

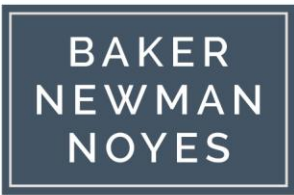
Central Office of the Diocese of Manchester

Financial Statements

*Years Ended June 30, 2024 and 2023
With Independent Auditors' Report*

Baker Newman & Noyes LLC
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INDEPENDENT AUDITORS' REPORT

Most Reverend Peter A. Libasci
Roman Catholic Bishop of Manchester
Central Office of the Diocese of Manchester

Qualified Opinion

We have audited the financial statements of Central Office of the Diocese of Manchester (the Central Office), which comprise the statement of financial position as of June 30, 2024, the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Central Office as of June 30, 2024, and the results of its operations and changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Basis for Qualified Opinion

The Central Office has not consolidated the financial statements of Trinity High School and St. Joseph Regional Junior High School, which, as of and for the year ended June 30, 2024, are required to be consolidated in accordance with Accounting Standards Codification 810. The effects of this departure from U.S. GAAP have not been determined. See Note 12.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Central Office and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Other Matter

The financial statements of the Central Office, as of and for the year ended June 30, 2023, were audited by other auditors, whose report, dated April 11, 2024, expressed an unmodified opinion on those financial statements.

Most Reverend Peter A. Libasci
Roman Catholic Bishop of Manchester
Central Office of the Diocese of Manchester

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Central Office's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Central Office's ability to continue as a going concern for a reasonable period of time.

Most Reverend Peter A. Libasci
Roman Catholic Bishop of Manchester
Central Office of the Diocese of Manchester

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Baker Newman & Noyes LLC

Manchester, New Hampshire
December 18, 2024

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

STATEMENTS OF FINANCIAL POSITION

June 30, 2024 and 2023

ASSETS

	<u>2024</u>	<u>2023</u>
Cash and cash equivalents	\$ 3,019,363	\$ 934,824
Cash held for designated purposes	2,331,553	3,294,669
Accounts receivable, net	971,805	1,238,300
Insurance receivable, net	247,202	124,004
Pledges receivable – New Hampshire Catholic Appeal	308,086	346,177
Second Injury Fund recoverable	633,192	555,791
Due from Diocese of Manchester Central Fund Trust	4,358,156	4,704,531
Due from Diocese of Manchester Benefit Plan	270,230	–
Prepaid expenses	318,745	401,318
Investments	46,740,996	47,510,434
Notes receivable, net	1,363,043	1,689,462
Cash held for restrictive purposes	136,492	136,082
Fixed assets, net	1,736,067	1,529,161
Interest rate swap	61,515	–
Investment in Trinity High School and St. Joseph Regional Junior High School – see Note 12	<u>11,281,030</u>	<u>–</u>
Total assets	<u>\$73,777,475</u>	<u>\$62,464,753</u>

LIABILITIES AND NET ASSETS

Accounts payable and accrued expenses	\$ 1,262,704	\$ 1,919,958
Reserves and other liabilities	402,549	457,660
Fund held for others – special collections	492,726	338,168
Due to Diocese of Manchester Benefit Plan	–	423,781
Grants payable – New Hampshire Catholic Appeal	1,399,926	2,243,202
Pledge payable	–	150,000
Insurance liabilities	5,093,552	4,417,138
Priest retirement benefit obligation	4,103,429	7,492,120
Bonds payable	<u>11,744,668</u>	<u>–</u>
Total liabilities	24,499,554	17,442,027
Net assets:		
Without donor restrictions:		
Designated	5,400,255	5,502,397
Undesignated	<u>29,041,206</u>	<u>25,232,969</u>
	34,441,461	30,735,366
With donor restrictions	<u>14,836,460</u>	<u>14,287,360</u>
Total net assets	<u>49,277,921</u>	<u>45,022,726</u>
Total liabilities and net assets	<u>\$73,777,475</u>	<u>\$62,464,753</u>

See accompanying notes.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Years Ended June 30, 2024 and 2023

	2024			2023		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues:						
Program revenue and assessments	\$ 7,869,338	\$ –	\$ 7,869,338	\$ 7,048,557	\$ –	\$ 7,048,557
Donations and bequests:						
General	169,214	91,137	260,351	128,856	–	128,856
New Hampshire Catholic Appeal	3,828,487	–	3,828,487	3,107,462	–	3,107,462
Insurance	6,106,591	–	6,106,591	5,489,343	–	5,489,343
Miscellaneous	169,501	–	169,501	382,578	–	382,578
Management fee income	1,055,935	–	1,055,935	835,010	–	835,010
Net assets released from restriction	<u>603,367</u>	<u>(603,367)</u>	<u>–</u>	<u>503,937</u>	<u>(503,937)</u>	<u>–</u>
Total revenues	19,802,433	(512,230)	19,290,203	17,495,743	(503,937)	16,991,806
Expenses:						
Program	17,851,498	–	17,851,498	18,735,748	–	18,735,748
Supporting services	<u>4,597,842</u>	<u>–</u>	<u>4,597,842</u>	<u>3,842,581</u>	<u>–</u>	<u>3,842,581</u>
Total expenses	<u>22,449,340</u>	<u>–</u>	<u>22,449,340</u>	<u>22,578,329</u>	<u>–</u>	<u>22,578,329</u>
Loss from operations	(2,646,907)	(512,230)	(3,159,137)	(5,082,586)	(503,937)	(5,586,523)
Other activities:						
Investment return, net	2,934,409	1,061,330	3,995,739	2,965,410	1,770,490	4,735,900
Loss on forgiveness of note receivable	(375,000)	–	(375,000)	–	–	–
Other components of net periodic retirement cost	<u>(205,037)</u>	<u>–</u>	<u>(205,037)</u>	<u>(486,183)</u>	<u>–</u>	<u>(486,183)</u>
Total other activities	<u>2,354,372</u>	<u>1,061,330</u>	<u>3,415,702</u>	<u>2,479,227</u>	<u>1,770,490</u>	<u>4,249,717</u>
(Deficiency) excess of revenues over expenses before interest expense	(292,535)	549,100	256,565	(2,603,359)	1,266,553	(1,336,806)
Interest expense	<u>(66,531)</u>	<u>–</u>	<u>(66,531)</u>	<u>(24,947)</u>	<u>–</u>	<u>(24,947)</u>
(Deficiency) excess of revenues over expenses	(359,066)	549,100	190,034	(2,628,306)	1,266,553	(1,361,753)

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS (CONTINUED)

