

# Central Office of the Diocese of Manchester

Financial Statements

Years Ended June 30, 2020 and 2019



**Diocese of Manchester**  
The Catholic Church in New Hampshire

**WIPFLI**

## **Independent Auditor's Report**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Central Office of the Diocese of Manchester (the Central Office), a nonprofit organization, which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **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, 2020 and 2019, 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.

**Emphasis of Matter - Change in Accounting Principle**

As discussed in Note 1 to the financial statements, the Central Office adopted ASU 2017-07, *Compensation - Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* as of and for the year ended June 30, 2020 to improve the consistency, transparency and usefulness of financial information related to net periodic retirement costs. Our opinion is not modified with respect to this matter.

*Wipfli LLP*

Wipfli LLP  
Bedford, New Hampshire

February 2, 2021

# Central Office of the Diocese of Manchester

## Statements of Financial Position

<i>As of June 30,</i>	2020	2019
<b>Assets</b>		
Diocesan cash	\$ 4,339,774	\$ 971,643
Central fund cash	1,640,094	1,503,940
Accounts receivable, net	890,062	2,371,367
Insurance receivable, net	357,915	-
Second injury fund recoverable	543,805	559,735
Interest receivable	27,891	1,460
Prepaid expenses	237,559	236,343
Diocesan investments	28,596,228	33,098,416
Notes receivable, net of discounts and allowance for losses	13,306,579	8,054,046
Cash held for restrictive purposes	145,593	144,093
Central fund deposits and investments	66,947,417	67,800,208
Fixed assets, net	557,695	475,886
<b>Total assets</b>	<b>\$ 117,590,612</b>	<b>\$ 115,217,137</b>
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued expenses	\$ 1,603,474	\$ 590,654
Line of credit	1,000,000	-
Reserves and other liabilities	789,257	990,241
Funds held for others- special collections	274,662	556,761
Paycheck protection program loan	1,044,600	-
Insurance liabilities	3,034,894	2,821,398
Central fund deposits and investments	62,726,806	61,723,885
Priest retirement benefit obligation	20,395,452	19,659,149
<b>Total liabilities</b>	<b>90,869,145</b>	<b>86,342,088</b>
<b>Net Assets</b>		
Without donor restrictions:		
Designated	5,828,191	6,021,934
Undesignated	7,440,354	8,453,831
	13,268,545	14,475,765
With donor restrictions	13,452,922	14,399,284
<b>Total net assets</b>	<b>26,721,467</b>	<b>28,875,049</b>
<b>Total liabilities and net assets</b>	<b>\$ 117,590,612</b>	<b>\$ 115,217,137</b>

See accompanying notes to financial statements.

# Central Office of the Diocese of Manchester

## Statements of Activities

<i>Year Ended June 30,</i>	2020		Total
	Without Donor Restrictions	With Donor Restrictions	
<b>Revenues:</b>			
Program revenue and assessments	\$ 6,276,001	\$ -	\$ 6,276,001
Donations and bequests	130,099	250,063	380,162
Insurance	5,664,609	-	5,664,609
Miscellaneous	172,070	-	172,070
Net assets released from restriction	1,065,010	(1,065,010)	-
Total revenues	13,307,789	(814,947)	12,492,842
<b>Expenses:</b>			
Program	12,108,468	-	12,108,468
Supporting services	3,529,854	-	3,529,854
Total expenses	15,638,322	-	15,638,322
Change in net assets before other activities	(2,330,533)	(814,947)	(3,145,480)
<b>Investment return, net:</b>			
Diocesan investments	1,501,501	(131,415)	1,370,086
Central fund deposits and investments	432,899	-	432,899
Total investment return, net	1,934,400	(131,415)	1,802,985
Interest Expense	(605,865)	-	(605,865)
Other components of net periodic retirement cost	(590,858)	-	(590,858)
Retirement-related changes other than net periodic retirement costs	385,636	-	385,636
Change in net assets	(1,207,220)	(946,362)	(2,153,582)
Net assets - Beginning of year	14,475,765	14,399,284	28,875,049
Net assets - End of year	\$ 13,268,545	\$ 13,452,922	\$ 26,721,467

See accompanying notes to financial statements.

# Central Office of the Diocese of Manchester

## Statements of Activities

<i>Year Ended June 30,</i>	2019		Total
	Without Donor Restrictions	With Donor Restrictions	
<b>Revenues:</b>			
Program revenue and assessments	\$ 6,467,102	\$ -	\$ 6,467,102
Donations and bequests	211,068	267,955	479,023
Insurance	5,497,453	-	5,497,453
Miscellaneous	141,193	-	141,193
Net assets released from restriction	1,011,632	(1,011,632)	-
Total revenues	13,328,448	(743,677)	12,584,771
<b>Expenses:</b>			
Program	10,285,784	-	10,285,784
Supporting services	3,191,821	-	3,191,821
Total expenses	13,477,605	-	13,477,605
Change in net assets before other activities	(149,157)	(743,677)	(892,834)
<b>Investment return, net:</b>			
Diocesan investments	2,014,468	497,957	2,512,425
Central fund deposits and investments	1,892,209	-	1,892,209
Total investment return, net	3,906,677	497,957	4,404,634
Interest Expense	(649,697)	-	(649,697)
Other components of net periodic retirement cost	(1,894,359)	-	(1,894,359)
Retirement-related changes other than net periodic retirement costs	(569,983)	-	(569,983)
Change in net assets	643,481	(245,720)	397,761
Net assets - Beginning of year	13,832,284	14,645,004	28,477,288
Net assets - End of year	\$ 14,475,765	\$ 14,399,284	\$ 28,875,049

See accompanying notes to financial statements.

