered into a note agreement with CCNH to fund the construction of a facility, which will house retired Catholic priests. The note is for up to \$1,500,000 with a 20-year term. Interest will begin accruing at a yearly fixed rate of 3% at the earlier of reaching \$1,500,000 in construction costs or December 31, 2019. The note includes a debt forbearance clause, which specifies that every five years during the term of the loan, the outstanding loan principal balance shall be reduced by 25% of the amount originally loaned by the Central Office if certain conditions are satisfied.

Assets of the Central Fund (Note 2) are held for Diocesan entities and funds as described in Note 5.

The Central Office participates in the Roman Catholic Bishop of Manchester Employee Benefit Plan and Trust (the Plan) which is managed and overseen by the Diocese. The Plan provides health, dental, life and disability insurance benefits. Total expense incurred and paid to the Plan during 2019 and 2018 was approximately \$500,000.

Note 5 - Central Fund Deposits and Investments

The Central Office holds deposits and investments from its various parishes, schools and other entities within the Diocese. Interest is paid on these deposits at a rate of 1.35% and 1.25% in 2019 and 2018, respectively. For cemeteries with deposits in the Perpetual Care Fund, interest is paid at 2.7% and 2.6% in 2019 and 2018, respectively. Amounts are due on demand. Interest expense on deposits was \$636,686 and \$580,503 for 2019 and 2018, respectively. In addition, the Central Office maintains the pooled investments on behalf of the Sick Priests Fund as well as

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2019 and 2018

Note 5 - Central Fund Deposits and Investments (Continued)

various parishes and other entities. The investment return on these funds is excluded from the financial statements and the investment risk for these funds is with the participating entity. The Central Fund deposits and investments at June 30, 2019 and 2018, consist of the following:

	<u>2019</u>	<u>2018</u>
Parishes	36,485,680	36,294,023
Cemeteries	13,247,309	12,980,256
Schools	7,455,516	7,533,736
Sick Priests Fund	3,335,814	3,176,345
Other Diocesan entities	<u>1,199,566</u>	<u>1,400,399</u>
	<u>\$ 61,723,885</u>	<u>\$ 61,384,759</u>

Note 6 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following at June 30, 2019:

Diocesan cash	971,643
Operating accounts receivable	660,630
Interest receivable	1,460
Collections on loans receivable	1,261,169
Operating investments	15,636,693
Less designated net assets	(6,021,934)
Less cash held for others	(308,376)
Less funds held for others	(556,761)
Endowment spending-rate distributions and appropriations	<u>486,536</u>
Total	<u>\$ 12,131,060</u>

As described in Note 5, the accompanying financial statements include the assets and liabilities of the Central Fund. The Central Fund holds and manages the deposits and investments of various entities of the Diocese of Manchester. The amounts held in the Central Fund are not available for general expenditure.

The Diocesan investments consist of donor-restricted endowments and funds designated by the Central Office for various purposes (Note 12). Donor-restricted endowment funds are not available for general expenditure and are subject to an annual spending rate of up to 5% of the funds average fair value of the previous three years (for the year ending June 30, 2019, a 4% distribution was recommended by the Diocesan Finance Council and approved by the Bishop). Management does not intend to spend from the designated funds, however, these amounts could be made available if necessary.

As part of the liquidity management plan, the Central Office produces an annual budget that is submitted to the Diocesan Finance Council, which outlines the anticipated financial needs to support the mission within the next fiscal year. To manage current cash flow needs, the budget is analyzed and compared to actual results throughout the year. In addition, year over year assessment and contribution receipts are reviewed to ensure funding sources are received. The Central Office also invests cash in excess of daily requirements in CDs and money market funds.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER  
Notes to Financial Statements  
June 30, 2019 and 2018

Note 7 - Retirement Benefits

(A) Diocesan Administration Employees

The Central Office has a tax-deferred annuity plan under Internal Revenue Code Section 403(b) for the benefit of its eligible Diocesan administration employees. Employer contributions to the plan are based on 3% of eligible wages. In addition, the employer matches 50% of 403(b) employee deferred contributions by 50% to the first 6% of employee contributions, up to a maximum of 3% of eligible wages. Total employer contributions to this plan during 2019 and 2018 amounted to \$191,021 and \$110,798, respectively.

