

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

MANCHESTER, NEW HAMPSHIRE

JUNE 30, 2018 AND 2017

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 statement of financial position as of June 30, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As disclosed in Note 13, the Central Office early adopted an exemption for non-public entities included in ASU 2016-01 from applying the disclosure requirements related to the fair value of financial instruments in FASB ASC 825-10-50. Our opinion is not modified with respect to this matter.

Prior Period Financial Statements

The financial statements of the Central Office of the Diocese of Manchester as of June 30, 2017, were audited by Howe, Riley & Howe, PLLC, who merged with Wipfli LLP as of January 1, 2019, and whose report dated March 12, 2018 expressed an unmodified opinion on those financial statements.

Wipfli LLP

Bedford, New Hampshire
March 1, 2019

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Statements of Financial Position

June 30, 2018 and 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Diocesan cash	2,180,579	3,241,946
Central fund cash	2,675,142	1,463,099
Accounts receivable, net	467,920	494,174
Insurance receivable, net	2,250	24,672
Interest receivable	12,920	8,574
Prepaid expenses	231,972	199,597
Diocesan investments	33,187,756	25,887,507
Notes receivable, net of discounts and allowance for losses	8,005,137	9,490,368
Cash held for restrictive purposes	144,093	144,093
Central fund deposits and investments	65,204,279	60,218,794
Fixed assets, net	<u>328,912</u>	<u>317,107</u>
 Total assets	 <u>\$ 112,440,960</u>	 <u>\$ 101,489,931</u>

LIABILITIES AND NET ASSETS

Accounts payable and accrued expenses	699,253	509,742
Reserves and other liabilities	714,813	641,438
Funds held for others - special collections	472,895	516,333
Insurance liabilities	3,869,685	4,136,530
Central fund deposits and investments	61,384,759	58,248,171
Priest retirement benefit obligation	<u>16,822,267</u>	<u>14,256,878</u>
 Total liabilities	 <u>83,963,672</u>	 <u>78,309,092</u>
 NET ASSETS		
Unrestricted:		
Designated	7,581,674	4,150,730
Undesignated	<u>7,249,501</u>	<u>5,815,553</u>
	14,831,175	9,966,283
Temporarily restricted	5,340,577	5,058,477
Permanently restricted	<u>8,305,536</u>	<u>8,156,079</u>
 Total net assets	 <u>28,477,288</u>	 <u>23,180,839</u>
 Total	 <u>\$ 112,440,960</u>	 <u>\$ 101,489,931</u>

The accompanying notes are an integral part
of these financial statements.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Statement of Activities

For the Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES:				
Program revenue and assessments	6,619,711	-	-	6,619,711
Donations and bequests	3,340,935	180,557	211,186	3,732,678
Insurance	5,454,444	-	-	5,454,444
Investment income, net	1,531,204	2,709	21,598	1,555,511
Miscellaneous	540,673	-	-	540,673
Net assets released from restriction	529,912	(529,912)	-	-
	18,016,879	(346,646)	232,784	17,903,017
EXPENSES:				
Program:				
Christian formation	3,022,676	-	-	3,022,676
Pastoral services	1,318,125	-	-	1,318,125
Seminary	491,803	-	-	491,803
Missions	409,416	-	-	409,416
Tribunal	488,165	-	-	488,165
Donations	376,598	-	-	376,598
Other programs	1,580,108	-	-	1,580,108
Periodic pension cost - Diocesan Priests	676,850	-	-	676,850
	8,363,741	-	-	8,363,741
Administrative and support expenses:				
Insurance expenses	1,977,778	-	-	1,977,778
Operating expenses	3,097,520	-	-	3,097,520
	13,439,039	-	-	13,439,039
Retirement-related changes other than net periodic retirement costs	1,936,989	-	-	1,936,989
Change in net assets before net realized and unrealized gains (losses)	2,640,851	(346,646)	232,784	2,526,989
NET REALIZED AND UNREALIZED GAINS (LOSSES):				
Diocesan investments	600,279	624,126	(75,707)	1,148,698
Central fund deposits and investments	2,213,600	-	-	2,213,600
	2,813,879	624,126	(75,707)	3,362,298
TRANSFERS	-	7,620	(7,620)	-
INTEREST EXPENSE	(589,838)	(3,000)	-	(592,838)
CHANGE IN NET ASSETS	4,864,892	282,100	149,457	5,296,449
NET ASSETS - beginning of year	9,966,283	5,058,477	8,156,079	23,180,839
NET ASSETS - end of year	\$ 14,831,175	\$ 5,340,577	\$ 8,305,536	\$ 28,477,288