Years Ended June 30, 2024 and 2023

	2024			2023		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Change in fair value of interest rate swap	\$ 61,515	\$ –	\$ 61,515	\$ –	\$ –	\$ –
Retirement-related changes other than net periodic retirement costs	<u>4,003,646</u>	<u>–</u>	<u>4,003,646</u>	<u>5,245,512</u>	<u>–</u>	<u>5,245,512</u>
Change in net assets	3,706,095	549,100	4,255,195	2,617,206	1,266,553	3,883,759
Net assets, beginning of year	<u>30,735,366</u>	<u>14,287,360</u>	<u>45,022,726</u>	<u>28,118,160</u>	<u>13,020,807</u>	<u>41,138,967</u>
Net assets, end of year	<u>\$34,441,461</u>	<u>\$14,836,460</u>	<u>\$49,277,921</u>	<u>\$30,735,366</u>	<u>\$14,287,360</u>	<u>\$45,022,726</u>

See accompanying notes.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended June 30, 2024 and 2023

	Program									Supporting Services	Total
	Canonical Services	Catholic Formation	Development and Communication	Insurance	Ministries	Pastoral Services	Seminarian Formation	Other Programs	Total Programs	Operations and Administration	
2024											
Benefits and taxes	\$ 118,895	\$ 291,572	\$ 177,000	\$ 45,620	\$ 29,344	\$ 337,308	\$ 82,526	\$ –	\$ 1,082,265	\$ 930,951	\$ 2,013,216
General and administrative	12,910	86,454	43,246	529,676	8,650	173,362	12,403	–	866,701	429,509	1,296,210
Grants and donations - general	–	469,537	–	96,678	–	1,552,183	113	345,971	2,464,482	204,200	2,668,682
Grants and donations – New Hampshire Catholic Appeal	–	–	2,135,990	–	–	–	–	–	2,135,990	–	2,135,990
Insurance	–	–	–	4,823,934	–	10,019	7,209	–	4,841,162	–	4,841,162
Occupancy	93,582	229,925	139,637	–	23,096	58,669	7,817	–	552,726	652,098	1,204,824
Other	80	–	19	17,423	4,130	69,954	–	483,724	575,330	4,267	579,597
Program services	6,913	327,804	261,864	–	3,668	535,534	541,635	–	1,677,418	40,493	1,717,911
Salaries and wages	448,147	1,031,776	696,015	–	135,346	1,053,409	32,130	–	3,396,823	2,242,126	5,638,949
Supplies and equipment	<u>13,157</u>	<u>68,364</u>	<u>140,967</u>	<u>–</u>	<u>587</u>	<u>34,433</u>	<u>1,093</u>	<u>–</u>	<u>258,601</u>	<u>94,198</u>	<u>352,799</u>
Total functional expenses	<u>\$ 693,684</u>	<u>\$2,505,432</u>	<u>\$3,594,738</u>	<u>\$5,513,331</u>	<u>\$ 204,821</u>	<u>\$3,824,871</u>	<u>\$ 684,926</u>	<u>\$ 829,695</u>	<u>\$17,851,498</u>	<u>\$4,597,842</u>	<u>\$22,449,340</u>
2023											
Benefits and taxes	\$ 125,782	\$ 288,600	\$ 168,948	\$ 57,319	\$ 36,630	\$ 284,225	\$ 87,503	\$ –	\$ 1,049,007	\$ 585,175	\$ 1,634,182
General and administrative	11,611	140,858	105,509	547,433	3,482	69,357	17,613	–	895,863	320,351	1,216,214
Grants and donations - general	–	1,187,933	–	138,541	–	1,657,752	84	383,954	3,368,264	166,520	3,534,784
Grants and donations – New Hampshire Catholic Appeal	–	–	2,335,566	–	–	–	–	–	2,335,566	–	2,335,566
Insurance	–	–	–	4,562,161	–	5,489	5,489	–	4,573,139	–	4,573,139
Occupancy	148,676	139,994	111,691	–	34,939	88,782	25,882	–	549,964	405,153	955,117
Other	65	–	29	45,895	–	69,636	–	558,073	673,698	4,966	678,664
Program services	–	707,623	205,703	–	–	759,006	456,427	–	2,128,759	25,806	2,154,565
Salaries and wages	451,870	939,664	572,994	–	122,383	807,083	60,837	–	2,954,831	2,254,143	5,208,974
Supplies and equipment	<u>2,797</u>	<u>66,137</u>	<u>122,353</u>	<u>–</u>	<u>–</u>	<u>14,309</u>	<u>1,061</u>	<u>–</u>	<u>206,657</u>	<u>80,467</u>	<u>287,124</u>
Total functional expenses	<u>\$ 740,801</u>	<u>\$3,470,809</u>	<u>\$3,622,793</u>	<u>\$5,351,349</u>	<u>\$ 197,434</u>	<u>\$3,755,639</u>	<u>\$ 654,896</u>	<u>\$ 942,027</u>	<u>\$18,735,748</u>	<u>\$3,842,581</u>	<u>\$22,578,329</u>

See accompanying notes.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Cash flows from operating activities:		
Change in net assets	\$ 4,255,195	\$ 3,883,759
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	93,973	92,968
Bond issuance cost amortization	18,556	–
Loss on forgiveness of note receivable	375,000	–
Net realized and unrealized gains on investments	(3,076,921)	(3,999,207)
Provision for losses on notes receivable	–	337,590
Recoveries on accounts receivable	–	(204,864)
Adjustment for losses on notes receivable	–	31,004
Change in fair value of interest rate swap	(61,515)	–
Priest retirement benefit obligation	(3,388,691)	(4,342,057)
Change in operating assets and liabilities:		
Accounts receivable	266,495	(474,509)
Insurance receivable	(123,198)	(18,055)
Pledges receivable – New Hampshire Catholic Appeal	38,091	(202,469)
Second Injury Fund recoverable	(77,401)	62,636
Prepaid expenses	82,573	(65,767)
Accounts payable and accrued expenses	(657,254)	971,153
Reserves and other liabilities	(55,111)	(44,385)
Funds held for others – special collections	154,558	(104,247)
Grants payable – New Hampshire Catholic Appeal	(843,276)	1,373,534
Pledge payable	(150,000)	(100,000)
Insurance liabilities	<u>676,414</u>	<u>1,535,305</u>
Net cash used by operating activities	(2,472,512)	(1,267,611)
Cash flows from investing activities:		
Proceeds from sale of investments, net	3,846,359	6,550,735
Due from related parties, net	(347,636)	(4,562,910)
(Advances) collections on notes receivable, net	(48,581)	192,943
Purchase of fixed assets	(300,879)	(1,066,167)
Investment in Trinity High School and St. Joseph Regional Junior High School – see Note 12	<u>(11,281,030)</u>	<u>–</u>
Net cash (used) provided by investing activities	(8,131,767)	1,114,601
Cash flow from financing activities:		
Proceeds from bonds payable	12,097,237	–
Bond issuance costs	<u>(371,125)</u>	<u>–</u>
Net cash provided by financing activities	<u>11,726,112</u>	<u>–</u>
Net change in cash, cash equivalents and restricted cash	1,121,833	(153,010)
Cash, cash equivalents and restricted cash, beginning of year	<u>4,365,575</u>	<u>4,518,585</u>
Cash, cash equivalents and restricted cash, end of year	<u>\$ 5,487,408</u>	<u>\$ 4,365,575</u>