## Central Office of the Diocese of Manchester

### Statements of Functional Expenses

Year Ended June 30, 2020

	Program									Supporting Services	
	Canonical Services	Catholic Formation	Development and Communication	Insurance	Ministries	Pastoral services	Seminarian Formation	Other Programs	Total Program	Operations and administration	Total
	Benefits and taxes	\$ 108,669	\$ 297,446	\$ 171,281	\$ 39,634	\$ 37,845	\$ 178,777	\$ 89,194	\$ -	\$ 922,846	\$ 502,682
General and administrative	6,727	107,453	106,158	407,220	6,615	61,145	9,148	-	704,466	355,281	1,059,747
Grants and donations	-	253,112	13,152	197,538	16,903	264,770	1,407	-	746,882	245,664	992,546
Insurance	-	-	-	2,472,795	-	-	4,757	-	2,477,552	930	2,478,482
Occupancy	125,990	168,278	90,231	18,767	33,732	90,544	32,383	-	559,925	337,153	897,078
Other	427	-	311	4,576	-	(224,497)	-	1,502,989	1,283,806	11,653	1,295,459
Program services	29	1,731,912	183,104	-	89,594	179,217	472,296	-	2,656,152	101,994	2,758,146
Salaries and wages	351,992	996,040	561,048	-	120,203	499,423	77,138	-	2,605,844	1,897,409	4,503,253
Supplies and equipment	1,993	33,482	92,220	-	413	21,163	1,725	-	150,996	77,088	228,084
<b>Total functional expenses</b>	<b>\$ 595,827</b>	<b>\$ 3,587,723</b>	<b>\$ 1,217,505</b>	<b>\$ 3,140,530</b>	<b>\$ 305,305</b>	<b>\$ 1,070,542</b>	<b>\$ 688,048</b>	<b>\$ 1,502,989</b>	<b>\$ 12,108,468</b>	<b>\$ 3,529,854</b>	<b>\$ 15,638,322</b>

Year Ended June 30, 2019

	Program									Supporting Services	
	Canonical Services	Catholic Formation	Development and Communication	Insurance	Ministries	Pastoral services	Seminarian Formation	Other Programs	Total Program	Operations and administration	Total
	Benefits and taxes	\$ 106,930	\$ 271,764	\$ 160,911	\$ 30,850	\$ 36,415	\$ 177,599	\$ 82,642	\$ -	\$ 867,111	\$ 454,834
General and administrative	9,613	76,070	45,934	438,994	6,408	87,734	19,145	-	683,898	525,641	1,209,539
Grants and donations	-	166,170	5,248	72,800	16,903	194,928	952	100	457,101	142,490	599,591
Insurance	-	-	-	1,236,001	-	756	1,575	-	1,238,332	2,010	1,240,342
Occupancy	123,074	155,626	89,870	18,533	34,241	109,940	21,400	-	552,684	299,967	852,651
Other	215	-	79	16,618	-	232,128	-	843,692	1,092,732	12,568	1,105,300
Program services	400	1,754,682	158,928	-	205,566	268,998	563,562	-	2,952,136	110,054	3,062,190
Salaries and wages	279,202	796,470	523,984	-	114,180	474,109	85,157	-	2,273,102	1,597,200	3,870,302
Supplies and equipment	1,749	58,591	77,957	-	347	25,773	4,271	-	168,688	47,057	215,745
<b>Total functional expenses</b>	<b>\$ 521,183</b>	<b>\$ 3,279,373</b>	<b>\$ 1,062,911</b>	<b>\$ 1,813,796</b>	<b>\$ 414,060</b>	<b>\$ 1,571,965</b>	<b>\$ 778,704</b>	<b>\$ 843,792</b>	<b>\$ 10,285,784</b>	<b>\$ 3,191,821</b>	<b>\$ 13,477,605</b>

See accompanying notes to financial statements.

# Central Office of the Diocese of Manchester

## Statements of Cash Flows

<i>Years Ended June 30,</i>	2020	2019
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (2,153,582)	\$ 397,761
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Depreciation	97,193	71,703
Gain (loss) on disposal of fixed assets	(11,415)	21,273
Reinvested investment income	(46,800)	(83,850)
Net realized and unrealized losses (gains)	41,310	(2,565,110)
Provision for losses (recoveries) on notes receivable	340,000	(211,000)
Provision for losses (recoveries) on accounts receivable	(289,307)	202,680
Non-cash grants	63,000	107,500
Non-cash donations	(200,000)	(200,000)
Decrease (increase) in:		
Accounts receivable	327,479	(2,188,627)
Insurance receivable	(357,915)	2,250
Second injury fund recoverable	15,930	(559,735)
Interest receivable	(26,431)	11,460
Prepaid expenses	(1,216)	(4,371)
Cash held for restrictive purposes	(1,500)	-
Increase (decrease) in:		
Accounts payable and accrued expenses	460,880	(108,599)
Reserves and other liabilities	(377,153)	275,428
Funds held for others- special collections	(282,099)	83,866
Insurance liabilities	213,496	(1,048,287)
Priest retirement benefit obligation	736,303	2,836,882
<b>Net cash used for operating activities</b>	<b>(1,451,827)</b>	<b>(2,958,776)</b>
<b>Cash flows from investing activities:</b>		
Purchase of investments	(153,418,741)	(77,928,888)
Proceeds from sale of investments	159,876,177	79,594,099
Amounts advanced on notes receivable	(4,885,591)	(3,842,203)
Collections on notes receivable	1,401,300	3,979,294
Proceeds from sale of fixed assets	13,000	2,250
Purchase of fixed assets	(180,588)	(242,200)
<b>Net cash provided by investing activities</b>	<b>2,805,557</b>	<b>1,562,352</b>
<b>Cash flows from financing activities:</b>		
Increase (decrease) in central fund deposits and investments, net	105,955	(983,714)
Proceeds from paycheck protection program loan	1,044,600	-
Advances on line of credit	1,000,000	-
<b>Net cash provided by (used for) financing activities</b>	<b>2,150,555</b>	<b>(983,714)</b>



## Central Office of the Diocese of Manchester

### Statements of Cash Flows (Continued)

<i>Years Ended June 30,</i>	2020	2019
Net change in cash and cash equivalents	3,504,285	(2,380,138)
Cash and cash equivalents - Beginning of year	2,475,583	4,855,721
<b>Cash and cash equivalents - End of year</b>	<b>\$ 5,979,868</b>	<b>\$ 2,475,583</b>
<b>Reconciliation to Statements of Financial Position:</b>		
Diocesan cash	4,339,774	971,643
Central fund cash	1,640,094	1,503,940
<b>Total cash and cash equivalents - End of year</b>	<b>\$ 5,979,868</b>	<b>\$ 2,475,583</b>
<b>Supplemental Disclosures:</b>		
Interest paid (including interest paid on deposits payable)	\$ 605,865	\$ 649,697

During the year ended June 30, 2020, accounts receivable from parishes in the amount of \$1,380,133 were transferred to notes receivable.

For the year ended June 30, 2020, \$728,109 of accounts payable was also included in notes receivable related to a construction project for a Diocesan school.

For the years ended June 30, 2020 and 2019, net activity on investment funds held for related entities was \$896,966 and \$1,322,840, respectively.

See accompanying notes to financial statements.

