

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

MANCHESTER, NEW HAMPSHIRE

JUNE 30, 2014 AND 2013



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the **Central Office of the Diocese of Manchester** (the Central Office), a nonprofit organization, which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

Emphasis of Matter

As discussed in Note 14 to the financial statements, the accompanying 2013 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Manchester, New Hampshire
November 21, 2014

Howe, Riley + Howe, PLLC

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Statements of Financial Position

June 30, 2014 and 2013

ASSETS

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	11,197,000	10,219,098
Accounts receivable, net	951,152	762,343
Insurance receivable, net	359,734	79,646
Interest receivable	8,642	5,772
Short-term investments	326,859	200,608
Prepaid expenses	296,921	291,230
Investments in marketable securities, net of short-term investments	56,030,062	48,007,432
Notes receivable, net of discounts and allowance for losses	9,250,682	10,136,478
Cash held for restrictive purposes	144,093	144,093
Assets held for restricted purposes	15,465,807	13,855,900
Fixed assets, net	356,892	599,864
	<u> </u>	<u> </u>
Total assets	<u>\$ 94,387,844</u>	<u>\$ 84,302,464</u>

LIABILITIES AND NET ASSETS (DEFICIT)

Accounts payable and accrued expenses	507,546	375,801
Funds held for others - special collections	519,494	595,799
Insurance liabilities	4,136,481	4,140,809
Deposits payable	54,173,473	52,288,297
Annuities payable	-	3,466
Mortgage note payable	3,740,375	3,945,850
Priest retirement benefit obligation	16,828,908	18,997,514
	<u> </u>	<u> </u>
Total liabilities	<u>79,906,277</u>	<u>80,347,536</u>
NET ASSETS (DEFICIT)		
Unrestricted:		
Designated	3,649,138	3,123,071
Undesignated	(3,209,090)	(11,891,360)
	<u> </u>	<u> </u>
	440,048	(8,768,289)
Temporarily restricted	6,071,124	5,013,168
Permanently restricted	7,970,395	7,710,049
	<u> </u>	<u> </u>
Total net assets	<u>14,481,567</u>	<u>3,954,928</u>
	<u> </u>	<u> </u>
Total	<u>\$ 94,387,844</u>	<u>\$ 84,302,464</u>

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

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Statement of Activities

For the Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES:				
Program revenue and assessments	6,912,234	-	-	6,912,234
Donations and bequests	130,160	22,097	250,225	402,482
Insurance	4,978,600	-	-	4,978,600
Miscellaneous	269,686	-	-	269,686
Net assets released from restriction	679,211	(679,211)	-	-
	<u>12,969,891</u>	<u>(657,114)</u>	<u>250,225</u>	<u>12,563,002</u>
EXPENSES:				
Program:				
Christian formation	3,192,768	-	-	3,192,768
Pastoral services	1,334,881	-	-	1,334,881
Seminary	372,879	-	-	372,879
Missions	249,243	-	-	249,243
Tribunal	413,107	-	-	413,107
Donations	194,312	-	-	194,312
Other programs	1,084,147	-	-	1,084,147
Periodic pension cost - Diocesan Priests	854,386	-	-	854,386
	<u>7,695,723</u>	<u>-</u>	<u>-</u>	<u>7,695,723</u>
Administrative and support expenses:				
Insurance expenses	2,813,453	-	-	2,813,453
Operating expenses	2,263,985	-	-	2,263,985
	<u>12,773,161</u>	<u>-</u>	<u>-</u>	<u>12,773,161</u>
Retirement-related changes other than net periodic retirement costs	<u>(2,767,794)</u>	<u>-</u>	<u>-</u>	<u>(2,767,794)</u>
Change in net assets before net investment income and interest expense	2,964,524	(657,114)	250,225	2,557,635
INVESTMENT INCOME, NET	6,904,666	1,719,304	10,121	8,634,091
INTEREST EXPENSE	<u>(660,853)</u>	<u>(4,234)</u>	<u>-</u>	<u>(665,087)</u>
CHANGE IN NET ASSETS	9,208,337	1,057,956	260,346	10,526,639
NET ASSETS (DEFICIT) - beginning of year	<u>(8,768,289)</u>	<u>5,013,168</u>	<u>7,710,049</u>	<u>3,954,928</u>
NET ASSETS - end of year	<u>\$ 440,048</u>	<u>\$ 6,071,124</u>	<u>\$ 7,970,395</u>	<u>\$ 14,481,567</u>