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

STATEMENTS OF CASH FLOWS (CONTINUED)

Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest (including capitalized interest of \$133,864 for the year ended June 30, 2024)	\$ <u>181,839</u>	\$ <u>24,947</u>
For the year ended June 30, 2023, net noncash investment activity relating to the due to/from the Diocese of Manchester Central Fund Trust totaled \$895,388.		
Reconciliation of the statements of cash flow to the statements of financial position:		
Cash and cash equivalents	\$ 3,019,363	\$ 934,824
Cash held for designated purposes	2,331,553	3,294,669
Cash held for restrictive purposes	<u>136,492</u>	<u>136,082</u>
Total cash, cash equivalents and restricted cash	\$ <u>5,487,408</u>	\$ <u>4,365,575</u>

See accompanying notes.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2024 and 2023

1. Summary of Significant Accounting Policies

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

Basis of Presentation

According to the Code of Canon Law of the Roman Catholic Church, a diocese is a "portion of the people of God which is entrusted for pastoral care to the bishop" (Canon 369). A diocese is normally territorial and is divided into distinct parts called parishes (Canon 374). The territory of the Diocese of Manchester (the Diocese) 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 that are fiscally responsible to the Bishop, including the operating fund, insurance fund, and net assets with donor restrictions as described below, and referred to herein as the Central Office of the Diocese of Manchester (the Central Office). The Central Office provides certain programs and administrative support functions to parishes, schools and cemeteries within this limited geographic region.

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 insurance fund administers the insurance program for the Diocese as described in Note 8. Revenues are derived primarily from assessments charged to the parishes and schools within the territory of the Diocese.

The accompanying financial statements exclude the assets, liabilities, net assets and financial activities of various parishes, schools, cemeteries, camps, Diocesan benefit plans, Aquinas House and Catholic Student Center, and other entities, except insofar as financial transactions have taken place between them and the Central Office. Although these entities are located in the territory of the Diocese, the entities maintain separate financial records and carry on their own services and programs. The accompanying financial statements also exclude the assets, liabilities, net assets and financial activities of the Diocese of Manchester Central Fund Trust (Diocese CFT), which holds deposits and investments as well as makes loans to various parishes, schools and cemeteries within the territory of the Diocese.

Use of 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.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2024 and 2023

1. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

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

The Central Office customarily maintains amounts on deposit in various bank accounts in excess of the Federal Deposit Insurance Coverage amounts. 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. The Central Office has not experienced any losses in such accounts in the past and believes it is not exposed to any significant credit risk related to cash balances held at June 30, 2024 and 2023.

Cash and cash equivalents are included in the accompanying financial statements as follows at June 30:

	<u>2024</u>	<u>2023</u>
Cash and cash equivalents	\$3,019,363	\$ 934,824
Cash held for designated purposes	2,331,553	3,294,669
Cash held for restrictive purposes	<u>136,492</u>	<u>136,082</u>
Total cash reported on statements of financial position and cash flows	5,487,408	4,365,575
Cash held in investment accounts (Notes 2 and 10)	<u>776,499</u>	<u>481,920</u>
	<u>\$6,263,907</u>	<u>\$4,847,495</u>

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 parishes and schools within the territory of the Diocese. Credit is generally extended on a short-term basis; thus, accounts receivable do not bear interest. The Central Office makes ongoing estimates relating to the collectibility of accounts receivable and records an allowance for estimated credit losses expected from the inability of its payors to make required payments. The Central Office periodically reviews the outstanding accounts receivable for the purposes of establishing an allowance for estimated credit losses based on the average bad debt write-offs experienced in the past and its current knowledge of the accounts, as well as an assessment of economic conditions. 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, 2024 and 2023 are reported net of an allowance for estimated credit losses of \$64,580. Accounts receivable as of June 30, 2024, 2023 and 2022 were \$971,805, \$1,238,300 and \$558,927, respectively.

Aggregate accounts receivable past due 90 days or more were approximately \$102,000 and \$177,000 as of June 30, 2024 and 2023, 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

Years Ended June 30, 2024 and 2023

1. Summary of Significant Accounting Policies (Continued)

Notes Receivable

Notes receivable from various parishes, cemeteries and schools within the territory of the Diocese are unsecured and are reported at their unpaid principal balances, less an allowance for credit losses. However, if property of an entity within the territory of the Diocese 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.

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, 2024 and 2023.

Notes receivable are evaluated for impairment annually and are placed on nonaccrual status on a case-by-case basis. Interest income on nonaccrual 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 nonaccrual 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 collectibility of the total contractual principal and interest is no longer in doubt.

The current expected credit loss (CECL) approach requires an estimate of the credit losses expected over the life of an exposure (or pool of exposures). It replaces the incurred loss approach's threshold that delayed the recognition of a credit loss until it was probable a loss event was incurred. The estimate of expected credit losses is based on relevant information about past events, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amounts. Historical loss experience is generally the starting point for estimating expected credit losses. The Central Office then considers whether the historical loss experience should be adjusted for asset-specific risk characteristics or current conditions at the reporting date that did not exist over the historical period used. At June 30, 2024, the Central Office believes that it has the intent and ability to hold its notes receivable for the foreseeable future or until maturity or pay-off. The Central Office establishes a specific reserve for individually evaluated loans that do not share similar risk characteristics with the loans evaluated using a collective or pooled basis. The Central Office reviews each outstanding note receivable and has provided an allowance for credit 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 as well as reasonably estimable future 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.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2024 and 2023

1. Summary of Significant Accounting Policies (Continued)

As discussed in Note 4, the Central Office has a note receivable from Catholic Charities New Hampshire (CCNH) as of June 30, 2024 and 2023 totaling \$1,125,000 and \$1,500,000, respectively. Other notes receivable total \$238,043 and \$189,462 as of June 30, 2024 and 2023, respectively. All notes receivable are considered current and classified as performing. There were no impaired notes for which an allowance for credit losses was recognized during 2024 and 2023. There was no allowance for credit losses related to notes receivable as of June 30, 2024 and 2023.

Investments

Investments are reported at fair value in the accompanying statements of financial position. See Note 10 for fair value measurement disclosures for investments.

Net investment return is reported in the statements of activities and changes in net assets and consists of interest and dividend income, realized and unrealized gains and losses, less investment expenses. For purposes of determining realized gains and losses, the cost of securities sold is based on average cost.