# Central Office of the Diocese of Manchester

## Notes to Financial Statements

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### **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.

#### **Basis of Presentation**

The accompanying financial statements include the assets, liabilities and activities of the Operating Fund, the Central Fund and the Insurance Fund, as well as net assets with donor restrictions of the Diocese. The Operating Fund includes program, administrative and support services of the Central Office which are comprised of canonical services, Catholic formation, development and communication, insurance, ministries, pastoral services, seminarian formation, other programs, and administrative support services. The Central Fund holds and manages the deposits and investments of various entities of the Diocese of Manchester as described in Note 5 (\$62,726,806 in 2020 and \$61,723,885 in 2019) (Diocesan entities). The Insurance Fund administers the insurance program for the Diocese of Manchester as described in Note 10. Revenues are derived primarily from assessments charged to the various Diocesan entities. For the purpose of these financial statement disclosures, Diocesan entities include primarily the parishes, schools and cemeteries that are considered part of the Diocese of Manchester.

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

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 10), losses on accounts, notes and insurance receivable (Notes 1, 3, and 10).

#### **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.

# Central Office of the Diocese of Manchester

## Notes to Financial Statements

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### Note 1: Summary of Significant Accounting Policies (Continued)

#### Cash and Cash Equivalents (Continued)

The Central Office customarily maintains amounts on deposit in various bank accounts in excess of the Federal deposit insurance coverage amounts. Deposits totaling approximately \$5,971,000 (prior to outstanding items clearing the bank) at June 30, 2020 are not covered by Federal deposit insurance.

In addition to the above amounts on deposit, the Central Office reports certain cash equivalents managed by its investment advisors as investments and not as cash equivalents in the accompanying statements of financial position, since it is the Central Office's intention to invest these funds for long-term purposes. Cash and cash equivalents reported as investments totaling approximately \$3,416,000 are not covered by Federal deposit insurance.

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

<i>As of June 30,</i>	2020	2019
Diocesan cash	\$ 4,339,774	\$ 971,643
Central fund cash	1,640,094	1,503,940
Total cash reported on statements of cash flows	\$ 5,979,868	\$ 2,475,583
Cash held in investment accounts (Note 13)	3,665,772	1,302,266
<b>Total</b>	<b>\$ 9,645,640</b>	<b>\$ 3,777,849</b>

#### Receivables

##### *Accounts receivable*

Accounts receivable are reported at estimated net collectible amounts. The accounts receivable arise in the normal course of the operation of the Central Office and are primarily due from the parishes and schools of the Diocese of Manchester. Credit is generally extended on a short-term basis; thus, accounts receivable do not bear interest. The Central Office periodically reviews the outstanding accounts receivable for the purposes of establishing an allowance for uncollectible accounts based on the average bad debt write-offs experienced in the past and its current knowledge of the accounts. It is management's policy to convert delinquent accounts receivable to notes receivable or, in rare circumstances, to charge off uncollectible accounts receivable when management determines the receivable will not be collected. Accounts receivable at June 30, 2020 and 2019 are reported net of an allowance for uncollectible accounts of \$345,034 and \$634,341, respectively. During the year ended June 30, 2020, accounts receivable from parishes in the amount of \$1,380,133 were transferred to notes receivable. Aggregate accounts receivable past due 90 days or more were approximately \$780,000 and \$1,606,000 as of June 30, 2020 and 2019, respectively. Delinquency status is based on normal credit terms. The Central Office does not generally require collateral for the extension of credit.

# Central Office of the Diocese of Manchester

## Notes to Financial Statements

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### **Note 1: Summary of Significant Accounting Policies** (Continued)

#### **Receivables** (Continued)

##### ***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. However, if property of a Diocesan entity were to be liquidated, proceeds from the sale of the assets would be required to be applied to any outstanding balance on notes receivable, including any accounts receivable, due to the Central Office.

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. Interest rates are reviewed by management every six months with any changes effective January 1 and July 1 each fiscal year. Interest was charged at the rate of 4.5% for the period January 1, 2020 - June 30, 2020 and 4.85% for the period July 1, 2019 - December 31, 2019, and 4.6% in fiscal year 2019. Interest income was \$366,853 and \$356,971 for the years ended June 30, 2020 and 2019, respectively. 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.

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, 2020 and 2019.

Notes receivable 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).

# Central Office of the Diocese of Manchester

## Notes to Financial Statements

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### Note 1: Summary of Significant Accounting Policies (Continued)

#### 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 13). Net asset value (NAV) is used as a practical expedient to estimate fair value of the hedge funds (Note 13).

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

#### 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, 2020 and 2019 is, as follows:

	2020	2019
Land	\$ 2,129	\$ 2,129
Buildings	651,646	651,646
Building improvements	1,545,129	1,480,642
Furniture and other equipment	383,438	342,253
Computer equipment and software	363,331	303,646
	<u>2,945,673</u>	<u>2,780,316</u>
Less: accumulated depreciation	<u>2,387,978</u>	<u>2,304,430</u>
<b>Fixed assets, net</b>	<b>\$ 557,695</b>	<b>\$ 475,886</b>

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 \$97,193 and \$71,703 during 2020 and 2019, respectively.

Included in fixed assets in the accompanying statements of financial position are assets with a net book value of \$132,629 and \$137,424 as of June 30, 2020 and 2019, respectively, which are restricted by the donor for use as the Bishop's residence.

# Central Office of the Diocese of Manchester

## Notes to Financial Statements

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### Note 1: Summary of Significant Accounting Policies (Continued)

#### Restricted Support

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

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

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

Designated net assets have been designated by the Central Office for the following purposes at June 30, 2020 and 2019:

	2020	2019
Priest housing	\$ 1,989,830	\$ 2,524,138
School education fund	322,651	320,173
Priests continuing formation	1,008,329	890,614
Medical needs of priests	759,786	771,746
Worship and world youth day	10,070	10,070
Campus ministry	124,925	124,925
Youth ministry	442,705	442,705
St. Joseph Cathedral	40,716	40,716
Permanent Diaconate Continuing Formation	1,129,179	896,847
<b>Total</b>	<b>\$ 5,828,191</b>	<b>\$ 6,021,934</b>

# Central Office of the Diocese of Manchester

## Notes to Financial Statements

### Note 1: Summary of Significant Accounting Policies (Continued)

#### Restricted Support (Continued)

Net assets with donor restrictions as of June 30, 2020 and 2019 are restricted for the following purposes:

	2020	2019
Seminarians	\$ 80,144	\$ 125,119
Missionary support	903,961	986,059
Parish masses	368,320	371,181
For specific schools	-	190,718
Education	510,378	444,733
Non-capital purposes	209,395	232,123
For specific geographical region	159,366	168,164
Other various purposes	268,053	255,289
<b>Total</b>	<b>\$ 2,499,617</b>	<b>\$ 2,773,386</b>

Endowments restricted in perpetuity (including amounts above the original gift amount of \$8,464,047 in 2020 and \$8,499,788 in 2019):

	2020	2019
Missionary, Catholic education, retired priests and parish support	\$ 5,575,826	\$ 5,963,536
Seminarians	751,253	789,946
Care of gravesites	48,405	49,960
Scholarships, education and tuition	3,192,577	3,400,874
Care of needy	17,131	17,681
General purposes for specific parishes	1,098,467	1,126,754
Other various purposes	269,646	277,147
<b>Total</b>	<b>\$ 10,953,305</b>	<b>\$ 11,625,898</b>
<b>Total net assets with donor restrictions</b>	<b>\$ 13,452,922</b>	<b>\$ 14,399,284</b>

#### Functional Allocation of Expenses

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

# Central Office of the Diocese of Manchester

## Notes to Financial Statements

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### **Note 1: Summary of Significant Accounting Policies** (Continued)

#### **Functional Allocation of Expenses** (Continued)

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

#### **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, 2020, the Central Office did not take any material tax positions which do not meet the criteria for recognition.

#### **Change in Accounting Principle**

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 958). The amendments in this update assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and determining whether a transaction is conditional. The amendments in this ASU apply to both resources received by a recipient and resources given by a resource provider. The accounting guidance is effective for fiscal years beginning after December 15, 2018. The Central Office adopted this guidance as of July 1, 2019, as required by the standard. The Central Office applied Topic 958 on a prospective basis. There were no changes to opening balances of net assets and no prior period results were restated. The Central Office believes the new accounting guidance improves the information provided in the financial statements and related disclosures for the primary users of the financial statements.

During 2017, the FASB issued ASU 2017-07, *Compensation - Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, to improve the presentation of net periodic retirement cost. The guidance requires that only the service cost component of net periodic retirement cost be reported in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net periodic retirement costs are required to be presented in the statement of activities separately from the service component and outside a subtotal of change in net assets from operating activities. The guidance clarifies that the service cost component is the only component of net periodic retirement cost that directly arises from employees' service provided in the current period. The accounting guidance is effective for fiscal years beginning after December 15, 2018 and is to be applied retrospectively. The Central Office believes that the new accounting guidance improves the consistency, transparency and usefulness of financial information to users related to net periodic retirement costs. There were no changes to opening balances of net assets. This resulted in \$1,894,359 of net periodic retirement costs for 2019 being reported separately from operating expenses in the statements of activities.



# Central Office of the Diocese of Manchester

## Notes to Financial Statements

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### Note 2: Investments

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

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

Equity securities - domestic	10% - 40%
Equity securities - international and emerging markets	10% - 30%
Fixed income securities	30% - 38%
Alternate investments	5% - 25%
Private equities	0% - 10%
Cash and cash equivalents	.5% - 5%

The Diocese is the sole remainder beneficiary of an irrevocable charitable remainder trust. Under the terms of the trust, the income beneficiaries of the trust receive a unitrust amount equal to 8% of the fair market value of the trust assets determined annually, paid in equal monthly installments. Upon the death of the surviving income beneficiary, the trustee is to distribute all remaining principal and income of the trust to the Diocese to be used to establish a scholarship fund to benefit students in Catholic regional schools within New Hampshire. The net present value of the beneficial interest in the trust is included in Diocesan investments in the accompanying financial statements using an assumed rate of return of 4.15% in 2020 and 6% in 2019, and discounted at 2.45% in 2020 and 3.35% in 2019 (\$1,299,578 and \$1,338,870 at June 30, 2020 and 2019, respectively). The fair value of the trust assets was \$2,153,293 and \$2,133,955 at June 30, 2020 and 2019, respectively.

Investments are included in the accompanying financial statements, as follows:

<i>As of June 30,</i>	2020	2019
Diocesan investments	\$ 28,596,228	\$ 33,098,416
Central fund deposits and investments	66,947,417	67,800,208
Total	\$ 95,543,645	\$ 100,898,624

# Central Office of the Diocese of Manchester

## Notes to Financial Statements

### Note 2: Investments (Continued)

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

<i>As of June 30,</i>	2020	2019
Dividends, interest and other income	\$ 1,883,070	\$ 1,964,068
Investment fees paid, net	(38,774)	(124,544)
Net realized and unrealized gains	(41,311)	2,565,110
<b>Total</b>	<b>\$ 1,802,985</b>	<b>\$ 4,404,634</b>

See Note 13 for fair value measurements and the fair value of investments classified by major type.

Investment income is accounted for in the fund holding the assets, except for certain income from the investment of donor restricted funds, which is accounted for as revenue with donor restrictions. The Central Office follows the guidance established by the Financial Accounting Standards Board when accounting for losses in donor-designated endowment funds (see Note 14).

### Note 3: Notes Receivable

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, 2020 and 2019 were \$14,893,653 and \$8,972,847, respectively. Non-performing notes receivables as of June 30, 2020 and 2019 were \$924,927 and \$1,253,199, respectively.

The following reflects the age analysis of notes receivable as of June 30, 2020 and 2019, respectively:

	2020	2019
Current	\$ 14,893,652	\$ 8,972,847
30 - 59 days	67,744	72,949
60 - 89 days	84,000	-
90+ days	773,183	1,180,250
<b>Total notes receivable</b>	<b>\$ 15,818,579</b>	<b>\$ 10,226,046</b>
<b>Total notes receivable on non-accrual status</b>	<b>\$ 2,430,425</b>	<b>\$ 1,446,216</b>
<b>Notes receivable 90+ days past due and still accruing</b>	<b>\$ 857,183</b>	<b>\$ 336,273</b>

As described in Note 16, \$905,823 and \$219,038 of the current and 90+ days aging balances, respectively, were due from the St. Andre Bessette Parish and paid in full subsequent to year end.