The accompanying notes are an integral part
of these financial statements.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Statement of Activities

For the Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES:				
Program revenue and assessments	6,647,493	-	-	6,647,493
Donations and bequests	161,392	127,631	138,151	427,174
Insurance	5,420,254	-	-	5,420,254
Investment income (loss), net	1,306,326	4,390	(2,347)	1,308,369
Miscellaneous	279,589	-	-	279,589
Net assets released from restriction	728,731	(728,731)	-	-
	<u>14,543,785</u>	<u>(596,710)</u>	<u>135,804</u>	<u>14,082,879</u>
EXPENSES:				
Program:				
Christian formation	2,981,177	-	-	2,981,177
Pastoral services	1,298,036	-	-	1,298,036
Seminary	501,735	-	-	501,735
Missions	244,028	-	-	244,028
Tribunal	504,198	-	-	504,198
Donations	222,941	-	-	222,941
Other programs	439,460	-	-	439,460
Periodic pension cost - Diocesan Priests	746,411	-	-	746,411
	<u>6,937,986</u>	<u>-</u>	<u>-</u>	<u>6,937,986</u>
Administrative and support expenses:				
Insurance expenses	3,447,687	-	-	3,447,687
Operating expenses	2,745,365	-	-	2,745,365
	<u>13,131,038</u>	<u>-</u>	<u>-</u>	<u>13,131,038</u>
Retirement-related changes other than net periodic retirement costs	<u>(1,964,505)</u>	<u>-</u>	<u>-</u>	<u>(1,964,505)</u>
Change in net assets before net realized and unrealized gains (losses)	<u>3,377,252</u>	<u>(596,710)</u>	<u>135,804</u>	<u>2,916,346</u>
NET REALIZED AND UNREALIZED GAINS (LOSSES):				
Diocesan investments	617,573	836,575	(29,098)	1,425,050
Central fund deposits and investments	2,768,342	-	-	2,768,342
	<u>3,385,915</u>	<u>836,575</u>	<u>(29,098)</u>	<u>4,193,392</u>
TRANSFERS	-	91,596	(91,596)	-
INTEREST EXPENSE	<u>(622,064)</u>	<u>(6,000)</u>	<u>-</u>	<u>(628,064)</u>
CHANGE IN NET ASSETS	6,141,103	325,461	15,110	6,481,674
NET ASSETS - beginning of year	<u>3,825,180</u>	<u>4,733,016</u>	<u>8,140,969</u>	<u>16,699,165</u>
NET ASSETS - end of year	<u>\$ 9,966,283</u>	<u>\$ 5,058,477</u>	<u>\$ 8,156,079</u>	<u>\$ 23,180,839</u>

The accompanying notes are an integral part
of these financial statements.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Statements of Cash Flows

For the Years Ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	5,296,449	6,481,674
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	65,479	80,432
Gain on disposal of fixed assets	(121,154)	-
Reinvested investment income	(78,031)	(1,554)
Net realized and unrealized gains	(3,362,298)	(4,193,392)
Provision for losses on notes receivable	142,826	123,174
Provision for losses on accounts receivable	119,420	-
Adjustment for losses on notes receivable	-	113
Non-cash donations	(200,000)	(100,000)
Decrease (increase) in:		
Accounts receivable	(93,166)	114,246
Insurance receivable	22,422	18,932
Interest receivable	(4,346)	(2,620)
Prepaid expenses	(32,375)	116,113
Increase (decrease) in:		
Accounts payable and accrued expenses	189,511	29,917
Reserves and other liabilities	73,375	227,356
Funds held for others - special collections	(43,438)	(59,103)
Insurance liabilities	(266,845)	901,624
Priest retirement benefit obligation	2,565,389	(2,227,078)
Net cash provided by operating activities	4,273,218	1,509,834
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(67,023,469)	(42,445,351)
Proceeds from sale of investments	60,067,856	37,988,150
Amounts advanced on notes receivable	(119,641)	(805,789)
Collections on notes receivable	1,462,046	1,560,968
Proceeds from sale of fixed assets	148,976	-
Purchase of fixed assets	(105,106)	(77,917)
Net cash used for investing activities	(5,569,338)	(3,779,939)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (decrease) in central fund deposits and investments, net	1,446,796	(1,307,522)
Repayments of mortgage note payable	-	(3,228,354)
Net cash provided by (used for) financing activities	1,446,796	(4,535,876)