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 is as follows at June 30:

	<u>2024</u>	<u>2023</u>
Land	\$ —	\$ 2,129
Buildings	1,637,545	1,637,545
Building improvements	1,899,593	1,784,792
Furniture and other equipment	349,470	349,470
Computer equipment and software	369,971	369,971
Construction in progress	<u>188,206</u>	<u>—</u>
Total fixed assets	4,444,785	4,143,907
Less accumulated depreciation	<u>(2,708,718)</u>	<u>(2,614,746)</u>
Fixed assets, net	<u>\$ 1,736,067</u>	<u>\$ 1,529,161</u>

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 \$93,973 and \$92,968 during 2024 and 2023, respectively.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2024 and 2023

1. Summary of Significant Accounting Policies (Continued)

Included in fixed assets in the accompanying statements of financial position are assets with a net book value of \$69,959 and \$83,729 as of June 30, 2024 and 2023, respectively, which are restricted by the donor for use as the Bishop's residence.

Derivatives and Hedging Activities

The interest rate swap agreement held by the Central Office meets the definition of a derivative instrument and, consequently, the Central Office is required to record as an asset or liability the fair value of the interest rate swap agreement described in Note 3. The Central Office is exposed to repayment loss equal to any net amounts receivable under the swap agreement (not the notional amounts) in the event of nonperformance of the other party to the swap agreement. However, the Central Office does not anticipate nonperformance and does not obtain collateral from the other party.

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.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2024 and 2023

1. Summary of Significant Accounting Policies (Continued)

Net assets have been designated by the Central Office for the following purposes at June 30:

	<u>2024</u>	<u>2023</u>
Priest housing	\$ 457,525	\$ 757,310
School education fund	207,406	148,163
Priests continuing formation	1,310,503	1,263,575
Medical needs of priests	828,232	785,736
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
Priests medical fund	280,846	262,620
Permanent Deaconate Continuing Formation	<u>1,697,327</u>	<u>1,666,577</u>
Total designated net assets without donor restrictions	<u>\$5,400,255</u>	<u>\$5,502,397</u>

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

	<u>2024</u>	<u>2023</u>
Seminarians	\$ 71,887	\$ 87,056
Missionary support	686,222	687,852
Parish masses	429,732	405,133
Priests medical fund	1,154,197	1,079,293
Noncapital purposes	258,211	247,163
For specific geographical region	160,466	156,726
Other various purposes	<u>331,495</u>	<u>322,213</u>
Total purpose restricted net assets with donor restrictions	<u>\$3,092,210</u>	<u>\$2,985,436</u>

Net assets released from restriction in 2024 and 2023 were used primarily for parish and clergy support.

Endowments restricted in perpetuity (including amounts above the original gift amount of \$7,897,041 in 2024 and \$7,805,209 in 2023) as of June 30 are as follows:

	<u>2024</u>	<u>2023</u>
Missionary, Catholic education, retired priests and parish support	\$ 5,041,267	\$ 5,127,409
Seminarians	667,209	739,900
Priests medical fund	2,777,024	2,536,800
Scholarships, education and tuition	3,077,972	2,725,663
Other various purposes	<u>180,778</u>	<u>172,152</u>
Total restricted net assets in perpetuity with donor restrictions	<u>\$11,744,250</u>	<u>\$11,301,924</u>
Total net assets with donor restrictions	<u>\$14,836,460</u>	<u>\$14,287,360</u>

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2024 and 2023

1. Summary of Significant Accounting Policies (Continued)

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 and changes in net assets. 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.

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, 2024, the Central Office did not take any material tax positions which meet the criteria for recognition.

Revenue Recognition

Assessments

The Central Office provides administrative services throughout the fiscal year for parishes and schools within the territory of the Diocese. There is one performance obligation, which is to provide administrative services. Revenue is recognized over time because the parishes and schools simultaneously receive and consume the services provided by the Central Office. The passage of time is used as management considers that to be the best available measure of progress on the Central Office's delivery of services. At the beginning of each fiscal year, the Central Office determines the annual assessment fees (Development Fund, Permanent Deacon, Priest Retirement, Cathedraticum, Priests Medical Fund, Catholic Schools, School Administrative Fee) to each parish and school within the territory of the Diocese as permitted by Canon law. Statements are sent to parishes and schools on a monthly basis.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2024 and 2023

1. Summary of Significant Accounting Policies (Continued)

Insurance Programs

The Central Office acts on behalf of participating parishes, schools and other entities within the territory of the Diocese to provide adequate property and casualty insurance coverage. The arrangements with the covered entities contain one performance obligation, which is providing insurance coverage. At the beginning of each fiscal year, the fiscal year's property and casualty insurance coverage is billed at rates set by the Central Office. Revenue from the insurance program is recognized over time because the participant simultaneously receives and consumes the benefit provided by the Central Office. Changes to coverage are recognized in the month the Central Office is notified of the change.

Nature, Amount, Timing and Uncertainty of Revenue

The Central Office has determined that the nature, amount, timing, and uncertainty of assessments and insurance program revenue and cash flows are most significantly affected by the financial position of the parishes, schools and other entities within the Diocese's territory. Adverse changes in the local economy may have an adverse impact on the ability of these parishes, schools and other entities to pay the Central Office.

Management Fee Revenue

The Central Office receives revenue from fees charged to schools, parishes and other entities within the territory of the Diocese for general management and administration of investment funds. There is one performance obligation, which is to provide management services. Revenue is recognized over time because the schools, parishes and other entities simultaneously receive and consume the services provided by the Central Office. The passage of time is used as management considers that to be the best available measure of progress on the Central Office's delivery of services. The fees are based on a tiered structure as determined by the fund balance.

Donations and Pledges

Donations received, including unconditional promises to give, are recognized as revenue in the period received at fair value. Conditional donations, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met. Any funding received prior to overcoming the barrier is recorded as a refundable advance on the statements of financial position. The Central Office reports gifts of cash and other assets as contribution revenue with donor restrictions, 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions. Support, as well as any related investment income, that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2024 and 2023

1. Summary of Significant Accounting Policies (Continued)

The Central Office reports gifts of land, buildings and equipment as contribution revenue without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as contribution revenue with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Central Office reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Reclassifications

Certain 2023 amounts have been reclassified to permit comparison with the 2024 financial statements presentation format.

Recent Accounting Pronouncement

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendments in this ASU affect financial assets measured at amortized cost, which for the Central Office primarily consist of accounts and notes receivable. The update replaces the incurred loss methodology under U.S. generally accepted accounting principles with a CECL model which requires measurement of all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. Under the CECL methodology, the Central Office makes ongoing estimates relating to the collectibility of accounts and notes receivable and records an allowance for estimated credit losses by evaluating historical levels of credit losses and current economic conditions that may impact future collections. The ASU became effective for the Central Office on July 1, 2023. The Central Office adopted Topic 326 using the modified retrospective method for all financial assets measured at amortized cost, and there was no significant impact upon adoption.