# Central Office of the Diocese of Manchester

## Notes to Financial Statements

### Note 3: Notes Receivable (Continued)

The following provides informative data at June 30, 2020 and 2019 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:

	2020	2019
<b>Impaired loans for which no allowance for credit losses is recognized:</b>		
Recorded investment	\$ 1,646,783	\$ 3,091,128
Unpaid principal balance	1,646,783	3,091,128
Average recorded investment	2,368,956	2,746,298
Interest income recognized while impaired	22,179	82,348
<b>Impaired loans for which an allowance for credit losses is recognized:</b>		
Recorded investment	\$ 7,091,859	\$ 2,570,400
Unpaid principal balance	7,091,859	2,570,400
Average recorded investment	4,831,129	2,738,142
Interest income recognized while impaired	91,561	73,381

The following reflects the allowance for losses and the related recorded investment in notes receivable as of June 30, 2020 and 2019, respectively:

	2020	2019
<b>Allowance for losses:</b>		
Beginning balance	\$ 2,172,000	\$ 2,383,000
Provision (recovery)	340,000	(211,000)
<b>Ending balance</b>	<b>\$ 2,512,000</b>	<b>\$ 2,172,000</b>
Ending balance: Individually evaluated for impairment	2,393,708	2,045,226
Ending balance: Aggregate remaining balance evaluated for impairment	118,292	126,774
<b>Ending balance</b>	<b>\$ 2,512,000</b>	<b>\$ 2,172,000</b>
<b>Recorded investment in notes receivable:</b>		
Ending balance: Individually evaluated for impairment	8,738,642	5,661,528
Ending balance: Aggregate remaining balance evaluated for impairment	7,079,937	4,564,518
<b>Ending balance</b>	<b>\$ 15,818,579</b>	<b>\$ 10,226,046</b>

There were no changes to the accounting policy for notes receivable for the years ended June 30, 2020 and 2019. There were no purchases, sales, or reclassifications of notes receivables for the years ended June 30, 2020 and 2019.

# Central Office of the Diocese of Manchester

## Notes to Financial Statements

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### Note 4: Related Party Transactions

The Central Office rents space at the property located at the St. Joseph Cathedral Parish, a Diocesan entity, for storing its archive files. The total rent paid was \$5,580 in 2020 and 2019.

The Central Office enters into various transactions with Catholic Charities New Hampshire (CCNH), which has its main office located in facilities owned and shared by the Central Office. Rent paid by CCNH was \$126,112 and \$112,614 in 2020 and 2019, respectively.

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

<i>Years ended June 30,</i>	2020	2019
Assessments received (excluding insurance)	\$ 5,755,310	\$ 5,965,493
Insurance revenue (see Note 10)	5,664,609	5,497,453
Grants, subsidies and donations	2,107,740	1,890,529
Investment management fees earned	332,036	328,038

Amounts due from the parishes and other Diocesan entities, primarily for assessments, insurance and interest (net of allowance) was \$890,062 and \$954,610 at June 30, 2020 and 2019, respectively. Amounts due to the parishes and other related parties at June 30, 2020 and 2019 were \$193,308 and \$192,056, respectively.

At June 30, 2019, the Central Office had an account receivable of \$1,416,757 due from Holy Trinity at St. Andre Bessette in Laconia, New Hampshire for a construction project. During 2020, a balance of \$905,823 was converted to a loan. There was no account receivable balance related to the project at June 30, 2020. As described in Note 16, the balance of \$905,823 was paid in full subsequent to year end.

In 2019, the Central Office entered into a note agreement with CCNH to fund the construction of a facility to house retired Catholic priests. The note is for up to \$1,500,000 with a 20-year term. The note specified that interest was to begin accruing at a yearly fixed rate of 3% at the earlier of reaching \$1,500,000 in construction costs or December 31, 2019. The note includes a debt forbearance clause, which specifies that every five years during the term of the loan, the outstanding loan principal balance shall be reduced by 25% of the amount originally loaned by the Central Office if certain conditions are satisfied. Interest began accruing on the note on December 31, 2019. Total interest income related to the note was \$19,115 in 2020. The outstanding note receivable balance was \$1,293,219 and \$706,506 at June 30, 2020 and 2019, respectively.

# Central Office of the Diocese of Manchester

## Notes to Financial Statements

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### Note 4: Related Party Transactions (Continued)

In May 2020, the Central Office entered into an agreement with a Diocesan High School for a bridge loan not to exceed \$2,000,000 to finance the construction of an athletic field. The loan bears a fixed interest rate of 2.5% and requires interest only payments through June 30, 2021, with monthly principal and interest payments effective July 1, 2021. In addition, the high school is required to remit monthly all proceeds received from their capital campaign fund. Any outstanding loan balance not paid in full by May 1, 2022 will convert to a Central Fund loan. In conjunction with the agreement, the Central Office entered into the line of credit described in Note 9. Proceeds received from the repayment of the bridge loan will be utilized for the required monthly payments on the line of credit. The outstanding note receivable balance was \$1,843,651 as of June 30, 2020.

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

The Central Office participates in the Roman Catholic Bishop of Manchester Employee Benefit Plan and Trust (the Plan) which is managed and overseen by the Diocese. The Plan provides health, dental, life and disability insurance benefits. Total expense incurred and paid to the Plan was approximately \$649,000 during 2020 and \$500,000 during 2019.

### 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 1.00% for the period January 1, 2020 through June 30, 2020 and 1.35% for the period July 1, 2018 through December 31, 2019. For cemeteries with deposits in the Perpetual Care Fund, interest is paid at 2.7% in 2020 and 2019. Amounts are payable on demand. Interest expense on deposits was \$588,216 and \$636,686 for 2020 and 2019, 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 deposit and investment liabilities at June 30, 2020 and 2019, consist of the following:

	2020	2019
Parishes	\$ 36,709,196	\$ 36,485,680
Cemeteries	13,308,529	13,247,309
Schools	7,907,972	7,455,516
Sick Priests Fund	3,350,436	3,335,814
Other Diocesan entities	1,450,673	1,199,566
	\$ 62,726,806	\$ 61,723,885

# Central Office of the Diocese of Manchester

## Notes to Financial Statements

### Note 6: Liquidity and Availability of Financial Resources

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following at June 30, 2020 and 2019:

	2020	2019
Diocesan cash	\$ 4,339,774	\$ 971,643
Operating accounts receivable	836,247	660,630
Interest receivable	27,891	1,460
Collections on loans receivable	2,375,000	1,261,169
Operating investments	12,078,919	15,636,693
Less: designated net assets	(5,828,191)	(6,021,934)
Less: cash held for others	(431,015)	(308,376)
Less: funds held for others	(274,662)	(556,761)
Endowment spending-rate distributions and appropriations	500,000	486,536
	\$ 13,623,963	\$ 12,131,060

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

The Diocesan investments consist of donor-restricted endowments and funds designated by the Central Office for various purposes (Note 14). Donor-restricted endowment funds are not available for general expenditure and are subject to an annual spending rate of up to 5% of the funds average fair value of the previous three years (for the year ending June 30, 2020, a 4% distribution was recommended by the Diocesan Finance Council and approved by the Bishop). Management does not intend to spend from the designated funds; however, these amounts could be made available, if necessary.