(B) Diocesan Priests

The Diocese established the Diocesan Priest Retirement Plan (the Plan) and the Diocesan Priest Retirement Trust Fund (the Trust) for the purpose of funding the retirement benefits of retired priests incardinated in the Diocese of Manchester who are granted permission by the Bishop of Manchester to retire. Under the Plan, retired priests receive a monthly stipend, medical and dental coverage, and are eligible for personal automobile insurance reimbursement. Priests born before 1949 are eligible to request retirement from the Bishop of Manchester at the earlier of attainment of age 68 or completion of 40 years of service; priests born between 1949 and 1956 (inclusive) are eligible to request retirement at age 70; priests born between 1957 and 1970 (inclusive) are eligible to request retirement at age 71; priests born during or after 1971 are eligible to request retirement at age 72. Earlier retirement is permitted only with the approval of the Bishop. In accordance with the terms of the Plan, the Central Office assumed the obligations of the Plan, including the unfunded benefit obligation as of the date the Plan was established. In addition, the Central Office has recognized the unfunded obligation of the retirement plan in its statements of financial position in accordance with accounting principles generally accepted in the United States of America.

In addition to the benefits provided by the Trust, the Diocese also provides prescription drug coverage through its Medical Insurance Fund. Benefits are paid from the designated net assets of the Central Office and not from the Diocesan Priest Retirement Fund.

The Diocese also established a sustenance program (the Sustenance Program) for priests ineligible for public ecclesiastical ministry for whom the Diocese retains a responsibility of sustenance. These priests receive a monthly stipend, medical and dental coverage and are eligible for personal automobile insurance reimbursement. Benefits are paid from the undesignated net assets of the Central Office, not from the Diocesan Priest Retirement Fund or Diocesan assessment revenue from parishes.

In 2018, the Plan was amended to provide for the monthly stipend for retired priests to generally increase each year consistent with the timing and percentage of the annual stipend increase for active priests. However, any

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2019 and 2018

Note 7 - (B) Diocesan Priests (Continued)

annual adjustment ultimately requires approval from the Bishop of Manchester. The amendment resulted in an increase of \$5,334,309 to the priest retirement obligation for the year ended June 30, 2018. Effective July 1, 2019 and 2018, the Bishop approved a monthly stipend increase from \$1,734 to \$1,777 and from \$1,700 to \$1,734, respectively, for retired priests. The monthly stipend for retired Bishops was \$2,250 for 2019 and 2018.

Effective July 1, 2019, the Plan provides a monthly housing benefit of \$2,723 for certain retired priests residing in an assisted living facility. This resulted in an increase of \$1,070,326 to the priest retirement obligation for the year ended June 30, 2019. The addition of the monthly housing benefit resulted in an increase of \$797,799 to the sustenance program obligation.

The actuarial assumptions for the mortality and discount rates were changed during the year ended June 30, 2019. The changes in these actuarial assumptions increased the priest retirement obligation by approximately \$2,681,000.

The actuarial assumptions for the mortality, discount, and trend rates were changed during the year ended June 30, 2018. The changes in these actuarial assumptions decreased the priest retirement obligation by approximately \$821,000.

The following information relates to the Diocesan Priest Retirement Plan, Medical Insurance Fund and Sustenance Program, and includes amounts determined as of June 30, 2019 and 2018 measurement dates:

	2019			2018		
	Diocesan Priests Retirement Plan	Medical Insurance Fund	Sustenance Program	Diocesan Priests Retirement Plan	Medical Insurance Fund	Sustenance Program
Projected benefit obligation	(30,380,157)	(1,666,968)	(1,617,288)	(26,799,711)	(1,610,182)	(840,225)
Plan assets	14,005,264	-	-	12,427,851	-	-
Funded status	<u>\$ (16,374,893)</u>	<u>\$(1,666,968)</u>	<u>\$(1,617,288)</u>	<u>\$ (14,371,860)</u>	<u>\$(1,610,182)</u>	<u>\$(840,225)</u>

The following components of the projected benefit obligation of the Diocesan Priest Retirement Plan at June 30, 2019 and 2018 have not been recognized as periodic pension costs:

	2019	2018
Unrecognized prior service cost	\$ 8,347,749	\$ 7,780,567
Unrecognized net loss	\$ 2,651,772	\$ 646,030

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER  
Notes to Financial Statements  
June 30, 2019 and 2018