Subsequent Events

Events occurring after the statement of financial position date are evaluated by management to determine whether such events should be recognized or disclosed in the financial statements. Management has evaluated subsequent events through December 18, 2024 which is the date the financial statements were available to be issued.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2024 and 2023

2. Investments

The Central Office invests 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% - 40%
Alternative investments	5% - 25%
Private equities	0% - 10%
Cash and cash equivalents	.5% - 5%

The Diocese was the sole remaining beneficiary of an irrevocable charitable remainder trust. Under the terms of the trust, the income beneficiaries of the trust received 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 was 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 Diocese was informed in 2024 that the last income beneficiary had passed away. The Diocese received distributions of the remaining trust funds in the amount of \$2,816,800 in fiscal year 2024. The value of the beneficial interest in the trust at June 30, 2023 was \$2,725,633, which was deemed to approximate the net present value of the trust, and was included in Diocesan investments in the accompanying 2023 financial statements. There are no remaining beneficial interest in trusts as of June 30, 2024.

Net investment return in the statements of activities and changes in net assets is comprised of the following for the years ended June 30:

	<u>2024</u>	<u>2023</u>
Dividends, interest and other income	\$1,163,188	\$1,001,046
Investment management fees	(244,370)	(264,353)
Net realized and unrealized gains	<u>3,076,921</u>	<u>3,999,207</u>
	<u>\$3,995,739</u>	<u>\$4,735,900</u>

Investment income earned on certain net assets with donor restrictions is restricted as to use. All other investment income is without donor restrictions as to use. The Central Office follows the guidance established by the FASB when accounting for losses in donor-restricted endowment funds (see Note 11).

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2024 and 2023

3. Bonds Payable

On January 12, 2024, the Central Office entered into the direct purchase of a \$20,000,000 Tax-Exempt Bond with the New Hampshire Health and Education Facilities Authority, with a term of 10 years and an amortization of 30 years. M&T Bank purchased the bond, and the proceeds are to be used to pay for the expansion, renovation, and co-location project at Trinity High School (Trinity) with St. Joseph Regional Junior High School (St. Joseph). Funds are drawn from the bond proceeds as project invoices are received. The total cost of the construction project is estimated to be \$27,000,000. The Central Office will have up to 24 months from the date of closing, January 12, 2024, to draw down the full commitment amount of the bond. Interest only payments are due monthly during the 24-month drawn down period, with principal and interest payments beginning on the 25th month from the date of closing. During the draw down period, amounts outstanding accrue interest at a variable rate equal to 79% of SOFR+210 basis points (5.85% at June 30, 2024). As of June 30, 2024, the Central Office has drawn down a total of \$12,097,237. Unamortized bond issuance costs, which are netted against bonds payable on the accompanying 2024 statement of financial position, were \$352,569 as of June 30, 2024.

Based on the interest rate effective as of June 30, 2024, as described above, future principal payments due related to funds drawn down by the Central Office for the next five fiscal years ended June 30 and thereafter are shown below:

2025	\$	–
2026		72,194
2027		180,600
2028		191,453
2029		202,959
Thereafter		<u>11,450,031</u>
		<u>\$12,097,237</u>

Security obligations of the Central Office include: 1) A negative pledge on Trinity's property at 581 Bridge Street in Manchester, New Hampshire; 2) a pledge of certain gross receipts; 3) security interests in all funds and accounts established pursuant to the Bond Indenture; and 4) a security interest in all other business assets as defined in the Bond Indenture, which exclude real property of the Diocese and any items deemed religious or sacred in nature. The Central Office is also required to comply with certain financial and other covenants. At June 30, 2024, management of the Central Office believes the Central Office is in compliance with these restrictive covenants.

On January 12, 2024, the Diocese entered into an interest rate swap agreement for \$15,000,000 of the \$20,000,000 bond, which becomes effective on January 2, 2026. The terms of the swap agreement effectively convert \$15,000,000 of the original \$20,000,000 bond to a fixed rate loan with the interest rate fixed at 4.499% beginning January 2, 2026. The swap agreement matures on January 1, 2034. The swap agreement is designated as a cash flow hedge of the underlying variable interest payments, and the changes in the fair value of the swap agreement are reported as a change in net assets without donor restrictions. The swap agreement had a fair value of \$61,515 as of June 30, 2024.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2024 and 2023

4. Related Party Transactions

The Central Office receives assessment revenue from parishes for specific programs and administrative and other services. In addition, the Central Office receives revenue from other entities within the territory of the Diocese (parishes, schools, cemeteries and Diocesan employee benefit plans) and CCNH for insurance coverage. The Central Office provides grants and subsidies to certain parishes, schools and mission churches to support the programs of these entities. The Central Office also receives investment management fees from the Diocese of Manchester Central Fund Trust (Diocese CFT). A summary of these transactions is as follows for the years ended June 30:

	<u>2024</u>	<u>2023</u>
Assessments revenue received (excluding insurance)	\$ 7,039,687	\$ 6,165,279
Insurance revenue (Note 8)	6,106,591	5,489,343
Grants and donations expended	(531,153)	(534,895)
Grants to schools expended	(784,710)	(1,500,572)
Grants to plans	—	(288,954)
Investment management fees earned	1,055,935	835,010

Amounts due from the parishes and other entities within the Diocese territory, primarily for assessments, insurance and interest were \$1,036,385 and \$540,168 at June 30, 2024 and 2023, respectively, and are reflected within accounts receivable, net, in the accompanying statements of financial position. Amounts due to the parishes and other related parties at June 30, 2024 and 2023 were \$196,847 and \$157,754, respectively, and are reflected within accounts payable and accrued expenses in the accompanying statements of financial position.

At June 30, 2024 and 2023, the Diocese CFT owed the Central Office \$4,358,156 and \$4,704,531, respectively, relating to the allocation of investment activity between the Central Office and the Diocese CFT.

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. During 2024, \$375,000 of the note receivable was forgiven and is reflected in the accompanying 2024 statement of activities and changes in net assets as loss on forgiveness of note receivable. The outstanding note receivable balance was \$1,125,000 and \$1,500,000 at June 30, 2024 and 2023, respectively. The Central Office received \$47,963 and \$47,841 of interest income on the note receivable in 2024 and 2023, respectively.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2024 and 2023

4. Related Party Transactions (Continued)

During 2023, the Central Office disbursed to CCNH phase I funding of the New Hampshire Catholic Annual Appeal (NHCA), an annual fundraising campaign (Note 5), 31% of the net proceeds totaling \$439,757 of 2022 appeal funds. On December 20, 2023, the Central Office paid \$1,184,857 to CCNH from the 2023 NHCA results. This approximates 34% of the total. The agreement for the 2023 and 2024 NHCA is that the Central Office will distribute 35% of the net appeal proceeds to CCNH. If the net appeal proceeds due to NHCC are less than \$1,400,000, then the Central Office will contribute 50% of the shortfall. The amounts due to CCNH for the 2024 and 2023 campaigns are included as liabilities in the accompanying statements of financial position as grants payable - New Hampshire Catholic Appeal, which also includes other estimated amounts due to Catholic schools and Diocesan ministries from the NHCA.