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

# Central Office of the Diocese of Manchester

## Notes to Financial Statements

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### Note 7: Retirement Plan

#### *(A) Diocesan Administration Employees*

The Central Office has a tax-deferred annuity plan under Internal Revenue Code Section 403(b) for the benefit of its eligible Diocesan administration employees. Employer contributions to the plan are based on 3% of eligible wages. In addition, the employer matches 50% of 403(b) employee deferred contributions by 50% to the first 6% of employee contributions, up to a maximum of 3% of eligible wages. Total employer contributions to this plan during 2020 and 2019 amounted to \$215,682 and \$191,022, 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.

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

The Plan provides for the monthly stipend for retired priests to generally increase each year consistent with the timing and percentage of the annual stipend increase for active priests. However, any annual adjustment ultimately requires approval from the Bishop of Manchester. There was no increase to the monthly stipend for 2020. Effective July 1, 2019, the Bishop approved a monthly stipend increase from \$1,734 to \$1,777 for retired priests. The monthly stipend for retired Bishops was \$2,250 for 2020 and 2019.

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

The Diocese maintains a sustenance program for priests ineligible for public ecclesiastical ministry for whom the Diocese retains responsibility of sustenance. Expenditures from this program are paid from a Central Office fund designated for this purpose and not from the Diocesan Priest Fund or Diocesan assessment revenue from parishes.

# Central Office of the Diocese of Manchester

## Notes to Financial Statements

### Note 7: Retirement Plan (Continued)

The actuarial assumptions for the mortality, discount and trend rates were changed during the year ended June 30, 2020. The changes in these actuarial assumptions increased the priest retirement obligation by approximately \$2,865,000.

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

The following information relates to the Diocesan Priest Retirement Plan, Medical Insurance Fund and Sustenance Program, and includes amounts determined as of June 30, 2020 and 2019 measurement dates:

	2020			2019		
	Diocesan Priests Retirement Plan	Medical Insurance Fund	Sustenance Program	Diocesan Priests Retirement Plan	Medical Insurance Fund	Sustenance Program
Projected benefit obligation	\$ (32,987,634)	\$ (1,827,500)	\$ (1,143,717)	\$ (30,380,157)	\$ (1,666,968)	\$ (1,617,288)
Plan assets	15,563,399	-	-	14,005,264	-	-
<b>Total</b>	<b>\$ (17,424,235)</b>	<b>\$ (1,827,500)</b>	<b>\$ (1,143,717)</b>	<b>\$ (16,374,893)</b>	<b>\$ (1,666,968)</b>	<b>\$ (1,617,288)</b>

The following components of the projected benefit obligation of the Diocesan Priest Retirement Plan for the years ended June 30, 2020 and 2019 have not been recognized as periodic pension costs:

	2020	2019
Unrecognized prior service cost	\$ 7,780,743	\$ 8,347,749
Unrecognized net loss	\$ 5,292,046	\$ 2,651,772



# Central Office of the Diocese of Manchester

## Notes to Financial Statements

### Note 7: Retirement Plan (Continued)

Significant assumptions at June 30, 2020 and 2019 include:

	2020			2019		
	Diocesan Priests Retirement Plan	Medical Insurance Fund	Sustenance Program	Diocesan Priests Retirement Plan	Medical Insurance Fund	Sustenance Program
Discount rate	2.45 %	2.45 %	2.45 %	3.35 %	3.35 %	3.35 %
Expected return on Plan Assets	4.15 %	N/A	4.15 %	6.00 %	N/A	6.00 %
Annual cost increases:						
Medical and Dental	5.5% trending to 4.0%	5.5% trending to 4.0%	5.5% trending to 4.0%	6.0% trending to 4.0%	6.0% trending to 4.0%	6.0% trending to 4.0%
Automobile insurance premiums	2.25 %	N/A	2.25 %	2.50 %	N/A	2.50 %
Year that the rate reaches the ultimate trend rate	2026	2026	2026	2025	2025	2025
Rate of compensation increase	2.25 %	N/A	N/A	2.50 %	N/A	N/A
	Pri-2012 White Collar Mortality Table for Employee and Retirees projected generational with Scale MP-2019			RP-2014 White Collar Mortality Table projected fully generational with scale MP-2018		
Mortality						
Benefit cost	1,434,977	160,532	(297,674)	1,433,050	56,786	1,004,862
Employer contributions and donations	2,268,190	-	175,897	1,855,382	-	227,799
Participant contributions	51,550	-	-	55,378	-	-
Benefits paid	1,049,760	18,078	175,897	914,271	22,964	227,799

# Central Office of the Diocese of Manchester

## Notes to Financial Statements

### Note 7: Retirement Plan (Continued)

The net periodic retirement cost consists of:

<i>Years Ended June 30,</i>	2020	2019
Diocesan Priest Retirement Plan:		
Amortization of prior service costs	\$ 567,006	\$ 503,144
Investment return	(832,785)	(743,673)
Interest cost	993,779	1,073,240
Medical insurance fund	160,532	56,786
Sustenance program	(297,674)	1,004,862
<b>Total</b>	<b>\$ 590,858</b>	<b>\$ 1,894,359</b>

The periodic retirement cost for the priest retirement plan, medical insurance fund and sustenance program is reported separately from operating expenses on the statements of activities. Current service cost for 2020 and 2019, respectively, were \$706,977 and \$600,339 and has been recorded in other program costs on the statement of functional expenses.

