



INDEPENDENT AUDITORS' 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, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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

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, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Howe, Riley & Howe, PLLC

Manchester, New Hampshire
November 4, 2015

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Statements of Financial Position

June 30, 2015 and 2014

ASSETS

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	8,361,576	11,197,000
Accounts receivable, net	684,145	951,152
Insurance receivable, net	125,341	359,734
Interest receivable	8,659	8,642
Prepaid expenses	208,354	296,921
Investments in marketable securities	57,505,610	56,356,921
Notes receivable, net of discounts and allowance for losses	10,715,226	9,250,682
Cash held for restrictive purposes	144,093	144,093
Assets held for restricted purposes	14,887,579	15,465,807
Fixed assets, net	<u>308,616</u>	<u>356,892</u>
 Total assets	 <u>\$ 92,949,199</u>	 <u>\$ 94,387,844</u>

LIABILITIES AND NET ASSETS (DEFICIT)

Accounts payable and accrued expenses	497,576	507,546
Funds held for others - special collections	579,426	519,494
Insurance liabilities	3,844,719	4,136,481
Deposits payable	51,928,036	54,173,473
Mortgage note payable	3,481,967	3,740,375
Priest retirement benefit obligation	<u>17,284,190</u>	<u>16,828,908</u>
 Total liabilities	 <u>77,615,914</u>	 <u>79,906,277</u>
 NET ASSETS (DEFICIT)		
Unrestricted:		
Designated	3,743,709	3,649,138
Undesignated	<u>(1,859,676)</u>	<u>(3,209,090)</u>
	1,884,033	440,048
 Temporarily restricted	5,413,498	6,071,124
Permanently restricted	<u>8,035,754</u>	<u>7,970,395</u>
 Total net assets	 <u>15,333,285</u>	 <u>14,481,567</u>
 Total	 <u>\$ 92,949,199</u>	 <u>\$ 94,387,844</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, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES:				
Program revenue and assessments	6,716,315	-	-	6,716,315
Donations and bequests	158,923	32,938	60,504	252,365
Insurance	5,323,268	-	-	5,323,268
Miscellaneous	280,771	-	-	280,771
Net assets released from restriction	668,302	(668,302)	-	-
	<u>13,147,579</u>	<u>(635,364)</u>	<u>60,504</u>	<u>12,572,719</u>
EXPENSES:				
Program:				
Christian formation	3,024,596	-	-	3,024,596
Pastoral services	1,287,494	-	-	1,287,494
Seminary	301,428	-	-	301,428
Missions	313,358	-	-	313,358
Tribunal	417,810	-	-	417,810
Donations	167,784	-	-	167,784
Other programs	1,212,204	-	-	1,212,204
Periodic pension cost - Diocesan Priests	863,918	-	-	863,918
	<u>7,588,592</u>	<u>-</u>	<u>-</u>	<u>7,588,592</u>
Administrative and support expenses:				
Insurance expenses	2,311,249	-	-	2,311,249
Operating expenses	2,769,312	-	-	2,769,312
	<u>12,669,153</u>	<u>-</u>	<u>-</u>	<u>12,669,153</u>
Retirement-related changes other than net periodic retirement costs	(205,622)	-	-	(205,622)
Change in net assets before net investment income and interest expense	684,048	(635,364)	60,504	109,188
INVESTMENT INCOME (LOSS), NET	1,396,385	19,588	(30,145)	1,385,828
TRANSFERS	-	(35,000)	35,000	-
INTEREST EXPENSE	(636,448)	(6,850)	-	(643,298)
CHANGE IN NET ASSETS	1,443,985	(657,626)	65,359	851,718
NET ASSETS - beginning of year	440,048	6,071,124	7,970,395	14,481,567
NET ASSETS - end of year	<u>\$ 1,884,033</u>	<u>\$ 5,413,498</u>	<u>\$ 8,035,754</u>	<u>\$ 15,333,285</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, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES:				
Program revenue and assessments	6,912,234	-	-	6,912,234
Donations and bequests	130,160	22,097	250,225	402,482
Insurance	4,978,600	-	-	4,978,600
Miscellaneous	269,686	-	-	269,686
Net assets released from restriction	679,211	(679,211)	-	-
	<u>12,969,891</u>	<u>(657,114)</u>	<u>250,225</u>	<u>12,563,002</u>
EXPENSES:				
Program:				
Christian formation	3,192,768	-	-	3,192,768
Pastoral services	1,334,881	-	-	1,334,881
Seminary	372,879	-	-	372,879
Missions	249,243	-	-	249,243
Tribunal	413,107	-	-	413,107
Donations	194,312	-	-	194,312
Other programs	1,033,183	-	-	1,033,183
Periodic pension cost - Diocesan Priests	905,350	-	-	905,350
	<u>7,695,723</u>	<u>-</u>	<u>-</u>	<u>7,695,723</u>
Administrative and support expenses:				
Insurance expenses	2,813,453	-	-	2,813,453
Operating expenses	2,263,985	-	-	2,263,985
	<u>12,773,161</u>	<u>-</u>	<u>-</u>	<u>12,773,161</u>
Retirement-related changes other than net periodic retirement costs	<u>(2,767,794)</u>	<u>-</u>	<u>-</u>	<u>(2,767,794)</u>
Change in net assets before net investment income and interest expense	2,964,524	(657,114)	250,225	2,557,635
INVESTMENT INCOME, NET	6,904,666	1,719,304	10,121	8,634,091
INTEREST EXPENSE	<u>(660,853)</u>	<u>(4,234)</u>	<u>-</u>	<u>(665,087)</u>
CHANGE IN NET ASSETS	9,208,337	1,057,956	260,346	10,526,639
NET ASSETS (DEFICIT) - beginning of year	<u>(8,768,289)</u>	<u>5,013,168</u>	<u>7,710,049</u>	<u>3,954,928</u>
NET ASSETS - end of year	<u>\$ 440,048</u>	<u>\$ 6,071,124</u>	<u>\$ 7,970,395</u>	<u>\$ 14,481,567</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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	851,718	10,526,639
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	99,515	105,590
Loss on disposal of fixed assets	2,225	26,350
Reinvested investment income	(1,195,550)	(1,404,585)
Net realized and unrealized (gains) losses on investments	333,190	(7,214,513)
Provision for losses on notes receivable	398,053	216,492
Provision for losses on accounts receivable	164,423	-
Non-cash donations	-	(250,000)
Change in loan discounts	50,052	19,413
Decrease (increase) in:		
Accounts receivable	(199,559)	(253,715)
Insurance receivable	234,393	(280,088)
Interest receivable	(17)	(2,870)
Prepaid expenses	88,567	(5,691)
Increase (decrease) in:		
Accounts payable and accrued expenses	(9,970)	131,745
Funds held for others - special collections	59,932	(76,305)
Insurance liabilities	(291,762)	(4,328)
Priest retirement benefit obligation	455,282	(2,168,606)
Net cash provided by (used for) operating activities	<u>1,040,492</u>	<u>(634,472)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(149,974,315)	(3,260,093)
Proceeds from sale of investments	150,248,265	3,874,681
Amounts advanced on notes receivable	(2,696,647)	(548,906)
Collections on notes receivable	1,086,141	1,263,703
Proceeds from sale of fixed assets	-	217,079
Purchase of fixed assets	<u>(53,464)</u>	<u>(106,047)</u>
Net cash provided by (used for) investing activities	<u>(1,390,020)</u>	<u>1,440,417</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on annuities payable	-	(3,466)
Increase (decrease) in deposits payable, net	(2,227,488)	380,898
Repayments of mortgage note payable	<u>(258,408)</u>	<u>(205,475)</u>
Net cash provided by (used for) financing activities	<u>(2,485,896)</u>	<u>171,957</u>