In 2023, the Central Office agreed to assist Trinity with project costs and to obtain debt service from outside financing sources for an expansion and renovation project for the school and the relocation of St. Joseph to the Trinity campus. At June 30, 2023, Trinity owed \$762,712 to the Central Office for construction costs related to the project. See also Note 12.

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 \$613,000 and \$637,000 for 2024 and 2023, respectively. At June 30, 2024 and 2023, the Central Office had amounts due to (from) benefit plans totaling \$270,230 and \$(423,781), respectively.

5. New Hampshire Catholic Appeal

During fiscal year 2022, the Central Office established the NHCA, an annual fundraising campaign with the parishes and ministries of the Church in New Hampshire. The NHCA was introduced over a two-year period to all parishes. Proceeds from the NHCA replace certain special collections held, reduce parish assessments and establish collection goals for parishes. In addition, a percentage of proceeds from the NHCA support CCNH, parishes and ministries. Donations from the NHCA totaled \$3,828,487 and \$3,107,462 for the years ended June 30, 2024 and 2023, respectively.

Parishioners can make a pledge to the NHCA. Pledges receivable for the NHCA totaled \$308,086 and \$346,177 at June 30, 2024 and 2023, respectively. The Central Office has determined that no allowance for uncollectible pledges was necessary at June 30, 2024 or 2023. All pledges are due within one year.

Cash held for the NHCA as of June 30, 2024 and 2023 totaled \$2,331,553 and \$3,294,669, respectively, and is recorded as cash held for designated purposes in the accompanying statements of financial position.

Under the program, the Central Office recorded grant expenses for the distribution of a portion of the NHCA proceeds to CCNH, parishes and ministries of \$1,864,134 and \$2,008,304 for the years ended June 30, 2024 and 2023, respectively. Grants payable for these distributions were \$1,399,926 and \$2,243,202 at June 30, 2024 and 2023, respectively.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2024 and 2023

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 statement of financial position date, comprise the following at June 30:

	<u>2024</u>	<u>2023</u>
Cash and cash equivalents	\$ 3,019,363	\$ 934,824
Cash held for designated purposes (NHCA)	2,331,553	3,294,669
Operating accounts receivable	971,805	488,529
Operating investments	31,803,534	33,161,087
Insurance receivable, net	247,202	124,004
Pledges receivable (NHCA)	308,086	346,177
Due from Diocese of Manchester Central Fund Trust	4,358,156	4,704,531
Less designated net assets	(5,400,255)	(5,502,397)
Less cash held for others	(287,035)	(355,799)
Less funds held for others	(492,726)	(338,168)
Less grants payable (NHCA)	(1,399,926)	(2,243,202)
Endowment spending-rate distributions and appropriations	<u>470,000</u>	<u>500,000</u>
	<u>\$35,929,757</u>	<u>\$35,114,255</u>

The Diocesan investments consist of donor-restricted endowments and funds designated by the Central Office for various purposes (Note 11). 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 years ended June 30, 2024 and 2023, 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

Years Ended June 30, 2024 and 2023

7. Retirement Plan

Diocesan Administration Employees

The Central Office has a defined contribution 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 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 2024 and 2023 amounted to \$278,335 and \$281,966, respectively.

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 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 Trust.

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. The monthly stipend for retired priests was \$1,951 for 2024 and \$1,895 for 2023, both including a \$100 annual retreat allocation. The monthly stipend for retired Bishops was \$2,600 for 2024 and \$2,250 for 2023. The Plan provides a monthly housing benefit with value of \$2,549 for 2024 and \$2,605 for 2023 for certain retired priests residing in an assisted living facility. The Plan also provides for vision benefits.

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 Trust or Diocesan assessment revenue from parishes.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2024 and 2023

7. Retirement Plan (Continued)

The following information relates to the Plan, Medical Insurance Fund and Sustenance Program, and includes amounts determined as of June 30:

	<u>Diocesan Priest Retirement Plan</u>	<u>Medical Insurance Fund</u>	<u>Sustenance Program</u>
2024			
Projected benefit obligation	\$ (25,239,190)	\$ (1,232,715)	\$ (680,606)
Plan assets	<u>23,049,082</u>	<u>—</u>	<u>—</u>
	\$ <u>(2,190,108)</u>	\$ <u>(1,232,715)</u>	\$ <u>(680,606)</u>
2023			
Projected benefit obligation	\$ (26,348,542)	\$ (1,375,183)	\$ (700,738)
Plan assets	<u>20,932,343</u>	<u>—</u>	<u>—</u>
	\$ <u>(5,416,199)</u>	\$ <u>(1,375,183)</u>	\$ <u>(700,738)</u>

The following components of the projected benefit obligation of the Plan have not been recognized as periodic pension costs for the years ended June 30:

	<u>2024</u>	<u>2023</u>
Unrecognized prior service cost	\$ 5,574,830	\$ 6,145,373
Unrecognized net gain	(5,930,588)	(4,017,959)

Significant assumptions at June 30 are as follows:

	<u>Diocesan Priest Retirement Plan</u>	<u>Medical Insurance Fund</u>	<u>Sustenance Program</u>
2024			
Discount rate	5.30%	5.30%	5.30%
Expected return on Plan assets	7.30%	N/A	N/A
Annual cost increase:			
Medical and dental	7.0% trending to 5.0%	7.0% trending to 5.0%	7.0% trending to 5.0%
Automobile insurance premiums	2.50%	N/A	2.50%
Vision benefits	2.50%	N/A	2.50%
Year that the rate reaches ultimate trend rate	2032	2032	2032
Rate of compensation increase	2.50%	N/A	N/A
Benefit cost	\$738,960	\$(142,468)	\$85,425
Employer contributions and donations	\$1,490,191	N/A	N/A
Participant contributions	\$2,121	N/A	N/A
Benefits paid	\$1,264,269	\$ -	N/A

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2024 and 2023

7. Retirement Plan (Continued)

	<u>Diocesan Priest Retirement Plan</u>	<u>Medical Insurance Fund</u>	<u>Sustenance Program</u>
2023			
Discount rate	4.90%	4.90%	4.90%
Expected return on Plan assets	6.85%	N/A	N/A
Annual cost increase:			
Medical and dental	7.0% trending to 5.0%	7.0% trending to 5.0%	7.0% trending to 5.0%
Automobile insurance premiums	2.50%	N/A	2.50%
Vision benefits	2.50%	N/A	2.50%
Year that the rate reaches ultimate trend rate	2032	2032	2032
Rate of compensation increase	2.50%	N/A	N/A
Benefit cost	\$1,116,603	\$(162,841)	\$52,887
Employer contributions and donations	2,029,359	N/A	N/A
Participant contributions	50,657	N/A	N/A
Benefits paid	1,138,040	5,074	N/A

The mortality table used for the years ended June 30, 2024 and 2023 was the Pri-2012 White Collar Mortality Table with Scale MP-2021 Mortality Improvement Scale applied on a generational basis.