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

<i>Years Ended June 30,</i>	2020	2019
Amortization of prior service costs	\$ (567,006)	\$ (503,144)
Current year gain not yet recognized	1,231,130	1,987,398
Funding by affiliates	(1,049,760)	(914,270)
<b>Total</b>	<b>\$ (385,636)</b>	<b>\$ 569,984</b>

The accumulated benefit obligations were, as follows:

	Diocesan Priests Retirement Plan	Medical Insurance Fund	Sustenance Program
June 30, 2020	\$ 23,788,117	\$ 1,005,667	\$ 1,094,058
June 30, 2019	\$ 21,750,527	\$ 947,457	\$ 1,559,960

# Central Office of the Diocese of Manchester

## Notes to Financial Statements

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### Note 7: Retirement Plan (Continued)

The Central Office expects to contribute approximately \$1,838,845 to the Retirement Plan during the year ending June 30, 2021. Benefits and expenses 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
2021	\$ 1,460,000	\$ 57,166	\$ 128,208
2022	1,535,000	62,641	121,012
2023	1,591,000	67,232	113,570
2024	1,644,000	71,696	105,998
2025	1,672,000	74,913	98,407
2026 - 2030	8,260,000	391,867	383,966

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

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

See Note 13 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

### Note 7: Retirement Plan (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, 2020 and 2019:

	2020			Net Asset Value*	Total
	Level 1	Level 2	Level 3		
Money market funds	\$ 1,609,279	\$ -	\$ -	\$ -	\$ 1,609,279
Equity securities:					
Domestic	4,518,421	-	-	-	4,518,421
International and emerging markets	661,306	-	-	-	661,306
Fixed income securities:					
Corporate bonds	-	2,775,665	-	-	2,775,665
Government securities	-	758,378	-	-	758,378
Certificates of deposit	-	1,519,790	-	-	1,519,790
Preferred stock	4,550	-	-	-	4,550
Alternative investments:					
Real estate investment trusts	629,454	-	-	-	629,454
Total assets in the fair value hierarchy	7,423,010	5,053,833	-	-	12,476,843
Hedge funds	-	-	-	2,097,675	2,097,675
Investments at fair value	\$ 7,423,010	\$ 5,053,833	\$ -	\$ 2,097,675	\$ 14,574,518
Cash and cash equivalents					593,052
<b>Total investments</b>					<b>\$ 15,167,570 **</b>

# Central Office of the Diocese of Manchester

## Notes to Financial Statements

### Note 7: Retirement Plan (Continued)

	2019				
	Level 1	Level 2	Level 3	Net Asset Value*	Total
Money market funds	\$ 438,055	\$ -	\$ -	\$ -	\$ 438,055
Equity securities:					
Domestic	3,543,651	-	-	-	3,543,651
International and emerging markets	2,444,457	-	-	-	2,444,457
Fixed income securities:					
Corporate bonds	-	1,757,629	-	-	1,757,629
Government securities	-	1,210,060	-	-	1,210,060
Certificates of deposit	-	1,368,247	-	-	1,368,247
Preferred stock	6,760	-	-	-	6,760
Alternative investments:					
Real estate investment trusts	617,874	-	-	-	617,874
Mutual funds	158,187	-	-	-	158,187
<b>Total assets in the fair value hierarchy</b>	<b>7,208,984</b>	<b>4,335,936</b>	<b>-</b>	<b>-</b>	<b>11,544,920</b>
Hedge funds	-	-	-	1,798,190	1,798,190
Investments at fair value	\$ 7,208,984	\$ 4,335,936	\$ -	\$ 1,798,190	\$ 13,343,110
Cash and cash equivalents					177,115
<b>Total investments</b>					<b>\$ 13,520,225</b> **

\* 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 13).

\*\* Excludes other assets held by the Diocesan Priests Retirement Plan.

### Note 8: Paycheck Protection Program

As of June 30, 2020, the Central Office had an outstanding loan of \$1,044,600 from the Small Business Administration's (SBA) Paycheck Protection Program (PPP), as a result of legislation passed to assist businesses in navigating the Coronavirus pandemic. Under the terms of the original loan agreement, the loan bears interest at a rate of 1% with monthly payments of principal and interest commencing upon receipt of notification of the unforgiven amount by the SBA, and would be required to be paid no later than April 2022. If certain criteria are met, the Small Business Administration may forgive all or a portion of the loan.

# Central Office of the Diocese of Manchester

## Notes to Financial Statements

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### **Note 8: Paycheck Protection Program** (Continued)

While the Central Office believes based upon current information all or substantially all of the loan and accrued interest will be forgiven under the program, under generally accepted accounting principles, any forgiveness is not recognized until a formal forgiveness determination is made by the SBA.

### **Note 9: Line of Credit**

In conjunction with the construction project for the Diocesan high school described in Note 4, in May 2020 the Central Office obtained a secured line of credit agreement from the Knights of Columbus. Under the terms of the agreement, the Central Office can obtain advances through July 2020, with the total liability not to exceed \$1,000,000, as defined. Payments of interest only are due monthly through May 2022. Interest is calculated through May 2022 at the "1 Year Treasury Rate" as of May 28, 2020, plus two hundred twenty-five (225) basis points (2.39% effective rate at June 30, 2020). In May 2022, the loan will convert to a term of 5, 10 or 20 years at the option of the Central Office, and the interest rate will adjust to a fixed rate per annum equal to the greater of 4% or the Applicable Treasury Constant Maturity Rate (as defined), plus two hundred twenty-five (225) basis points. Commencing in May 2022, the Central Office is required to make monthly payments of principal and interest over the remaining term of the loan. The loan is secured by a first security interest of the lender in an investment brokerage account held by the Central Office with a balance of approximately \$2,150,000 as of June 30, 2020. Outstanding principal on the loan is \$1,000,000 at June 30, 2020. In accordance with the Central Office's agreement with the Diocesan high school, proceeds from repayment of the bridge loan will be utilized for the required monthly payments on the line of credit.

### **Note 10: 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 \$131,000, which is on deposit with a fiduciary and is bound by a Security Deposit Agreement in accordance with New Hampshire state law.

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

# Central Office of the Diocese of Manchester

## Notes to Financial Statements

### Note 10: Insurance (Continued)

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 \$357,915 and \$0 at June 30, 2020 and 2019, respectively, and have been recorded as insurance receivable in the accompanying statements of financial position.

The Central Office receives reimbursement for claims under New Hampshire's Second Injury Fund program. New Hampshire's Second Injury Fund gives employers an opportunity to limit their compensation costs in the event that an employee with a prior impairment sustains a workers' compensation injury which leaves the employee more disabled than the same injury would leave a non-impaired worker. Amounts recoverable from the second injury fund are determined based on acceptance of the claim by the State of New Hampshire. As of June 30, 2020 and 2019, recoveries of \$543,805 and \$559,735 are expected from the second injury fund 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, 2020 and 2019:

	2020		
	Claims Payable, net	IBNR	Total
Liability	\$ 862,051	\$ 424,524	\$ 1,286,575
Property	70,050	376,285	446,335
Workers' Compensation	1,301,984	-	1,301,984
<b>Total</b>	<b>\$ 2,234,085</b>	<b>\$ 800,809</b>	<b>\$ 3,034,894</b>

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

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 \$1,052,000 and \$533,000 in 2020 and 2019, respectively.