Note 7 - (B) Diocesan Priests (Continued)

Significant assumptions at June 30, 2019 and 2018 include:

	2019			2018		
	Diocesan Priests Retirement Plan	Medical Insurance Fund	Sustenance Program	Diocesan Priests Retirement Plan	Medical Insurance Fund	Sustenance Program
Discount rate	3.35%	3.35%	3.35%	4.10%	4.10%	4.10%
Expected return on plan assets	6.00%	N/A	6.00%	6.00%	N/A	6.00%
Annual cost increases:						
Medical and dental	6.0% trending to 4.0%	6.0% trending to 4.0%	6.0% trending to 4.0%	6.5% trending to 4.0%	6.5% trending to 4.0%	6.5% trending to 4.0%
Automobile insurance premiums	2.5%	N/A	2.5%	2.5%	N/A	2.5%
Year that the rate reaches the ultimate trend rate	2025	2025	2025	2025	2025	2025
Rate of compensation increase	2.5%	N/A	N/A	2.5%	N/A	N/A
Mortality	RP-2014 White Collar Mortality Table projected fully generational with scale MP-2018			RP-2014 White Collar Mortality Table projected fully generational with scale MP-2017		
Benefit cost	1,433,050	56,786	1,004,862	688,874	(12,024)	85,696
Employer contributions and donations	1,855,382	-	227,799	1,647,243	-	134,146
Participant contributions	55,378	-	-	52,000	-	-
Benefits paid	914,271	22,964	227,799	1,021,455	30,134	134,146

The net periodic pension cost consists of:

	2019	2018
Diocesan Priest Retirement Plan:		
Amortization of prior service costs	503,144	180,634
Investment return	(743,673)	(770,138)
Current service cost	600,339	444,845
Interest cost	1,073,240	833,353
Amortization of gains or losses	-	180
Medical insurance fund	56,786	(12,024)
Total	<u>\$ 1,489,836</u>	<u>\$ 676,850</u>

The periodic pension cost for the priest retirement plan, medical insurance fund and sustenance program is reported in other program costs on the statement of functional expenses.

Retirement-related changes for the Diocesan Priest Retirement Plan other than net periodic pension costs consist of:

	2019	2018
Amortization of prior service costs	(503,144)	(180,634)
Current year gain not yet recognized	1,987,398	3,139,078
Funding by affiliates	(914,271)	(1,021,455)
	<u>\$ 569,983</u>	<u>\$ 1,936,989</u>

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2019 and 2018

Note 7 - (B) Diocesan Priests (Continued)

The accumulated benefit obligations were as follows:

	<u>Diocesan Priests Retirement Plan</u>	<u>Medical Insurance Fund</u>	<u>Sustenance Program</u>
June 30, 2019	\$ 21,750,527	\$ 947,457	\$ 1,559,960
June 30, 2018	\$ 19,102,398	\$ 915,870	\$ 777,530

The Central Office expects to contribute approximately \$1,733,616 to the Retirement Plan during the year ending June 30, 2020. Benefits and expenses expected to be paid during the ensuing five years and five years thereafter are as follows:

	<u>Diocesan Priests Retirement Plan</u>	<u>Medical Insurance Fund</u>	<u>Sustenance Program</u>
2020	\$ 1,476,000	\$ 60,349	\$ 225,769
2021	1,523,000	64,642	206,880
2022	1,558,000	68,111	188,064
2023	1,613,000	72,428	169,687
2024	1,684,000	77,499	152,132
2025 - 2029	8,628,000	418,630	539,572

Assets of the Trust are invested with other marketable securities and hedge funds of the Central Office and various Diocesan entities (Note 2). The Central Office's investment policy with respect to assets of the Trust is consistent with the policy outlined in Note 2.

The expected rate of return on Plan assets was developed in consultation with the Plan's investment advisors and is based upon their assessment of expected future returns.

See Note 11 for a discussion of the fair value measurements of the Diocesan Priest Retirement Plan investments.



CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2019 and 2018

Note 7 - (B) Diocesan Priests (Continued)

The following table sets forth by level, within the fair value hierarchy, the valuation techniques used to determine the fair value of these investments as of June 30, 2019 and 2018:

	2019				Total
	Level 1	Level 2	Level 3	Net Asset Value*	
Money market funds	438,055	-	-	-	438,055
Equity securities:					
Domestic	3,543,651	-	-	-	3,543,651
International and emerging markets	2,444,457	-	-	-	2,444,457
Fixed income securities:					
Corporate bonds	-	1,757,629	-	-	1,757,629
Government securities	-	1,210,060	-	-	1,210,060
Certificates of deposit	-	1,368,247	-	-	1,368,247
Preferred stock	6,760	-	-	-	6,760
Alternative investments:					
Real estate investment trusts	617,874	-	-	-	617,874
Mutual funds	158,187	-	-	-	158,187
Total assets in the fair value hierarchy	7,208,984	4,335,936	-	-	11,544,920
Hedge funds	-	-	-	1,798,910	1,798,190
Investments at fair value	<u>\$ 7,208,984</u>	<u>\$ 4,335,936</u>	<u>\$ -</u>	<u>\$ 1,798,910</u>	<u>\$13,343,110</u>
Cash and cash equivalents					<u>177,115</u>
Total investments					<u>\$13,520,225</u>
	2018				Total
	Level 1	Level 2	Level 3	Net Asset Value*	
Money market funds	129,144	-	-	-	129,144
Equity securities:					
Domestic	3,421,102	-	-	-	3,421,102
International and emerging markets	2,463,486	-	-	-	2,463,486
Fixed income securities:					
Corporate bonds	-	1,178,136	-	-	1,178,136
Government securities	-	1,409,621	-	-	1,409,621
Certificates of deposit	-	1,214,686	-	-	1,214,686
Preferred stock	6,092	-	-	-	6,092
Alternative investments:					
Real estate investment trusts	480,026	-	-	-	480,026
Mutual funds	134,018	-	-	-	134,018
Total assets in the fair value hierarchy	6,633,868	3,802,443	-	-	10,436,311
Hedge funds	-	-	-	1,605,774	1,605,774
Investments at fair value	<u>\$ 6,633,868</u>	<u>\$ 3,802,443</u>	<u>\$ -</u>	<u>\$ 1,605,774</u>	<u>\$12,042,085</u>
Cash and cash equivalents					<u>141,328</u>
Total investments					<u>\$12,183,413</u>

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2019 and 2018

Note 7 - (B) Diocesan Priests (Continued)

\* In accordance with current accounting standards certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of financial position (see Note 11).

Note 8 - Insurance

The Diocese is partially self-insured for claims incurred, with respect to property, liability and automobile insurance coverage which is administered by the Central Office. The Diocese was partially self-insured for workers' compensation from September 1972 through June 1997. Included in cash held for restricted purposes is approximately \$129,000, which is on deposit with a fiduciary and is bound by a Security Deposit Agreement in accordance with New Hampshire state law.

In consultation with its actuary, the Central Office has obtained policies with certain deductibles from commercial insurers to reduce financial exposure to risk, however, the Central Office remains primarily responsible to Diocesan entities and CCNH for the payment of claims and pays claims on all losses arising from a single occurrence. Insurers then reimburse the portion of any claim in excess of the retention limit, subject to limits stated in the policy.

The Central Office records a liability for unpaid claims based on amounts due on settlements, and case base estimates of reported losses, plus supplemental amounts for incurred but not reported losses (IBNR) calculated based on loss projections using actuarial analysis and studies of historical loss experience. Amounts due from insurance companies on settled claims were \$0 and \$2,250 at June 30, 2019 and 2018, respectively, and have been recorded as insurance receivable in the accompanying statements of financial position.

The Central Office receives reimbursement for claims under New Hampshire's Second Injury Fund program. New Hampshire's Second Injury Fund gives employers an opportunity to limit their compensation costs in the event that an employee with a prior impairment sustains a workers' compensation injury which leaves the employee more disabled than the same injury would leave a non-impaired worker. Amounts recoverable from the second injury fund are determined based on acceptance of the claim by the State of New Hampshire.

As of June 30, 2019, recoveries of \$559,735 are expected from the second injury fund.