(Continued)

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Statements of Cash Flows

For the Years Ended June 30, 2018 and 2017

(Continued)

	<u>2018</u>	<u>2017</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	150,676	(6,805,981)
CASH AND CASH EQUIVALENTS - beginning of year	<u>4,705,045</u>	<u>11,511,026</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 4,855,721</u>	<u>\$ 4,705,045</u>
RECONCILIATION TO STATEMENTS OF FINANCIAL POSITION:		
DIOCESAN CASH	2,180,579	3,241,946
CENTRAL FUND CASH	<u>2,675,142</u>	<u>1,463,099</u>
TOTAL CASH AND CASH EQUIVALENTS - end of year	<u>\$ 4,855,721</u>	<u>\$ 4,705,045</u>
<u>SUPPLEMENTAL DISCLOSURES:</u>		
Interest paid (including interest paid on deposits payable)	<u>\$ 589,838</u>	<u>\$ 622,064</u>

For the years ended June 30, 2018 and 2017, net activity on investment funds held for related entities was \$1,689,792 and \$6,105,822, respectively.

The accompanying notes are an integral part
of these financial statements.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2018 and 2017

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 the Temporarily and Permanently Restricted Funds of the Diocese. The Operating Fund includes program, administrative and support services of the Central Office which are comprised of Christian formation, pastoral services, seminary, missionary, finance, real estate, insurance and administrative support services. The Central Fund holds in trust and manages the deposits and investments of the various affiliates of the Diocese of Manchester as described in Note 5 (\$61,384,759 in 2018 and \$58,248,171 in 2017). 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 affiliates.

The accompanying financial statements exclude the assets, liabilities, net assets and financial activities of various affiliates which maintain separate financial records and carry on their own services and programs, including the individual parishes, schools, cemeteries, camps, New Hampshire Catholic Charities, 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, 2018 and 2017

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 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.

The Central Office customarily maintains amounts on deposit in various bank accounts in excess of the Federal deposit insurance coverage amounts. Deposits totaling approximately \$4,730,000 (prior to outstanding items clearing the bank) at June 30, 2018 are not covered by Federal deposit insurance.

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

	<u>2018</u>	<u>2017</u>
Diocesan cash	2,180,579	3,241,946
Central fund cash	<u>2,675,142</u>	<u>1,463,099</u>
	<u>\$ 4,855,721</u>	<u>\$ 4,705,045</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 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, 2018 and 2017 are reported net of an allowance for uncollectible accounts of \$431,661 and \$312,241, respectively. Aggregate accounts receivable past due 90 days or more were approximately \$493,000 and \$435,000 as of June 30, 2018 and 2017, 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, 2018 and 2017

Note 1 - (E) Investments (Continued)

Purchases and sales of securities are recorded on a trade-date basis. Interest is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the statements of activities.

(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, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Land	2,129	2,129
Buildings	651,646	651,646
Building improvements	1,286,906	1,317,056
Furniture and other equipment	335,816	355,841
Computer equipment and software	<u>318,680</u>	<u>336,003</u>
	2,595,177	2,662,675
Less: accumulated depreciation	<u>2,266,265</u>	<u>2,345,568</u>
Fixed assets, net	<u>\$ 328,912</u>	<u>\$ 317,107</u>

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2018 and 2017

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 \$65,479 and \$80,432 during 2018 and 2017, respectively.

Included in fixed assets in the accompanying statements of financial position are assets with a net book value of \$110,348 and \$81,044 as of June 30, 2018 and 2017, respectively, which are restricted by the donor for use as the Bishop's residence.

(H) Restricted Support

The Central Office reports gifts of cash, fixed assets and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities. In the absence of donor-imposed stipulations regarding how long donated fixed assets must be used, the Central Office has adopted a policy of reporting the expiration of donor restrictions when the donated or acquired long-lived assets are placed in service. The Central Office has also adopted a policy of treating restricted donations received, whose restrictions are met within the same year, as unrestricted donations. The Central Office has a similar policy with respect to investment income earned on these funds.