(Continued)

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Statements of Cash Flows

For the Years Ended June 30, 2015 and 2014

(Continued)

	<u>2015</u>	<u>2014</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,835,424)	977,902
CASH AND CASH EQUIVALENTS - beginning of year	<u>11,197,000</u>	<u>10,219,098</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 8,361,576</u>	<u>\$ 11,197,000</u>
<u>SUPPLEMENTAL DISCLOSURES:</u>		
Interest paid (including interest paid on deposits payable)	<u>\$ 636,448</u>	<u>\$ 665,087</u>

During the years ended June 30, 2015 and 2014, accounts and interest receivable from parishes in the amounts of \$302,143 and \$64,906, respectively, were transferred to notes receivable.

For the year ended June 30, 2015, net realized and unrealized losses on funds held for related entities, which are included in deposits payable, were \$17,949. For the year ended June 30, 2014, net realized and unrealized gains on funds held for related entities, which are included in deposits payable, were \$1,504,278.

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

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2015 and 2014

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 of the various affiliates of the Diocese of Manchester as described in Note 5 (\$51,928,036 in 2015 and \$54,173,473 in 2014). 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, diocesan housing entities, 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) and 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, 2015 and 2014

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, except if those instruments are intended to be invested in marketable securities.

The Central Office customarily maintains amounts on deposit in various bank accounts in excess of the Federal deposit insurance coverage amounts. Deposits totaling approximately \$8,540,000 (prior to outstanding items clearing the bank) at June 30, 2015 are not covered by Federal deposit insurance.

(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, 2015 and 2014 are reported net of an allowance for uncollectible accounts of \$241,768 and \$77,345, respectively. Aggregate accounts receivable past due 90 days or more were approximately \$423,000 and \$457,000 as of June 30, 2015 and 2014, respectively. Delinquency status is based on normal credit terms. The Central Office does not generally require collateral for the extension of credit.

Included in accounts receivable at June 30, 2015 and 2014 were unconditional promises to give valued at \$45,000 and \$63,986, respectively, which are receivable in less than one year.