The following summarizes the estimated liability for unpaid claims at June 30, 2019 and 2018:

<u>Type</u>	<u>2019</u>		
	<u>Claims Payable, net</u>	<u>IBNR</u>	<u>Total</u>
Liability	743,330	503,093	1,246,423
Property	204,178	190,134	394,312
Workers' compensation	1,180,663	-	1,180,663
	<u>\$ 2,128,171</u>	<u>\$ 693,227</u>	<u>\$ 2,821,398</u>

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2019 and 2018

Note 8 - Insurance (Continued)

<u>Type</u>	<u>2018</u>		
	<u>Claims Payable, net</u>	<u>IBNR</u>	<u>Total</u>
Liability	1,386,672	654,951	2,041,623
Property	130,360	470,561	600,921
Workers' compensation	1,227,141	-	1,227,141
	<u>\$ 2,744,173</u>	<u>\$ 1,125,512</u>	<u>\$ 3,869,685</u>

While the Central Office believes that the amounts reported represent its best estimate of the amount necessary to cover the ultimate cost of these claims, these estimates are subject to change. Any change in estimates is made in consultation with an actuary and is recorded in the year the change is determined.

Claims and legal expense paid for all of the above coverages amounted to approximately \$533,000 and \$1,671,000 in 2019 and 2018, respectively.

Note 9 - Contingencies

Numerous claims and lawsuits have been filed and settled against the Diocese of Manchester regarding reports of sexual misconduct with minors by some priests and others associated with the Diocese. The accompanying financial statements include an estimated liability for the remaining reported claims and an estimate of the liability relating to unreported claims. As discussed in Note 8, it is possible that these estimates will change in the near term, and these changes may be material to the financial statements.

Note 10 - Risk and Uncertainties

The Central Office invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the investment balances.

Note 11 - Fair Value Measurements

Accounting principles generally accepted in the United States of America establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority; Level 2 inputs consist of quoted prices for similar assets in active markets, quoted prices for identical or similar assets in inactive markets, observable inputs other than quoted market prices or inputs that are derived principally from or corroborated by observable market data by correlation or other means; and Level 3 inputs consist of inputs that are unobservable and significant to the fair value measurement and have the lowest priority. The Central Office uses appropriate valuation techniques based on available inputs to measure the fair value of its investments. An asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques must maximize the use of observable inputs and minimize the use of unobservable inputs.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2019 and 2018

Note 11 - Fair Value Measurements (Continued)

The following table sets forth by level, within the fair value hierarchy, the valuation techniques used to determine the fair value of the Central Office's assets as of June 30, 2019 and 2018:

	2019				Total
	Level 1	Level 2	Level 3	Net Asset Value*	
Money market funds	3,215,373	-	-	-	3,215,373
Equity securities:					
Domestic	26,180,510	-	213,398	-	26,393,908
International and emerging markets	17,920,036	-	-	-	17,920,036
Fixed income securities:					
Corporate bonds	-	12,881,605	-	-	12,881,605
Government securities	-	8,871,849	-	-	8,871,849
Certificates of deposit	-	10,029,760	-	-	10,029,760
Preferred stock	46,974	-	-	-	46,974
Exchange-traded and closed-end funds	23,950	-	-	-	23,950
Alternative investments:					
Real estate investment trusts	4,529,200	-	-	-	4,529,200
Mutual funds	1,158,527	-	-	-	1,158,527
Beneficial interest in charitable remainder trust	-	-	1,338,870	-	1,338,870
Total assets in the fair value hierarchy	53,074,570	31,783,214	1,552,268	-	86,410,052
Hedge funds	-	-	-	13,186,306	13,186,306
Investments at fair value	<u>\$ 53,074,570</u>	<u>\$ 31,783,214</u>	<u>\$ 1,552,268</u>	<u>\$ 13,186,306</u>	<u>\$ 99,596,358</u>
Cash and cash equivalents					<u>1,302,266</u>
Total investments (Note 2)					<u>\$100,898,624</u>

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2019 and 2018

Note 11 - Fair Value Measurements (Continued)