The net periodic retirement cost consists of the following for the years ending June 30:

	<u>2024</u>	<u>2023</u>
Diocesan Priest Retirement Plan:		
Amortization of prior service costs	\$ 570,543	\$ 570,543
Amortization of gains or losses	(92,826)	-
Investment return	(1,468,516)	(1,169,913)
Interest cost	1,252,879	1,195,507
Medical Insurance Fund	(142,468)	(162,841)
Sustenance Program	<u>85,425</u>	<u>52,887</u>
	<u>\$ 205,037</u>	<u>\$ 486,183</u>

The periodic retirement cost for the Plan, Medical Insurance Fund and Sustenance Program is reported separately from operating expenses on the accompanying statements of activities and changes in net assets. Current service cost for 2024 and 2023 was \$476,880 and \$520,466, respectively, and has been recorded in other program costs on the accompanying statements of functional expenses.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2024 and 2023

7. Retirement Plan (Continued)

Retirement-related changes for the Plan, other than net periodic retirement costs, consist of the following for the years ended June 30:

	<u>2024</u>	<u>2023</u>
Amortization of prior service costs	\$ (570,543)	\$ (570,543)
Current year gain not yet recognized	(2,168,834)	(3,536,929)
Funding by affiliates	<u>(1,264,269)</u>	<u>(1,138,040)</u>
	<u>\$ (4,003,646)</u>	<u>\$ (5,245,512)</u>

The accumulated benefit obligations were as follows at June 30:

	<u>2024</u>	<u>2023</u>
Diocesan Priest Retirement Plan	\$18,837,338	\$19,179,081
Medical Insurance Fund	664,037	718,415
Sustenance Program	649,206	663,707

The Central Office expects to contribute approximately \$1,876,000 to the Plan during the year ending June 30, 2025. Benefits and expenses expected to be paid during the ensuing five years and five years thereafter are as follows:

	<u>Diocesan Priest Retirement Plan</u>	<u>Medical Insurance Fund</u>	<u>Sustenance Program</u>
2025	\$1,701,000	\$ 55,680	\$ 90,250
2026	1,765,000	60,986	86,383
2027	1,793,000	64,889	82,200
2028	1,790,000	67,499	77,737
2029	1,777,000	69,527	73,034
2030 - 2034	8,935,000	384,275	289,164

Investments for the Plan are invested with the assets in the Diocese CFT, a separate entity as described in Note 1. 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.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2024 and 2023

7. Retirement Plan (Continued)

The following tables set forth by level, within the fair value hierarchy described in Note 10, the valuation techniques used to determine the fair value of these investments as of June 30:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
2024				
Money market mutual funds	\$ 359,422	\$ —	\$ —	\$ 359,422
Equity securities	10,397,147	—	—	10,397,147
Fixed income securities:				
Corporate bonds	—	4,906,153	—	4,906,153
Government securities	—	3,984,981	—	3,984,981
Certificates of deposit	—	184,325	—	184,325
Preferred stock	9,272	—	—	9,272
Exchange-traded and closed-end funds	41,554	—	—	41,554
Real estate investment trusts	907,935	—	—	907,935
Open-end mutual funds	<u>206,466</u>	<u>—</u>	<u>—</u>	<u>206,466</u>
Total assets in the fair value hierarchy	<u>\$11,921,796</u>	<u>\$9,075,459</u>	<u>\$ —</u>	20,997,255
Alternative investments*				<u>1,565,963</u>
Investments at fair value				22,563,218
Cash and cash equivalents				<u>431,633</u>
Total investments**				<u>\$22,994,851</u>

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2024 and 2023

7. Retirement Plan (Continued)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
2023				
Money market mutual funds	\$ 500,382	\$ –	\$ –	\$ 500,382
Equity securities	8,781,540			8,781,540
Fixed income securities:				
Corporate bonds	–	4,087,563	–	4,087,563
Government securities	–	3,429,643	–	3,429,643
Certificates of deposit	–	861,582	–	861,582
Preferred stock	38,506	–	–	38,506
Exchange-traded and closed-end funds	39,707	–	–	39,707
Real estate investment trusts	730,865	–	–	730,865
Open-end mutual funds	<u>183,163</u>	<u>–</u>	<u>–</u>	<u>183,163</u>
Total assets in the fair value hierarchy	<u>\$10,274,163</u>	<u>\$8,378,788</u>	<u>\$ –</u>	18,652,951
Alternative investments*				<u>1,097,386</u>
Investments at fair value				19,750,337
Cash and cash equivalents				<u>398,293</u>
Total investments**				<u>\$20,148,630</u>

* In accordance with current accounting standards certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of financial position (see Note 10).

** Excludes other assets held by the Plan.

8. Insurance

The Diocese is partially self-insured for claims incurred, with respect to property, liability and automobile insurance coverage, which is administered by the Central Office. The Diocese was partially self-insured for workers' compensation from September 1972 through June 1997. Included in cash held for restricted purposes is approximately \$136,000, which is on deposit with a fiduciary and is bound by a Security Deposit Agreement in accordance with New Hampshire state law.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2024 and 2023

8. Insurance (Continued)

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 entities within the territory of the Diocese 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. As of June 30, 2024 and 2023, estimated recoveries of \$247,202 and \$124,004, respectively, have been recorded as receivables.

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.

The Central Office receives reimbursement for claims under New Hampshire's Second Injury Fund (Second Injury Fund) program. The 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 nonimpaired 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, 2024 and 2023, recoveries of \$633,192 and \$555,791, respectively, are expected from the Second Injury Fund and have been recorded as Second Injury Fund recoverable in the accompanying statements of financial position.

The following summarizes the estimated liability for unpaid claims at June 30:

	<u>Claims Payable, Net</u>	<u>IBNR</u>	<u>Total</u>
2024			
Liability	\$2,448,356	\$ 690,589	\$3,138,945
Property	227,845	509,246	737,091
Workers' compensation	<u>1,217,516</u>	<u>—</u>	<u>1,217,516</u>
	<u>\$3,893,717</u>	<u>\$1,199,835</u>	<u>\$5,093,552</u>
2023			
Liability	\$1,504,297	\$ 781,215	\$2,285,512
Property	226,188	449,303	675,491
Workers' compensation	<u>1,456,135</u>	<u>—</u>	<u>1,456,135</u>
	<u>\$3,186,620</u>	<u>\$1,230,518</u>	<u>\$4,417,138</u>

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2024 and 2023

8. **Insurance (Continued)**

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 \$2,205,791 and \$1,099,207 in 2024 and 2023, respectively.