(E) Investments

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 (see Note 11).

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.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2015 and 2014

Note 1 - (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, including priest and seminarian notes receivable, the Central Office estimates an additional allowance covering those amounts not specifically identified (see Note 3).

Priest and seminarian notes are recorded net of applicable discounts and an allowance for losses equal to the remaining balance of the notes as the Central Office estimates that a substantial portion of these notes may not be collected.

(G) Fixed Assets

It is the Central Office's policy to capitalize fixed assets with a cost of at least \$1,000. 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, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Land	2,129	2,129
Buildings	651,646	651,646
Building improvements	1,238,439	1,195,576
Furniture and other equipment	358,173	351,847
Computer equipment and software	<u>310,172</u>	<u>327,958</u>
	2,560,559	2,529,156
Less: accumulated depreciation	<u>2,251,943</u>	<u>2,172,264</u>
Fixed assets, net	<u>\$ 308,616</u>	<u>\$ 356,892</u>

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2015 and 2014

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 \$99,515 and \$105,590 during 2015 and 2014, respectively.

Included in fixed assets in the accompanying statements of financial position are assets with a net book value of \$49,091 and \$20,152 as of June 30, 2015 and 2014, 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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Missionary support	838,254	891,832
School education fund	313,529	303,041
Priests continuing formation	609,482	560,219
Medical needs of priests	784,717	829,225
Worship and world youth day	10,070	10,070
Campus ministry	124,925	124,925
Youth ministry	442,705	442,705
St. Joseph Cathedral	146,303	146,103
Permanent Diaconate Continuing Formation	<u>473,724</u>	<u>341,018</u>
	<u>\$ 3,743,709</u>	<u>\$ 3,649,138</u>

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2015 and 2014

Note 1 - (H) Restricted Support (Continued)

Temporarily restricted net assets are available for the following purposes at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Seminarians	784,212	919,878
Missionary support	62,209	62,057
Parish masses	328,099	329,484
For specific schools	166,043	241,955
Education	1,122,907	1,207,149
For specific parishes	398,496	444,506
Missionary, Catholic education, retired priests and parish support	1,784,464	2,028,104
Non-capital purposes	223,491	246,200
For specific geographical region	228,741	238,331
Other various purposes	314,836	353,460
	<u>\$ 5,413,498</u>	<u>\$ 6,071,124</u>

Permanently restricted net assets are restricted to investment in perpetuity and were as follows at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Missionary, Catholic education, retired priests and parish support	4,338,143	4,338,143
Seminarians	638,295	638,295
Care of gravesites	34,417	34,417
Scholarships, education and tuition	1,977,648	1,972,798
Care of needy	12,672	12,672
General purposes for specific parishes	821,775	761,775
Other various purposes	212,804	212,295
	<u>\$ 8,035,754</u>	<u>\$ 7,970,395</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.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2015 and 2014

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, 2015, the Central Office did not take any material tax positions which do not meet the criteria for recognition. The Diocese's filings (Form 990-T) for the tax years ended on June 30, 2012 through June 30, 2015 remain subject to examination by Federal taxing authorities.

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, primarily consisting of money market funds, 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	22%
Equity securities – international and emerging markets	16%
Fixed income securities	35%
Alternative investments	20%
Private equities	5%
Money market funds	2%

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 6.5% in 2015 and 2014 and discounted at 4.33% in 2015 and 4.4% in 2014 (\$837,289 and \$867,529 at June 30, 2015 and 2014, respectively). The fair value of the trust assets was \$1,565,694 and \$1,633,158 at June 30, 2015 and 2014, respectively.

The investments reported in the statements of financial position include the securities 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.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER
Notes to Financial Statements
June 30, 2015 and 2014

Note 2 - Investments (Continued)

Investments are included in the accompanying financial statements as follows:

	2015	2014
Investments in marketable securities	57,505,610	56,356,921
Assets held for restricted purposes	14,887,579	15,465,807
	\$ 72,393,189	\$ 71,822,728

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

	2015	2014
Dividends, interest and other income	1,706,873	1,518,692
Realized and unrealized gains (losses), net	(333,190)	7,214,513
Investment fees earned (paid), net	12,145	(99,114)
Total investment income, net	\$ 1,385,828	\$ 8,634,091

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 (4.00% in 2015 and 2014).

Interest income on notes receivable was \$416,847 in 2015 (including new loan discounts, amortization due to the passage of time and adjustments of (\$50,052)). Interest income was \$374,768 in 2014 (including new loan discounts, amortization due to the passage of time and adjustments of (\$19,413)).

Notes receivable from priests and seminarians are unsecured, non-interest bearing and have no specific payment terms. Repayment of seminarian notes is generally scheduled to commence when the seminarian is ordained.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2015 and 2014

Note 3 - Notes Receivable (Continued)

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. Once modified in a troubled debt restructuring, a loan is generally considered impaired until its contractual maturity. 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, 2015 and 2014.