	2018				Total
	Level 1	Level 2	Level 3	Net Asset Value*	
Money market funds	1,028,533	-	-	-	1,028,533
Equity securities:					
Domestic	27,387,008	-	213,398	-	27,600,406
International and emerging markets	19,570,055	-	-	-	19,570,055
Fixed income securities:					
Corporate bonds	-	9,363,514	-	-	9,363,514
Government securities	-	11,199,856	-	-	11,199,856
Certificates of deposit	-	9,652,731	-	-	9,652,731
Preferred stock	43,406	-	-	-	43,406
Exchange-traded and closed-end funds	27,064	-	-	-	27,064
Alternative investments:					
Real estate investment trusts	3,816,445	-	-	-	3,816,445
Mutual funds	1,061,242	-	-	-	1,061,242
Beneficial interest in charitable remainder trust	-	-	1,150,730	-	1,150,730
Total assets in the fair value hierarchy	52,933,753	30,216,101	1,364,128	-	84,513,982
Hedge funds	-	-	-	12,755,327	12,755,327
Investments at fair value	<u>\$ 52,933,753</u>	<u>\$ 30,216,101</u>	<u>\$ 1,364,128</u>	<u>\$ 12,755,327</u>	<u>\$ 97,269,309</u>
Cash and cash equivalents					1,122,726
Total investments (Note 2)					<u>\$ 98,392,035</u>

\* In accordance with current accounting standards, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of financial position.

The following table shows a summary of changes in the fair value of the Central Office's Level 3 assets for the years ended June 30, 2019 and 2018:

	2019		Total
	Investment in Insurance Company	Charitable Remainder Trust	
Balance, beginning of year	213,398	1,150,730	1,364,128
Unrealized losses	-	(11,860)	(11,860)
Contributions	-	200,000	200,000
	<u>\$ 213,398</u>	<u>\$ 1,338,870</u>	<u>\$ 1,552,268</u>

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2019 and 2018

Note 11 - Fair Value Measurements (Continued)

	<u>2018</u>		
	<u>Investment in Insurance Company</u>	<u>Charitable Remainder Trust</u>	<u>Total</u>
Balance, beginning of year	213,398	1,007,265	1,220,663
Unrealized losses	-	(56,535)	(56,535)
Contributions	-	200,000	200,000
	<u>\$ 213,398</u>	<u>\$ 1,150,730</u>	<u>\$ 1,364,128</u>

Level 1 and 2 assets are valued using a market approach. Level 1 equity securities, fixed income securities, exchange traded and closed-end funds and alternative investments are valued based on published quotations of securities traded on active markets. Level 2 fixed income securities are valued using quoted prices for identical or similar assets in markets that are not active.

The method of valuing the level 3 charitable remainder trust is described in Note 2. The investment in the insurance company is valued at cost, which management has determined approximates fair value.

Investments measured at net asset value (NAV) represent units owned in a hedge fund portfolio, with varying investment strategies. Valuation of the hedge funds within the portfolio are at the NAV of the underlying investments held by the individual funds. NAV is used as the practical expedient to estimate fair value. This practical expedient would not be used if it is determined to be probable that the Central Office will sell the investment for an amount different from the reported NAV. Hedge funds investing in more liquid assets are valued daily using published market prices, whereas hedge funds investing in less liquid assets are valued at least monthly using prices for identical or similar assets in markets that are not active. The redemption frequency and redemption notice period varies between the individual hedge funds within the portfolio. If the Central Office initiates a full redemption, the investment advisor requires 30 days of notice. This redemption notice period is applicable only to the Central Office.

There were no changes in the valuation techniques during the current year. The inputs or valuation methodology used for valuing securities are not necessarily indicative of the risk associated with investing in those securities.

Note 12 - Donor-Designated Endowments

The Central Office follows the accounting guidance established by the Financial Accounting Standards Board for the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The guidance also requires certain disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) if the organization is subject to UPMIFA. The State of New Hampshire enacted UPMIFA effective July 1, 2008, the provisions of which apply to endowment funds existing on or established after that date. The Central Office has determined that donor restricted net assets meet the definition of endowment funds under UPMIFA.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2019 and 2018

Note 12 - Donor-Designated Endowments (Continued)

The Central Office's endowments consist of funds established for the benefit of the programs of the Diocese (see Note 1 (H)). As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Central Office has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the gift of donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Central Office retains in perpetuity 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 remaining portion of the donor-restricted endowment fund that is not retained in perpetuity is subject to appropriation for expenditure by the Central Office in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Central Office considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Central Office, and (7) the Central Office's investment policies.