# Central Office of the Diocese of Manchester

## Notes to Financial Statements

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### **Note 11: Contingencies**

Numerous claims and lawsuits have been filed and settled against the Diocese of Manchester regarding reports of sexual misconduct with minors by some priests and others associated with the Diocese. The accompanying financial statements include an estimated liability for the remaining reported claims and an estimate of the liability relating to unreported claims. As discussed in Note 10, it is possible that these estimates will change in the near term, and these changes may be material to the financial statements.

### **Note 12: 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.

Beginning in March 2020, the United States economy began suffering adverse effects from the COVID-19 virus crisis ("CV19 Crisis") including financial markets, supply chains, businesses, and communities. Specific to the Central Office, the CV19 Crisis has impacted various parts of its 2020 operations and financial results and may impact future operations. Management believes the Central Office is taking appropriate actions to mitigate the negative impact.

### **Note 13: 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

### Note 13: 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, 2020 and 2019:

	2020			Net Asset Value*	Total
	Level 1	Level 2	Level 3		
Money market funds	\$ 9,952,138	\$ -	\$ -	\$ -	\$ 9,952,138
Equity securities:					
Domestic	28,130,327	-	213,398	-	28,343,725
International and emerging markets	4,094,977	-	-	-	4,094,977
Fixed income securities:					
Corporate bonds	-	17,170,154	-	-	17,170,154
Government securities	-	4,686,099	-	-	4,686,099
Certificates of deposit	-	9,405,152	-	-	9,405,152
Preferred stock	33,578	-	-	-	33,578
Exchange-traded and closed- end funds	18,363	-	-	-	18,363
Alternative investments:					
Real estate investment trusts	3,894,779	-	-	-	3,894,779
Beneficial interest in charitable remainder trust	-	-	1,299,577	-	1,299,577
<b>Total assets in the fair value hierarchy</b>	<b>46,124,162</b>	<b>31,261,405</b>	<b>1,512,975</b>	<b>-</b>	<b>78,898,542</b>
Hedge funds	-	-	-	12,979,331	12,979,331
Investments at fair value	\$ 46,124,162	\$ 31,261,405	\$ 1,512,975	\$ 12,979,331	\$ 91,877,873
Cash and cash equivalents (Note 1)					3,665,772
<b>Total investments (Note 2)</b>					<b>\$ 95,543,645</b>

# Central Office of the Diocese of Manchester

## Notes to Financial Statements

### Note 13: Fair Value Measurements (Continued)

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

\* 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.

# Central Office of the Diocese of Manchester

## Notes to Financial Statements

### Note 13: 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, 2020 and 2019:

	2020		
	Investment in Insurance Company	Charitable Remainder Trust	Total
Balance, beginning of year	\$ 213,398	\$ 1,338,870	\$ 1,552,268
Unrealized losses	-	(239,293)	(239,293)
Contributions	-	200,000	200,000
	<u>\$ 213,398</u>	<u>\$ 1,299,577</u>	<u>\$ 1,512,975</u>

  

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

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 unfunded commitments as of June 30, 2020.

# Central Office of the Diocese of Manchester

## Notes to Financial Statements

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### **Note 13: Fair Value Measurements** (Continued)

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 14: Donor- Designated Endowments**

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

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

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

# Central Office of the Diocese of Manchester

## Notes to Financial Statements

### Note 14: Donor- Designated Endowments (Continued)

Endowment net asset composition as of June 30, 2020 and 2019 and changes in endowment net assets for the years ended June 30, 2020 and 2019 are, as follows:

	2020	2019
	With Donor	With Donor
	Restrictions	Restrictions
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ 8,484,047	\$ 8,499,788
Accumulated investment gains	2,469,258	3,126,110
Endowment net assets, end of year	\$ 10,953,305	\$ 11,625,898
	2020	2019
	With Donor	With Donor
	Restrictions	Restrictions
Endowment net assets, beginning of year	\$ 11,625,898	\$ 11,833,465
Contributions	203,400	204,000
Interest and dividends	38,272	54,691
Net appreciation (depreciation) in value of investments	(188,095)	327,757
Amounts appropriated for expenditure	(726,170)	(794,015)
Endowment net assets, end of year	\$ 10,953,305	\$ 11,625,898

*Funds with Deficiencies.* From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Central Office to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in net assets with donor restrictions. No significant deficiencies were reported in net assets with donor restrictions as of June 30, 2020 and 2019.

*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.

# Central Office of the Diocese of Manchester

## Notes to Financial Statements

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### **Note 14: Donor- Designated Endowments** (Continued)

*Spending Policy.* The Central Office has a policy of appropriating for distribution each year between 4% - 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 approved spending rate is required for any single year, the Central Office will appropriate a distribution of up to 7%, which is in line with the safe harbor provision, 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, 2020 and 2019, a 4% distribution was recommended by the Diocese Finance Council and approved by the Bishop. In establishing this policy, the Central Office considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, some of which must be maintained in perpetuity because of donor-restrictions, the possible effects of inflation, and the provisions of SPMIFA.

### **Note 15: New Accounting Pronouncement**

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). This ASU, as amended, provides comprehensive guidance on the recognition of revenue from customers arising from the transfer of goods and services, guidance on accounting for certain contract costs, and new disclosures. The new standard supersedes current revenue recognition requirements in FASB Accounting Standards Codification (ASC) Topic 605, *Revenue Recognition*, and most industry-specific guidance. When adopted, the amendments in the ASU must be applied using one of two retrospective methods. In June 2020, the FASB issued 2020-05 which provides nonpublic entities with a one-year deferral of the effective date of ASC 606. The Central Office has elected to adopt this deferral and ASU No. 2014-09 is effective for the Central Office's year ending June 30, 2021. The Central Office is currently evaluating the impact of the provisions of ASC 606.

### **Note 16: Subsequent Events**

Management has evaluated subsequent events through February 2, 2021, the date when the financial statements were available to be issued.

Subsequent to year end, proceeds of \$1,140,000 were received by the Central Office from the sale of St. Andre Bessette in Laconia, New Hampshire. The proceeds, net of legal fees, were used to pay off two outstanding notes receivable due from the parish totaling \$905,823 and \$219,038, respectively, as of June 30, 2020.