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, 2015 and 2014 were \$10,868,509 and \$7,886,158, respectively. Non-performing notes receivables as of June 30, 2015 and 2014 were \$6,869,332 and \$7,939,034, respectively.

The following reflects the age analysis of notes receivable as of June 30, 2015 and 2014, respectively:

	<u>Age Analysis - 2015</u>		
	<u>Diocesan Entity Notes</u>	<u>Priest and Seminarian Notes</u>	<u>Total</u>
Current	10,868,509	-	10,868,509
30-59 days	-	-	-
60-89 days	4,377	-	4,377
90+ days	<u>1,869,113</u>	<u>4,995,842</u>	<u>6,864,955</u>
Total notes receivable	<u>\$ 12,741,999</u>	<u>\$ 4,995,842</u>	<u>\$ 17,737,841</u>
Total notes receivable on non-accrual status	<u>\$ 1,787,561</u>	<u>\$ 4,995,842</u>	<u>\$ 6,783,403</u>
Notes receivable 90+ days past due and still accruing	<u>\$ 487,353</u>	<u>\$ -</u>	<u>\$ 487,353</u>
	<u>Age Analysis - 2014</u>		
	<u>Diocesan Entity Notes</u>	<u>Priest and Seminarian Notes</u>	<u>Total</u>
Current	7,886,158	-	7,886,158
30-59 days	1,371,367	-	1,371,367
60-89 days	-	-	-
90+ days	<u>1,801,229</u>	<u>4,766,438</u>	<u>6,567,667</u>
Total notes receivable	<u>\$ 11,058,754</u>	<u>\$ 4,766,438</u>	<u>\$ 15,825,192</u>
Total notes receivable on non-accrual status	<u>\$ 3,158,951</u>	<u>\$ 4,766,438</u>	<u>\$ 7,925,389</u>
Notes receivable 90+ days past due and still accruing	<u>\$ 413,319</u>	<u>\$ -</u>	<u>\$ 413,319</u>

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2015 and 2014

Note 3 - Notes Receivable (Continued)

The following provides informative data at June 30, 2015 and 2014, 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:

	Impaired Loans - 2015		
	Diocesan Entity Notes	Priest and Seminararian Notes	Total
Impaired loans for which no allowance for credit losses is recognized:			
Recorded investment	\$ 2,083,386	\$ -	\$ 2,083,386
Unpaid principal balance	2,109,159	-	2,109,159
Average recorded investment	2,703,724	-	2,703,724
Interest income recognized while impaired	33,075	-	33,075
Impaired loans for which an allowance for credit losses is recognized:			
Recorded investment	2,227,246	3,748,613	5,975,859
Unpaid principal balance	2,227,246	4,995,842	7,223,088
Average recorded investment	2,127,766	3,662,586	5,790,352
Interest income recognized while impaired	45,983	-	45,983
	Impaired Loans - 2014		
	Diocesan Entity Notes	Priest and Seminararian Notes	Total
Impaired loans for which no allowance for credit losses is recognized:			
Recorded investment	\$ 3,324,062	\$ -	\$ 3,324,062
Unpaid principal balance	3,357,134	-	3,357,134
Average recorded investment	3,736,316	-	3,736,316
Interest income recognized while impaired	57,960	-	57,960
Impaired loans for which an allowance for credit losses is recognized:			
Recorded investment	2,028,286	3,576,560	5,604,846
Unpaid principal balance	2,028,286	4,766,438	6,794,724
Average recorded investment	2,015,580	3,483,314	5,498,894
Interest income recognized while impaired	37,055	-	37,055

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER
Notes to Financial Statements
June 30, 2015 and 2014

Note 3 - Notes Receivable (Continued)

The following reflects the allowance for losses, discounts, and the related recorded investment in notes receivable as of June 30, 2015 and 2014, respectively:

	2015		
	Diocesan Entity Notes	Priest and Seminarian Notes	Total
Allowance for losses:			
Beginning balance	1,775,000	3,576,560	5,351,560
Provision	226,000	172,053	398,053
Ending balance	\$ 2,001,000	\$ 3,748,613	\$ 5,749,613
Ending balance: individually evaluated for impairment	1,748,832	-	1,748,832
Ending balance: aggregate remaining balance evaluated for impairment	252,168	3,748,613	4,000,781
Ending balance	\$ 2,001,000	\$ 3,748,613	\$ 5,749,613
Discounts:			
Beginning balance	33,072	1,189,878	1,222,950
Provision	(7,299)	57,351	50,052
Ending balance	\$ 25,773	\$ 1,247,229	\$ 1,273,002
Ending balance: individually evaluated for impairment	25,773	-	25,773
Ending balance: aggregate remaining balance evaluated for impairment	-	1,247,229	1,247,229
Ending balance	\$ 25,773	\$ 1,247,229	\$ 1,273,002
Recorded investment in notes receivable:			
Ending balance: individually evaluated for impairment	4,336,405	-	4,336,405
Ending balance: aggregate remaining balance evaluated for impairment	8,405,594	4,995,842	13,401,436
Ending balance	\$12,741,999	\$ 4,995,842	\$ 17,737,841