Endowment net asset composition as of June 30, 2019 and 2018 and changes in endowment net assets for the years ended June 30, 2019 and 2018 are as follows:

	<u>2019</u> <u>With Donor</u> <u>Restrictions</u>	<u>2018</u> <u>With Donor</u> <u>Restrictions</u>
Endowment net assets, beginning of year	11,833,465	11,606,648
Contributions	204,000	211,261
Interest and dividends	54,691	16,580
Net appreciation in value of investments	327,757	459,655
Amounts appropriated for expenditure	<u>(794,015)</u>	<u>(460,679)</u>
Endowment net assets, end of year	<u>\$ 11,625,898</u>	<u>\$ 11,833,465</u>

*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 Central Office to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in net assets with donor restrictions. No significant deficiencies were reported in net assets with donor restrictions as of June 30, 2019.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2019 and 2018

Note 12 - Donor-Designated Endowments (Continued)

*Investment Return Objectives, Risk Parameters and Strategies.* The Central Office has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution not exceeding 5%, while growing the funds if possible. Therefore, the Central Office expects its endowment assets, over time, to produce a rate of return sufficient to provide for the annual distribution. Investment risk is measured in terms of the total endowment funds. Investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

*Spending Policy.* The Central Office has a policy of appropriating for distribution each year up to 5% of its endowment fund's average fair value of the previous three years. In addition, in the event that an amount in excess of the 5% threshold is required for any single year in order to accomplish the purposes for which a particular donor restricted fund has been established, the proposed appropriation shall be reviewed by the Diocesan Finance Council, which will then make a recommendation to the Bishop as to its concurrence or non-concurrence with the proposed appropriation. For fiscal year ending June 30, 2019 and 2018, a 4% distribution was recommended by the Diocese Finance Council and approved by the Bishop. In establishing this policy, the Central Office considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, some of which must be maintained in perpetuity because of donor-restrictions, the possible effects of inflation, and the provisions of SPMIFA.

Note 13 - Change in Accounting Principle

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities – Presentation of Financial Statements for Not-for-Profit Entities*. This ASU provides certain improvements in financial reporting for not-for-profit organizations and requires changes to net asset classifications, enhancements to liquidity presentation and disclosures, presentation of an analysis of expenses by function and by nature, netting of investment expenses with return, among other changes. The accounting guidance is effective for fiscal years beginning after December 15, 2017. The guidance is to be applied retrospectively for net asset classification changes.

The Central Office adopted 2016-14 during 2019. The Central Office believes this accounting guidance improves the information provided in the financial statements and related disclosure notes for the primary users of the financial statements. The beginning balances of the donor restricted net asset categories (temporarily and permanently restricted) have been retroactively adjusted to consolidate all donor restricted net assets into one classification, with donor restrictions. The descriptions in Note 1(H) have also been updated. In addition, the statements of functional expenses are included for an analysis of expenses by function and nature. Certain expenses in the prior year financial statements have been reclassified between program services and management and general to conform to the current year presentation.



CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2019 and 2018

Note 14 - Prior Period Adjustments

The accompanying 2018 financial statements have been restated to reflect prior period adjustments as reported in the June 30, 2018 Statement of Activities. Management determined during 2019 that two funds that had been classified as board designated net assets in prior years should have been classified as net assets with donor restrictions due to the specific purpose and source of the related donations. The restatement of \$963,321 had no effect on total net assets.

Note 15 - New Accounting Pronouncements

*Revenue Recognition*

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). This ASU, as amended, provides comprehensive guidance on the recognition of revenue from customers arising from the transfer of goods and services, guidance on accounting for certain contract costs, and new disclosures. The new standard supersedes current revenue recognition requirements in FASB Accounting Standards Codification (ASC) Topic 605, *Revenue Recognition*, and most industry-specific guidance. When adopted, the amendments in the ASU must be applied using one of two retrospective methods. ASU No. 2014-09 is effective for nonpublic companies for annual periods beginning after December 15, 2018. The Central Office is currently evaluating the impact of the provisions of ASC 606.

On June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958), *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update will assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and determining whether a transaction is conditional. The amendments in this update are effective for annual financial statements issued for fiscal years beginning after December 15, 2018, and for interim periods within fiscal years beginning after December 15, 2019, for transactions in which the entity serves as the resource recipient. Early application of the amendments in this update is permitted. The Central Office is currently evaluating the impact of the provisions of ASU Topic 958.

Note 16 - Subsequent Events

Management has evaluated subsequent events through February 10, 2020, the date when the financial statements were available to be issued.