9. **Contingencies**

The Central Office, as a component of the Diocese of Manchester, has been involved from time to time in litigation and other legal claims and proceedings. As discussed in Note 8, the accompanying financial statements include an estimated liability for such claims at June 30, 2024 and 2023. Aggregate demands for damages from these claims and lawsuits may be material, although presently not determinable. Management is unable to estimate the extend of the additional liability, above the recorded liability at June 30, 2024 and 2023, that may ultimately arise as a result of such claims. However, the nature of magnitude of the potential effects could have an adverse impact on the Central Office's financial condition and cash flows.

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.

10. **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

Years Ended June 30, 2024 and 2023

10. 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:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
2024				
Money market mutual funds	\$ 362,708	\$ –	\$ –	\$ 362,708
Equity securities	24,428,883	–	213,397	24,642,280
Fixed income securities:				
Corporate bonds	–	7,749,194	–	7,749,194
Government securities	–	5,139,846	–	5,139,846
Certificates of deposit	–	69,773	–	69,773
Preferred stock	19,642	–	–	19,642
Exchange-traded and closed-end funds	1,032,223	–	–	1,032,223
Real estate investment trusts	1,928,409	–	–	1,928,409
Open-end mutual funds	<u>433,174</u>	<u>–</u>	<u>–</u>	<u>433,174</u>
Total assets in the fair value hierarchy	<u>\$28,205,039</u>	<u>\$12,958,813</u>	<u>\$ 213,397</u>	41,377,249
Alternative investments***				<u>4,587,248</u>
Investments at fair value				45,964,497
Cash and cash equivalents				<u>776,499</u>
Total investments				<u>\$46,740,996</u>

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2024 and 2023

10. Fair Value Measurements (Continued)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
2023				
Money market mutual funds	\$ 1,190,269	\$ –	\$ –	\$ 1,190,269
Equity securities	18,071,353	–	213,397	18,284,750
Fixed income securities:				
Corporate bonds	–	5,466,215	–	5,466,215
Government securities	–	10,898,725	–	10,898,725
Certificates of deposit	–	2,653,419	–	2,653,419
Preferred stock	77,581	–	–	77,581
Exchange-traded and closed-end funds	231,903	–	–	231,903
Real estate investment trusts	1,480,091	–	–	1,480,091
Open-end mutual funds	410,908	–	–	410,908
Beneficial interest in charitable remainder trust	<u>–</u>	<u>–</u>	<u>2,725,663</u>	<u>2,725,663</u>
Total assets in the fair value hierarchy	<u>\$21,462,105</u>	<u>\$19,018,359</u>	<u>\$2,939,060</u>	43,419,524
Alternative investments***				<u>3,608,990</u>
Investments at fair value				47,028,514
Cash and cash equivalents				<u>481,920</u>
Total investments				<u>\$47,510,434</u>

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

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 in 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 as of June 30, 2023 is described in Note 2. The level 3 equity security as of June 30, 2024 and 2023 represents an investment in an insurance company valued at cost, which management has determined approximates fair value.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2024 and 2023

10. Fair Value Measurements (Continued)

Alternative investments measured at net asset value (NAV) represent units owned in private equity, real estate investment trusts and hedge funds with varying investment strategies. Valuation of these investments 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. The funds are valued at least quarterly using prices for identical or similar assets in markets that are not active. Hedge funds are redeemable quarterly with the redemption period varying from ninety days to two years depending on the individual funds. Private equity and real estate investment funds typically require funding commitments over a period of one to two years. Redemptions are generally not permitted on the private equity and real estate investment funds, with distributions being made over a long term period of up to ten years. The Central Office had approximately \$400,000 and \$584,000 in unfunded commitments for alternative investments as of June 30, 2024 and 2023.

There were no material changes in the valuation techniques during 2024 and 2023. The inputs or valuation methodology used for valuing securities are not necessarily indicative of the risk associated with investing in those securities.

11. Donor-Restricted Endowments

The Central Office follows the accounting guidance established by the FASB 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.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2024 and 2023

11. Donor-Restricted Endowments (Continued)

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

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

	<u>With Donor Restrictions</u>	
	<u>2024</u>	<u>2023</u>
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ 7,897,041	\$ 7,805,209
Accumulated investment gains	<u>3,847,209</u>	<u>3,496,715</u>
Endowment net assets, end of year	<u>\$11,744,250</u>	<u>\$11,301,924</u>
Endowment net assets, beginning of year	\$11,301,924	\$10,149,543
Interest and dividends	89,935	42,437
Net appreciation in value of investments	847,270	1,545,614
Amounts appropriated for expenditure	<u>(494,879)</u>	<u>(435,670)</u>
Endowment net assets, end of year	<u>\$11,744,250</u>	<u>\$11,301,924</u>

Funds With Deficiencies. From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Central Office to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in net assets with donor restrictions. No significant deficiencies were reported in net assets with donor restrictions as of June 30, 2024 and 2023.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2024 and 2023

11. Donor-Restricted 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 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 nonconcurrence with the proposed appropriation. For fiscal years ending June 30, 2024 and 2023, 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.

12. Consolidation GAAP Departure

Management has identified Trinity and St. Joseph as entities that, in accordance with U.S. generally accepted accounting principles (Accounting Standards Codification 810), should be consolidated with the 2024 financial statements of the Central Office due to the Central Office's vested economic interest and key levels of control and authority held related to Trinity and St. Joseph. Management has chosen not to consolidate Trinity and St. Joseph into the Central Office's 2024 financial statements. The effects of not consolidating Trinity and St. Joseph have not been determined. As discussed in Notes 3 and 4, the Central Office has issued certain debt, the proceeds of which are being used to pay for the expansion, renovation and co-location project at Trinity and St. Joseph. Additionally, for purposes of the accompanying financial statements, the Central Office has reported all amounts advanced to Trinity and St. Joseph for purposes of the construction, among other amounts, as investment in Trinity and St. Joseph on the accompanying 2024 statement of financial position. Such presentation is not in conformity with U.S. generally accepted accounting principles, and the realizability of such amounts has not been determined.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2024 and 2023

12. Consolidation GAAP Departure (Continued)

Certain unaudited financial information of Trinity and St. Joseph as of and for the year ended June 30, 2024 is presented below:

Statement of Financial Position:

Current assets	\$ 5,517,328
Property, plant and equipment (net)	<u>7,422,304</u>
	<u>\$12,939,632</u>
Current liabilities	\$ 3,562,325
Other liabilities	4,142,938
Net assets	<u>5,234,369</u>
	<u>\$12,939,632</u>

Statement of Activities:

Total revenues	\$ 7,483,561
Total expenses	<u>7,480,851</u>
Net income	<u>\$ 2,710</u>