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2015 and 2014

Note 3 - Notes Receivable (Continued)

	2014		
	<u>Diocesan Entity Notes</u>	<u>Priest and Seminararian Notes</u>	<u>Total</u>
Allowance for losses:			
Beginning balance	1,745,000	3,390,068	5,135,068
Provision	<u>30,000</u>	<u>186,492</u>	<u>216,492</u>
Ending balance	<u>\$ 1,775,000</u>	<u>\$ 3,576,560</u>	<u>\$ 5,351,560</u>
Ending balance: individually evaluated for impairment	1,556,021	-	1,556,021
Ending balance: aggregate remaining balance evaluated for impairment	<u>218,979</u>	<u>3,576,560</u>	<u>3,795,539</u>
Ending balance	<u>\$ 1,775,000</u>	<u>\$ 3,576,560</u>	<u>\$ 5,351,560</u>
Discounts:			
Beginning balance	75,823	1,127,714	1,203,537
Provision	<u>(42,751)</u>	<u>62,164</u>	<u>19,413</u>
Ending balance	<u>\$ 33,072</u>	<u>\$ 1,189,878</u>	<u>\$ 1,222,950</u>
Ending balance: individually evaluated for impairment	33,072	-	33,072
Ending balance: aggregate remaining balance evaluated for impairment	<u>-</u>	<u>1,189,878</u>	<u>1,189,878</u>
Ending balance	<u>\$ 33,072</u>	<u>\$ 1,189,878</u>	<u>\$ 1,222,950</u>
Recorded investment in notes receivable:			
Ending balance: individually evaluated for impairment	5,385,419	-	5,385,419
Ending balance: aggregate remaining balance evaluated for impairment	<u>5,673,335</u>	<u>4,766,438</u>	<u>10,439,773</u>
Ending balance	<u>\$ 11,058,754</u>	<u>\$ 4,766,438</u>	<u>\$ 15,825,192</u>

There were no changes to the accounting policy for notes receivable for the years ended June 30, 2015 and 2014. There were no purchases, sales, or reclassifications of notes receivables for the years ended June 30, 2015 and 2014.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2015 and 2014

Note 4 - Related Party Transactions

Since January 2014, the Central Office rents space at the property located at the St. Joseph Cathedral Parish, a Diocesan entity, for the purpose of storing its archive files. Prior to that time, the Central Office rented space at the Diocesan Bureau of Housing, Inc. for that purpose. The total rent paid was \$4,320 in 2015 and 2014.

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:

	<u>2015</u>	<u>2014</u>
Rent received	\$ 108,660	\$ 108,450
Program costs paid	35,600	41,664

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, diocesan housing entities, 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>2015</u>	<u>2014</u>
Assessments received (excluding insurance)	\$ 6,001,535	\$ 6,056,150
Insurance revenue (see Note 8)	5,323,268	4,978,600
Grants, subsidies and donations paid	2,111,688	2,025,758
Investment management fees earned	236,721	223,571

Amounts due from the parishes and other affiliates, primarily for assessments, insurance and interest (net of allowance) was \$639,145 and \$887,166 at June 30, 2015 and 2014, respectively. Amounts due to the parishes and other affiliates at June 30, 2015 and 2014 were \$180,761 and \$160,469, respectively.

Assets of the Central Fund (Note 2) are held for the benefit of other 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 2015 and 2014 was approximately \$379,000 and \$343,000, 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 2015 and 2014.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2015 and 2014

Note 5 - Deposits Payable

The Central Office holds deposits from its various parishes, schools and other entities within the Diocese. Interest is paid on these deposits at a rate of 1.0% in 2015 and 2014. Amounts are due on demand. Interest expense on deposits was \$414,763 and \$425,380 for 2015 and 2014, respectively. In addition, the Central Office maintains the pooled investments on behalf of the Sick Priests Fund and on behalf of various parishes. The deposits payable at June 30, 2015 and 2014 consist of the following:

	<u>2015</u>	<u>2014</u>
Due to:		
Parishes	30,663,518	32,242,381
Schools	8,667,573	9,622,952
Cemeteries	9,105,302	9,099,160
Sick Priests Fund	2,199,573	1,949,531
Other Diocesan entities	<u>1,292,070</u>	<u>1,259,449</u>
	<u>\$ 51,928,036</u>	<u>\$ 54,173,473</u>

Note 6 - Mortgage Note Payable

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

Interest expense for this loan amounted to \$216,805 and \$230,683 during 2015 and 2014, respectively. The principal balance due was \$3,481,967 and \$3,740,375, at June 30, 2015 and 2014, respectively.