Designated net assets represent net assets that have been designated by the Central Office for the following purposes at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Priest housing	3,304,889	-
Missionary support	884,356	854,421
School education fund	307,898	373,403
Priests continuing formation	788,547	723,529
Medical needs of priests	765,384	757,273
Worship and world youth day	10,070	10,070
Campus ministry	124,925	124,925
Youth ministry	442,705	442,705
St. Joseph Cathedral	157,344	151,709
Permanent Diaconate Continuing Formation	<u>795,556</u>	<u>712,695</u>
	<u>\$ 7,581,674</u>	<u>\$ 4,150,730</u>

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2018 and 2017

Note 1 - (H) Restricted Support (Continued)

Temporarily restricted net assets are available for the following purposes at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Seminarians	597,881	639,625
Missionary support	68,813	65,461
Parish masses	357,126	342,091
For specific schools	183,406	174,544
Education	1,376,132	1,180,910
For specific parishes	364,606	351,948
Missionary, Catholic education, retired priests and parish support	1,633,971	1,575,457
Non-capital purposes	233,705	225,640
For specific geographical region	220,215	219,285
Other various purposes	<u>304,722</u>	<u>283,516</u>
	<u>\$ 5,340,577</u>	<u>\$ 5,058,477</u>

Permanently restricted net assets are restricted to investment in perpetuity and were as follows at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Missionary, Catholic education, retired priests and parish support	4,338,143	4,338,143
Seminarians	649,323	638,295
Care of gravesites	34,417	34,417
Scholarships, education and tuition	2,314,275	2,168,252
Care of needy	12,672	12,672
General purposes for specific parishes	754,124	761,744
Other various purposes	<u>202,582</u>	<u>202,556</u>
	<u>\$ 8,305,536</u>	<u>\$ 8,156,079</u>

The income from permanently restricted net assets is expendable for the purposes described above.

(I) Salary and Expense Allocations

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 determined by the Central Office.

(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.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2018 and 2017

Note 1 - (J) Federal and State Income Taxes (Continued)

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, 2018, 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 its affiliated agencies and funds 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 assets held for restricted purposes in the accompanying financial statements using an assumed rate of return of 6% in 2018 and 2017, and discounted at 4.10% in 2018 and 3.75% in 2017 (\$1,150,730 and \$1,007,265 at June 30, 2018 and 2017, respectively). The fair value of the trust assets was \$1,943,311 and \$1,761,957 at June 30, 2018 and 2017, respectively.

The investments reported in the statements of financial position include the marketable securities and hedge funds held in the Central Fund and the beneficial interest in the trust, in addition to other marketable securities held by the Central Office and the temporarily and permanently restricted funds.

Investments are included in the accompanying financial statements as follows:

	<u>2018</u>	<u>2017</u>
Diocesan investments	33,187,756	25,887,507
Central fund deposits and investments	<u>65,204,279</u>	<u>60,218,794</u>
	<u>\$ 98,392,035</u>	<u>\$ 86,106,301</u>

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER
Notes to Financial Statements
June 30, 2018 and 2017

Note 2 - Investments (Continued)

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

	2018	2017
Dividends, interest and other income	1,663,656	1,383,117
Investment fees paid, net	(108,145)	(74,748)
Total investment income, net	\$ 1,555,511	\$ 1,308,369

Investment income is accounted for in the fund holding the assets, except for certain income from investments of permanently restricted funds, which is accounted for as unrestricted revenue or, if subject to donor restrictions, as temporarily restricted revenue until the terms of the restriction have been met. The Central Office follows the guidance established by the Financial Accounting Standards Board when accounting for losses in permanently restricted endowment funds (see Note 12).

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

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 (4.25% in 2018 and 4.00% in 2017).

Interest income on notes receivable was \$381,318 in 2018. Interest income was \$397,618 in 2017.

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, 2018 and 2017.

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. An additional grace period was granted only for determining current status as of June 30, 2017, due to a change in the payment mailing address effective on July 1, 2017. 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, 2018 and 2017 were \$7,944,718 and \$9,603,812, respectively. Non-performing notes receivables as of June 30, 2018 and 2017 were \$2,443,419 and \$2,126,730, respectively.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER
Notes to Financial Statements
June 30, 2018 and 2017

Note 3 - Notes Receivable (Continued)

The following reflects the age analysis of notes receivable as of June 30, 2018 and 2017, respectively:

	<u>2018</u>	<u>2017</u>
Current	7,944,718	9,603,812
30 - 59 days	647,768	590,486
60 - 89 days	233,711	-
90+ days	<u>1,561,940</u>	<u>1,536,244</u>
Total notes receivable	<u>\$ 10,388,137</u>	<u>\$ 11,730,542</u>
Total notes receivable on non-accrual status	<u>\$ 1,503,643</u>	<u>\$ 1,791,107</u>
Notes receivable 90+ days past due and still accruing	<u>\$ 313,582</u>	<u>\$ 166,051</u>

The following provides informative data at June 30, 2018 and 2017, 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>2018</u>	<u>2017</u>
Impaired loans for which no allowance for credit losses is recognized:		
Recorded investment	\$ 2,401,467	\$ 2,080,435
Unpaid principal balance	2,401,467	2,080,435
Average recorded investment	2,240,951	2,681,408
Interest income recognized while impaired	69,118	36,755
Impaired loans for which an allowance for credit losses is recognized:		
Recorded investment	2,905,884	2,831,215
Unpaid principal balance	2,905,884	2,831,215
Average recorded investment	2,868,550	2,600,392
Interest income recognized while impaired	84,513	73,088

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER
Notes to Financial Statements
June 30, 2018 and 2017

Note 3 - Notes Receivable (Continued)

The following reflects the allowance for losses and the related recorded investment in notes receivable as of June 30, 2018 and 2017, respectively:

	2018	2017
Allowance for losses:		
Beginning balance	2,240,174	2,117,000
Provision	142,826	123,174
Ending balance	\$ 2,383,000	\$ 2,240,174
Ending balance: individually evaluated for impairment	2,231,000	2,035,174
Ending balance: aggregate remaining balance evaluated for impairment	152,000	205,000
Ending balance	\$ 2,383,000	\$ 2,240,174
Recorded investment in notes receivable:		
Ending balance: individually evaluated for impairment	5,307,351	4,911,650
Ending balance: aggregate remaining balance evaluated for impairment	5,080,786	6,818,892
Ending balance	\$ 10,388,137	\$ 11,730,542

There were no changes to the accounting policy for notes receivable for the years ended June 30, 2018 and 2017. There were no purchases, sales, or reclassifications of notes receivables for the years ended June 30, 2018 and 2017.

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 and \$4,320 in 2018 and 2017, respectively.

The Central Office enters into various transactions with New Hampshire Catholic Charities, also a Diocesan entity, 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 New Hampshire Catholic Charities:

	2018	2017
Rent received	\$ 98,556	\$ 98,750
Program costs paid	69,000	26,800

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2018 and 2017

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 affiliates (parishes, schools, cemeteries, diocesan employee benefit plans and New Hampshire Catholic Charities) 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>2018</u>	<u>2017</u>
Assessments received (excluding insurance)	\$ 5,976,520	\$ 5,981,340
Insurance revenue (see Note 8)	5,454,444	5,420,254
Grants, subsidies and donations paid	1,905,258	1,829,549
Investment management fees earned	322,113	266,525

Amounts due from the parishes and other affiliates, primarily for assessments, insurance and interest (net of allowance) was \$467,920 and \$494,174 at June 30, 2018 and 2017, respectively. Amounts due to the parishes and other affiliates at June 30, 2018 and 2017 were \$299,722 and \$180,389, respectively.

Assets of the Central Fund (Note 2) are held for related 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 2018 and 2017 was approximately \$500,000 and \$355,000, respectively.

The Central Office provides certain administrative services related to the operation of the Plan. The amount billed to the Plan was \$84,000 in 2017.

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 1.25% and 1.0% in 2018 and 2017, respectively. Interest is paid at 2.6% to cemeteries with deposits in the Perpetual Care Fund. Amounts are due on demand. Interest expense on deposits was \$580,503 and \$497,200 for 2018 and 2017, respectively. In addition, the Central Office maintains the pooled investments on behalf of the Sick Priests Fund as well as 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, 2018 and 2017, consist of the following:

	<u>2018</u>	<u>2017</u>
Due to:		
Parishes	36,294,023	33,048,435
Cemeteries	12,980,256	12,713,599
Schools	7,533,736	8,524,252
Sick Priests Fund	3,176,345	2,803,987
Other Diocesan entities	<u>1,400,399</u>	<u>1,157,898</u>
	<u>\$ 61,384,759</u>	<u>\$ 58,248,171</u>

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER
Notes to Financial Statements
June 30, 2018 and 2017

Note 6 - Mortgage Note Payable

The Central Office issued a 15-year mortgage note to an insurance company which was payable in equal monthly installments for principal and interest of \$37,974 through October 2025. The note bore interest at 6% and was collateralized by a first mortgage interest in certain real estate owned by the Diocese.