The scheduled future principal payments due on this note are as follows:

<u>Fiscal year</u>	
2016	253,642
2017	269,286
2018	285,895
2019	303,528
2020	322,249
Thereafter	<u>2,047,367</u>
	<u>\$ 3,481,967</u>

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 2015 and 2014 amounted to \$84,750 and \$82,771, respectively.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2015 and 2014

Note 7 - (B) Diocesan Priests

On June 27, 2007, 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 in or before 1948 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.

Effective July 1, 2015, the monthly stipend increased from \$1,550 to \$1,600 for retired priests and from \$1,950 to \$2,000 for retired Bishops. This resulted in an increase of \$490,985 to the priest retirement benefit obligation. Effective July 1, 2014, the monthly retired priest's stipend increased from \$1,500 to \$1,550. This resulted in an increase of \$463,866 to the priest retirement benefit obligation.

The actuarial assumptions for the mortality and discount rate were changed during the year ended June 30, 2015. The changes in these actuarial assumptions increased the priest retirement benefit obligation by approximately \$2,005,000. There were no changes in the actuarial assumptions for the year ended June 30, 2014.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2015 and 2014

Note 7 - (B) Diocesan Priests (Continued)

The following information relates to the Diocesan Priest Retirement Plan, Medical Insurance Fund and Sustenance Program, and includes amounts determined as of June 30, 2015 and 2014 measurement dates:

	2015			2014		
	Diocesan Priests Retirement Plan	Medical Insurance Fund	Sustenance Program	Diocesan Priests Retirement Plan	Medical Insurance Fund	Sustenance Program
Projected benefit obligation	(22,719,711)	(1,657,771)	(1,933,599)	(21,665,233)	(1,608,628)	(2,136,613)
Fair value of plan assets	9,026,891	-	-	8,581,566	-	-
Funded status	<u>\$ (13,692,820)</u>	<u>\$(1,657,771)</u>	<u>\$(1,933,599)</u>	<u>\$ (13,083,667)</u>	<u>\$(1,608,628)</u>	<u>\$(2,136,613)</u>

The accrued postretirement benefit expense for the Diocesan Priest Retirement Plan at June 30, 2015 and 2014 is as follows:

	2015	2014
Funded status	(13,692,820)	(13,083,667)
Unrecognized prior service cost	1,818,546	1,420,561
Unrecognized net loss	<u>3,572,853</u>	<u>2,235,139</u>
Accrued postretirement benefit expense	<u>\$ (8,301,421)</u>	<u>\$ (9,427,967)</u>

Significant assumptions at June 30, 2015 and 2014 include:

	2015			2014		
	Diocesan Priests Retirement Plan	Medical Insurance Fund	Sustenance Program	Diocesan Priests Retirement Plan	Medical Insurance Fund	Sustenance Program
Discount rate	4.13%	4.13%	4.13%	4.33%	4.33%	4.33%
Expected return on plan assets	6.5%	N/A	N/A	6.5%	N/A	N/A
Annual cost increases:						
Medical and dental	5.5% trending to 4%	5.5% trending to 4%	5.5% trending to 4%	6% trending to 4%	6% trending to 4%	6% trending to 4%
Automobile insurance premiums	3%	N/A	3%	3%	N/A	3%
Year that the rate reaches the ultimate trend rate	2018	2018	2018	2019	2019	2019
Rate of compensation increase	N/A	N/A	N/A	N/A	N/A	N/A
Mortality	RP-2014 Mortality Table			RP-2000 Mortality Table		
Benefit cost	814,776	49,143	(14,847)	1,017,028	(111,680)	(50,962)
Employer contributions and donations	1,644,192	-	188,167	1,505,046	-	255,197
Participant contributions	52,600	-	-	54,450	-	-
Benefits paid	1,300,413	46,333	188,167	1,322,515	49,781	255,197

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2015 and 2014

Note 7 - (B) Diocesan Priests (Continued)

The net periodic pension cost consists of:

	2015	2014
Diocesan Priest Retirement Plan:		
Amortization of prior service costs	93,000	67,611
Investment return	(542,681)	(470,017)
Current service cost	355,198	388,697
Interest cost	904,494	937,168
Amortization of gains or losses	4,764	93,571
Medical insurance fund	49,143	(111,680)
Total	\$ 863,918	\$ 905,350

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

	2015	2014
Amortization of prior service costs	(93,000)	(67,611)
Current year net (gain) loss not yet recognized	1,136,884	(1,391,337)
Funding by affiliates	(1,249,506)	(1,308,846)
	\$ (205,622)	\$ (2,767,794)

The accumulated benefit obligations were as follows:

	Diocesan Priests Retirement Plan	Medical Insurance Fund	Sustenance Program
June 30, 2015	\$ 20,299,855	\$ 993,685	\$ 1,686,496
June 30, 2014	\$ 19,423,554	\$ 980,192	\$ 1,879,082

The Central Office expects to contribute approximately \$1,670,000 to the Retirement Plan during the year ending June 30, 2016. Benefits expected to be paid during the ensuing five years and five years thereafter are as follows:

	Diocesan Priests Retirement Plan	Medical Insurance Fund	Sustenance Program
2016	\$ 1,500,000	\$ 71,521	\$ 150,584
2017	1,552,000	77,841	145,647
2018	1,555,000	81,001	140,190
2019	1,527,000	82,314	169,439
2020	1,507,000	83,681	163,554
2021 - 2025	7,381,000	446,574	724,412

Assets of the Trust are invested with other marketable securities 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.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2015 and 2014

Note 7 - (B) Diocesan Priests (Continued)

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.

The measurement of the fair value of the Diocesan Priest Retirement Plan investments as of June 30, 2015 and 2014 was made using the fair value hierarchy described in Note 11.

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, 2015 and 2014:

	2015			
	Level 1	Level 2	Level 3	Total
Money market funds	-	438,318	-	438,318
Equity securities:				
Domestic	2,367,634	-	-	2,367,634
International and emerging markets	1,006,874	-	-	1,006,874
Fixed income securities:				
Corporate bonds	-	1,690,398	-	1,690,398
Government securities	-	1,084,118	-	1,084,118
Certificates of deposit	-	370,055	-	370,055
Preferred stock	2,695	-	-	2,695
Alternative investments:				
Hedge funds	-	-	1,682,314	1,682,314
Real estate investment trusts	339,517	-	-	339,517
	<u>\$ 3,716,720</u>	<u>\$ 3,582,889</u>	<u>\$ 1,682,314</u>	<u>\$ 8,981,923</u>
	2014			
	Level 1	Level 2	Level 3	Total
Money market funds	-	39,279	-	39,279
Equity securities:				
Domestic	-	3,032,134	-	3,032,134
International	-	2,729,861	-	2,729,861
Fixed income mutual funds	2,737,544	-	-	2,737,544
	<u>\$ 2,737,544</u>	<u>\$ 5,801,274</u>	<u>\$ -</u>	<u>\$ 8,538,818</u>

The following table shows a summary of changes in the fair value of the level 3 investment for the year ended June 30, 2015:

Balance, beginning of year	-
Purchases	<u>1,682,314</u>
	<u>\$ 1,682,314</u>

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2015 and 2014

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 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 \$125,341 and \$359,734 at June 30, 2015 and 2014, 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, 2015 and 2014:

<u>Type</u>	<u>2015</u>		
	<u>Claims Payable, net</u>	<u>IBNR</u>	<u>Total</u>
Liability	800,424	406,818	1,207,242
Property	178,626	245,132	423,758
Workers' compensation	<u>2,213,719</u>	<u>-</u>	<u>2,213,719</u>
	<u>\$ 3,192,769</u>	<u>\$ 651,950</u>	<u>\$ 3,844,719</u>

<u>Type</u>	<u>2014</u>		
	<u>Claims Payable, net</u>	<u>IBNR</u>	<u>Total</u>
Liability	540,601	445,124	985,725
Property	511,844	69,844	581,688
Workers' compensation	<u>2,569,068</u>	<u>-</u>	<u>2,569,068</u>
	<u>\$ 3,621,513</u>	<u>\$ 514,968</u>	<u>\$ 4,136,481</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 \$751,000 and \$1,498,000 in 2015 and 2014, respectively.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2015 and 2014

Note 9 - Contingencies

Through June 30, 2015, numerous claims and lawsuits have been filed against the Diocese of Manchester in connection with 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, 2015, the Diocese has agreed to pay approximately \$25,466,050 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.

The Diocese established the Roman Catholic Bishop of Manchester Employee Benefits Plan and Trust (the Plan) as a funding vehicle with respect to certain health, dental, short and long term disability, and life insurance benefits offered to employees of the central administration, parishes, schools and certain other diocesan institutions. Payments received from the various diocesan entities related to the provision of the aforementioned benefits are deposited into the Plan from which the payment of claims, premium payments and administrative expenses are made. The transactions and accounts of the Plan are not included in the accompanying financial statements.

As it pertains to health care benefits, the Plan is responsible for the payment of claims up to a maximum amount for each specific claim for each plan year. Claims above the maximum amounts for the plan year are insured with an independent insurer. In the event that the Plan does not have sufficient resources to pay all claims, premiums and administrative expenses for which it is responsible, the Central Office would be responsible for funding any related deficit. As of June 30, 2015, management has determined that the Plan had sufficient resources to fund all such costs.

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.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2015 and 2014

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, or observable inputs other than quoted market prices; 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.

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, 2015 and 2014.