Interest expense for this loan amounted to \$119,167 during 2017. The outstanding balance of the loan was paid in full during 2017.

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. Contributions to the plan are based on 3% of eligible wages. Total contributions to this plan during 2018 and 2017 amounted to \$110,798 and \$96,683, 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 unrestricted (designated) 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 unrestricted (undesignated) assets of the Central Office, not from the Diocesan Priest Retirement Fund or Diocesan assessment revenue from parishes.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2018 and 2017

Note 7 - (B) Diocesan Priests (Continued)

Effective July 1, 2018, the monthly stipend increased from \$1,700 to \$1,734 for retired priests and will generally increase each year consistent with the timing and percentage of the annual stipend increase for active priests. However, any annual adjustment will ultimately require approval from the Bishop of Manchester. This resulted in an increase of \$5,334,309 to the priest retirement benefit obligation. During 2017, the monthly stipend increased from \$1,600 to \$1,700 for retired priests and from \$2,000 to \$2,250 for retired bishops. This resulted in an increase of \$1,050,204 to the priest retirement benefit obligation.

The actuarial assumptions for the mortality, discount rates, and trend rates were changed during the years ended June 30, 2018 and 2017. The changes in these actuarial assumptions decreased the priest retirement benefit obligation by approximately \$821,000 and \$177,000, respectively.

The following information relates to the Diocesan Priest Retirement Plan, Medical Insurance Fund and Sustenance Program, and includes amounts determined as of June 30, 2018 and 2017 measurement dates:

	2018			2017		
	<u>Diocesan Priests Retirement Plan</u>	<u>Medical Insurance Fund</u>	<u>Sustenance Program</u>	<u>Diocesan Priests Retirement Plan</u>	<u>Medical Insurance Fund</u>	<u>Sustenance Program</u>
Projected benefit obligation	(26,799,711)	(1,610,182)	(840,225)	(22,882,661)	(1,622,206)	(888,675)
Fair value of plan assets	<u>12,427,851</u>	<u>-</u>	<u>-</u>	<u>11,136,664</u>	<u>-</u>	<u>-</u>
Funded status	<u>\$ (14,371,860)</u>	<u>\$(1,610,182)</u>	<u>\$ (840,225)</u>	<u>\$ (11,745,997)</u>	<u>\$(1,622,206)</u>	<u>\$ (888,675)</u>

The following components of the projected benefit obligation of the Diocesan Priest Retirement Plan at June 30, 2018 and 2017 have not been recognized as periodic pension costs:

	2018	2017
Unrecognized prior service cost	\$ 7,780,567	\$ 2,626,892
Unrecognized net loss	\$ 646,030	\$ 2,290,831

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER
Notes to Financial Statements
June 30, 2018 and 2017

Note 7 - (B) Diocesan Priests (Continued)

Significant assumptions at June 30, 2018 and 2017 include:

	2018			2017		
	Diocesan Priests Retirement Plan	Medical Insurance Fund	Sustenance Program	Diocesan Priests Retirement Plan	Medical Insurance Fund	Sustenance Program
Discount rate	4.10%	4.10%	4.10%	3.75%	3.75%	3.75%
Expected return on plan assets	6.00%	N/A	6.00%	6.00%	N/A	6.00%
Annual cost increases:						
Medical and dental	6.5% trending to 4.0%	6.5% trending to 4.0%	6.5% trending to 4.0%	5.5% trending to 4.0%	5.5% trending to 4.0%	5.5% trending to 4.0%
Automobile insurance premiums	2.5%	N/A	2.5%	3.0%	N/A	3.0%
Year that the rate reaches the ultimate trend rate	2025	2025	2025	2020	2020	2020
Rate of compensation increase	2.5%	N/A	N/A	N/A	N/A	N/A
Mortality	RP-2014 White Collar Mortality Table projected fully generational with scale MP-2017			RP-2014 White Collar Mortality Table projected fully generational with scale MP-2016		
Benefit cost	688,874	(12,024)	(85,696)	836,520	(90,109)	(847,915)
Employer contributions and donations	1,647,243	-	134,146	1,678,910	-	161,069
Participant contributions	52,000	-	-	51,750	-	-
Benefits paid	1,021,455	30,134	134,146	1,067,818	31,335	161,069

The net periodic pension cost consists of:

	2018	2017
Diocesan Priest Retirement Plan:		
Amortization of prior service costs	180,634	120,929
Investment return	(770,138)	(588,811)
Current service cost	444,845	418,375
Interest cost	833,353	767,110
Amortization of gains or losses	180	118,917
Medical insurance fund	(12,024)	(90,109)
Total	<u>\$ 676,850</u>	<u>\$ 746,411</u>

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

	2018	2017
Amortization of prior service costs	(180,634)	(120,929)
Current year (gain) loss not yet recognized	3,139,078	(775,758)
Funding by affiliates	<u>(1,021,455)</u>	<u>(1,067,818)</u>
	<u>\$ 1,936,989</u>	<u>\$ (1,964,505)</u>

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2018 and 2017

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, 2018	\$ 19,102,398	\$ 915,870	\$ 777,530
June 30, 2017	\$ 20,338,113	\$ 949,146	\$ 828,805

The Central Office expects to contribute approximately \$1,787,680 to the Retirement Plan during the year ending June 30, 2019. 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>
2019	\$ 1,293,000	\$ 61,157	\$ 111,554
2020	1,366,000	66,776	104,832
2021	1,394,000	70,032	97,695
2022	1,430,000	73,411	90,283
2023	1,498,000	78,273	82,737
2024 - 2028	8,261,000	449,825	306,809

Assets of the Trust are invested with other marketable securities and hedge funds of the Central Office and its affiliated agencies (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, 2018 and 2017

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, 2018 and 2017:

	2018				
	Level 1	Level 2	Level 3	Net Asset Value*	Total
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>
	2017				
	Level 1	Level 2	Level 3	Net Asset Value*	Total
Money market funds	40,419	-	-	-	40,419
Equity securities:					
Domestic	2,770,334	-	-	-	2,770,334
International and emerging markets	1,682,301	-	-	-	1,682,301
Fixed income securities:					
Corporate bonds	-	1,864,732	-	-	1,864,732
Government securities	-	671,828	-	-	671,828
Certificates of deposit	-	1,144,838	-	-	1,144,838
Preferred stock	7,647	-	-	-	7,647
Alternative investments:					
Real estate investment trusts	467,549	-	-	-	467,549
 Total assets in the fair value hierarchy	 4,968,250	 3,681,398	 -	 -	 8,649,648
Hedge funds	-	-	-	1,682,300	1,682,300
Investments at fair value	<u>\$ 4,968,250</u>	<u>\$ 3,681,398</u>	<u>\$ -</u>	<u>\$ 1,682,300</u>	<u>\$10,331,948</u>
Cash and cash equivalents					<u>592,082</u>
Total investments					<u>\$10,924,030</u>

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2018 and 2017

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 affiliated entities for the payment of claims. The Central Office 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 \$2,250 and \$24,672 at June 30, 2018 and 2017, respectively, and have been recorded as insurance receivable in the accompanying statements of financial position.

The following summarizes the estimated liability for unpaid claims at June 30, 2018 and 2017:

<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	<u>1,227,141</u>	<u>-</u>	<u>1,227,141</u>
	<u>\$ 2,744,173</u>	<u>\$ 1,125,512</u>	<u>\$ 3,869,685</u>

<u>Type</u>	<u>2017</u>		
	<u>Claims Payable, net</u>	<u>IBNR</u>	<u>Total</u>
Liability	1,397,816	810,332	2,208,148
Property	193,401	433,890	627,291
Workers' compensation	<u>1,301,091</u>	<u>-</u>	<u>1,301,091</u>
	<u>\$ 2,892,308</u>	<u>\$ 1,244,222</u>	<u>\$ 4,136,530</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.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2018 and 2017

Note 8 - Insurance (Continued)

Claims and legal expense paid for all of the above coverages amounted to approximately \$1,671,000 and \$742,000 in 2018 and 2017, respectively.

Note 9 - Contingencies

Through June 30, 2018, numerous claims and lawsuits have been filed against the Diocese of Manchester regarding reports of sexual misconduct with minors by some priests and others associated with the Diocese.

The Diocese has entered into settlement agreements with a substantial number of the complainants. Under the terms of the agreements through June 30, 2018, the Diocese has agreed to pay \$26,946,050 to the complainants, and the complainants have agreed to withdraw their claims. The cost of the settlements, including a provision for pending settlements, net of estimated insurance recoveries of approximately \$8,813,000, has been provided for as an expense in the year in which the liability for payment was determined to be probable and the amount was subject to reasonable estimation.

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, 2018 and 2017

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, 2018 and 2017:

	2018			Net Asset Value*	Total
	Level 1	Level 2	Level 3		
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					<u>1,122,726</u>
Total investments (Note 2)					<u>\$98,392,035</u>

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2018 and 2017

Note 11 - Fair Value Measurements (Continued)

	2017				Total
	Level 1	Level 2	Level 3	Net Asset Value*	
Money market funds	314,499	-	-	-	314,499
Equity securities:					
Domestic	21,646,998	-	213,398	-	21,860,396
International and emerging markets	13,041,848	-	-	-	13,041,848
Fixed income securities:					
Corporate bonds	-	14,452,169	-	-	14,452,169
Government securities	-	5,208,073	-	-	5,208,073
Certificates of deposit	-	8,874,021	-	-	8,874,021
Preferred stock	59,512	-	-	-	59,512
Exchange-traded and closed-end funds	32,958	-	-	-	32,958
Alternative investments:					
Real estate investment trusts	3,624,816	-	-	-	3,624,816
Beneficial interest in charitable remainder trust	-	-	<u>1,007,265</u>	-	<u>1,007,265</u>
Total assets in the fair value hierarchy	38,720,631	28,534,263	1,220,663	-	68,475,557
Hedge funds	-	-	-	<u>13,042,429</u>	<u>13,042,429</u>
Investments at fair value	<u>\$ 38,720,631</u>	<u>\$28,534,263</u>	<u>\$ 1,220,663</u>	<u>\$13,042,429</u>	<u>\$81,517,986</u>
Cash and cash equivalents					<u>4,588,315</u>
Total investments (Note 2)					<u>\$86,106,301</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, 2018 and 2017:

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

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June 30, 2018 and 2017

Note 11 - Fair Value Measurements (Continued)

	<u>2017</u>		
	<u>Investment in Insurance Company</u>	<u>Charitable Remainder Trust</u>	<u>Total</u>
Balance, beginning of year	213,398	943,656	1,157,054
Unrealized losses	-	(36,391)	(36,391)
Contributions	-	100,000	100,000
	<u>\$ 213,398</u>	<u>\$ 1,007,265</u>	<u>\$ 1,220,663</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 permanently restricted net assets meet the definition of endowment funds under UPMIFA.

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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 classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated 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, 2018 and 2017 and changes in endowment net assets for the years ended June 30, 2018 and 2017 are as follows:

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	-	3,450,569	8,156,079	11,606,648
Contributions	-	75	211,186	211,261
Transfers	-	7,620	(7,620)	-
Interest and dividends	-	16,580	-	16,580
Net appreciation (depreciation) in value of investments	-	513,764	(54,109)	459,655
Amounts appropriated for expenditure	-	(460,679)	-	(460,679)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 3,527,929</u>	<u>\$ 8,305,536</u>	<u>\$ 11,833,465</u>

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Notes to Financial Statements

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Note 12 - Donor-Designated Endowments (Continued)

	2017			Total
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment net assets, beginning of year	(1,363)	3,213,893	8,140,968	11,353,498
Contributions	-	94,212	138,152	232,364
Interest and dividends	-	(3,150)	-	(3,150)
Net appreciation (depreciation) in value of investments	1,363	719,901	(31,445)	689,819
Amounts appropriated for expenditure	-	(574,287)	(91,596)	(665,883)
Endowment net assets, end of year	\$ -	\$ 3,450,569	\$ 8,156,079	\$ 11,606,648

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. No significant deficiencies were reported in temporarily restricted or unrestricted net assets as of June 30, 2018.

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, 2018 and 2017, 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.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

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Note 13 - Change in Accounting Principle

During 2016, the FASB issued 2016-01 to provide targeted improvements to recognition, measurement, presentation and disclosure of financial instruments. The guidance is effective for fiscal years beginning after December 15, 2018. The guidance includes an exemption for non-public entities from applying the disclosure requirements related to the fair value of financial instruments in FASB ASC 825-10-50. Early adoption of the exemption is permitted and is to be applied prospectively. Management has elected to early adopt the exemption in 2018. The Central Office believes this accounting guidance simplifies and improves the information provided in the financial statements for the primary users.

Note 14 - Subsequent Events

Management has evaluated subsequent events through March 1, 2019, the date when the financial statements were available to be issued.