	2015			Total
	Level 1	Level 2	Level 3	
Money market funds	-	3,468,461	-	3,468,461
Equity securities:				
Domestic	18,971,288	-	213,398	19,184,686
International and emerging markets	7,969,862	-	-	7,969,862
Fixed income securities:				
Corporate bonds	-	13,385,282	-	13,385,282
Government securities	-	8,580,606	-	8,580,606
Certificates of deposit	-	2,931,580	-	2,931,580
Preferred stock	20,822	-	-	20,822
Alternative investments:				
Hedge funds	-	-	13,317,686	13,317,686
Real estate investment trusts	2,696,915	-	-	2,696,915
Beneficial interest in charitable remainder trust	-	-	837,289	837,289
	<u>\$ 29,658,887</u>	<u>\$ 28,365,929</u>	<u>\$ 14,368,373</u>	<u>\$ 72,393,189</u>
	2014			
	Level 1	Level 2	Level 3	Total
Money market funds	-	326,859	-	326,859
Equity securities:				
Domestic	245,959	25,029,786	213,398	25,489,143
International	-	22,538,439	-	22,538,439
Fixed income mutual funds	22,600,517	241	-	22,600,758
Beneficial interest in charitable remainder trust	-	-	867,529	867,529
	<u>\$ 22,846,476</u>	<u>\$ 47,895,325</u>	<u>\$ 1,080,927</u>	<u>\$ 71,822,728</u>

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2015 and 2014

Note 11 - Fair Value Measurements (Continued)

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, 2015 and 2014:

	2015			
	Hedge Fund Portfolio	Investment in Insurance Company	Charitable Remainder Trust	Total
Balance, beginning of year	-	213,398	867,529	1,080,927
Unrealized losses	-	-	(30,240)	(30,240)
Purchases	13,317,686	-	-	13,317,686
	<u>\$ 13,317,686</u>	<u>\$ 213,398</u>	<u>\$ 837,289</u>	<u>\$ 14,368,373</u>
		2014		
		Investment in Insurance Company	Charitable Remainder Trust	Total
Balance, beginning of year		213,398	614,803	828,201
Unrealized gains		-	2,726	2,726
Purchases		-	250,000	250,000
		<u>\$ 213,398</u>	<u>\$ 867,529</u>	<u>\$ 1,080,927</u>

During 2015, the Central Office implemented a new investment strategy that transitioned away from mutual funds and focused more on investments in particular securities.

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

Level 2 domestic equity securities were held in a fund that was valued daily and issuances and redemptions were permitted daily and occurred at net asset value (NAV). The NAV was based on the fair value of the underlying investments of the fund less its liabilities. The domestic equity fund invested with the objective of approximating, before expenses, the Russell 3000 Index, over the long term and implemented a screen of certain social and environmental criteria. The international equity securities were held in funds that were valued monthly on the last business day of the month and issuances and redemptions were permitted monthly and occurred at NAV. The NAV was based on the fair value of the underlying investments of the fund less its liabilities. The international equity funds invested in a diversified portfolio of equity securities of non-tobacco companies located in any country other than the United States.

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.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2015 and 2014

Note 11 - Fair Value Measurements (Continued)

The level 3 alternative investment consists of a hedge fund portfolio totaling \$13,317,686. The Central Office entered into a subscription for the hedge fund portfolio in June 2015 for investment effective July 1, 2015. Valuation of the private hedge funds within the portfolio varies depending on the hedge fund strategy and underlying assets. 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.

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) whether or not 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.

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.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2015 and 2014

Note 12 - Donor-Designated Endowments (Continued)

Endowment net asset composition as of June 30, 2015 and 2014 and changes in endowment net assets for the years ended June 30, 2015 and 2014 are as follows:

	2015			Total
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment net assets, beginning of year	-	4,442,072	7,970,395	12,412,467
Contributions	-	800	60,504	61,304
Transfers	-	(35,000)	35,000	-
Interest and dividends	80	38,530	-	38,610
Net depreciation in value of investments	(323)	(15,357)	(30,145)	(45,825)
Amounts appropriated for expenditure	-	(521,638)	-	(521,638)
Endowment net assets, end of year	<u>\$ (243)</u>	<u>\$ 3,909,407</u>	<u>\$ 8,035,754</u>	<u>\$11,944,918</u>
	2014			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	-	3,554,672	7,710,049	11,264,721
Contributions	-	250	250,225	250,475
Interest and dividends	-	8,288	-	8,288
Net appreciation in value of investments	-	1,486,345	10,121	1,496,466
Amounts appropriated for expenditure	-	(607,483)	-	(607,483)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 4,442,072</u>	<u>\$ 7,970,395</u>	<u>\$12,412,467</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. No significant deficiencies were reported in temporarily restricted or unrestricted net assets as of June 30, 2015.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2015 and 2014

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 nonconcurrence with the proposed appropriation. 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 - Commitments

As of June 30, 2015, the Central Office has committed to providing loans totaling approximately \$1,774,000 to various parishes for construction projects.

Note 14 - Reclassifications

Certain reclassifications were made to the 2014 financial statements to conform with the 2015 financial statement presentation.

Note 15 - Subsequent Events

Management has evaluated subsequent events through November 4, 2015, the date when the financial statements were available to be issued.