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

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Statement of Activities

For the Year Ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES:				
Program revenue and assessments	6,734,235	-	-	6,734,235
Donations and bequests	227,375	44,177	60,225	331,777
Insurance	4,784,867	-	-	4,784,867
Miscellaneous	266,188	-	-	266,188
Net assets released from restriction	580,124	(580,124)	-	-
	<u>12,592,789</u>	<u>(535,947)</u>	<u>60,225</u>	<u>12,117,067</u>
EXPENSES:				
Program:				
Christian formation	2,798,850	-	-	2,798,850
Pastoral services	1,375,738	-	-	1,375,738
Seminary	408,395	-	-	408,395
Missions	242,936	-	-	242,936
Tribunal	415,169	-	-	415,169
Donations	274,231	-	-	274,231
Other programs	1,052,473	-	-	1,052,473
Periodic pension cost - Diocesan Priests	1,507,508	-	-	1,507,508
	<u>8,075,300</u>	<u>-</u>	<u>-</u>	<u>8,075,300</u>
Administrative and support expenses:				
Insurance expenses	2,635,451	-	-	2,635,451
Operating expenses	2,441,639	-	-	2,441,639
	<u>13,152,390</u>	<u>-</u>	<u>-</u>	<u>13,152,390</u>
Retirement-related changes other than net periodic retirement costs	(4,872,272)	-	-	(4,872,272)
Change in net assets before net investment income and interest expense	4,312,671	(535,947)	60,225	3,836,949
INVESTMENT INCOME, NET	4,946,010	1,257,152	121,683	6,324,845
INTEREST EXPENSE	(666,222)	(2,002)	-	(668,224)
CHANGE IN NET ASSETS	8,592,459	719,203	181,908	9,493,570
NET ASSETS (DEFICIT) - beginning of year as restated (Note 14)	(17,360,748)	4,293,965	7,528,141	(5,538,642)
NET ASSETS (DEFICIT) - end of year	<u>\$ (8,768,289)</u>	<u>\$ 5,013,168</u>	<u>\$ 7,710,049</u>	<u>\$ 3,954,928</u>

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

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Statements of Cash Flows

For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	10,526,639	9,493,570
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Depreciation	105,590	129,698
Loss on disposal of fixed assets	26,350	455
Reinvested investment income	(1,404,585)	(1,650,995)
Net realized and unrealized gains on investments	(7,214,513)	(4,727,593)
Provision for losses on notes receivable	216,492	382,700
Non-cash donations	(250,000)	(60,000)
Change in loan discounts	19,413	105,992
Decrease (increase) in:		
Accounts receivable	(253,715)	(92,282)
Insurance receivable	(280,088)	(64,020)
Interest receivable	(2,870)	26,881
Prepaid expenses	(5,691)	74,013
Increase (decrease) in:		
Accounts payable and accrued expenses	131,745	(256,820)
Funds held for others - special collections	(76,305)	44,271
Insurance liabilities	(4,328)	(448,455)
Priest retirement benefit obligation	(2,168,606)	(3,597,052)
Net cash used for operating activities	<u>(634,472)</u>	<u>(639,637)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(3,260,093)	(10,030,881)
Proceeds from sale of investments	3,874,681	9,194,616
Amounts advanced on notes receivable	(548,906)	(641,962)
Collections on notes receivable	1,263,703	2,479,136
Proceeds from sale of fixed assets	217,079	-
Purchase of fixed assets	<u>(106,047)</u>	<u>(59,634)</u>
Net cash provided by investing activities	<u>1,440,417</u>	<u>941,275</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on annuities payable	(3,466)	(5,698)
Increase in deposits payable, net	380,898	1,100,094
Repayments of mortgage note payable	<u>(205,475)</u>	<u>(212,210)</u>
Net cash provided by financing activities	<u>171,957</u>	<u>882,186</u>

(Continued)

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Statements of Cash Flows

For the Years Ended June 30, 2014 and 2013

(Continued)

	<u>2014</u>	<u>2013</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	977,902	1,183,824
CASH AND CASH EQUIVALENTS - beginning of year	<u>10,219,098</u>	<u>9,035,274</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 11,197,000</u>	<u>\$ 10,219,098</u>
<u>SUPPLEMENTAL DISCLOSURES:</u>		
Interest paid (including interest paid on deposits payable)	<u>\$ 665,087</u>	<u>\$ 668,224</u>

During the years ended June 30, 2014 and 2013, accounts and interest receivable from parishes in the amounts of \$64,906 and \$77,919, respectively, were transferred to notes receivable.

For the years ended June 30, 2014 and 2013, net realized and unrealized gains on funds held for related entities, which are included in deposits payable, were \$1,504,278 and \$892,368, respectively.

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

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2014 and 2013

Note 1 - Summary of Significant Accounting Policies

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

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

(A) Basis of Presentation

The accompanying financial statements include the assets, liabilities and activities of the Operating Fund, the Central Fund and the Insurance Fund, as well as the Temporarily and Permanently Restricted Funds of the Diocese. The Operating Fund includes program, administrative and support services of the Central Office which are comprised of Christian formation, pastoral services, seminary, missionary, finance, real estate, insurance and administrative support services. The Central Fund holds in trust and manages the deposits of the various affiliates of the Diocese of Manchester as described in Note 5 (\$54,173,473 in 2014 and \$52,288,297 in 2013). The Insurance Fund administers the insurance program for the Diocese of Manchester as described in Note 8. Revenues are derived primarily from assessments charged to the various affiliates.

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

(B) Accounting Estimates

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

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2014 and 2013

Note 1 - (C) Cash and Cash Equivalents

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

The Central Office customarily maintains amounts on deposit in various bank accounts in excess of the Federal deposit insurance coverage amounts. Deposits totaling approximately \$11,230,000 (prior to outstanding items clearing the bank) at June 30, 2014 are not covered by Federal deposit insurance, but are substantially collateralized by repurchase agreements. In addition, the Central Office had approximately \$129,000 of cash at June 30, 2014 held in a certificate of deposit account which is not covered by Federal deposit insurance.

(D) Accounts Receivable

Accounts receivable are reported at estimated net collectible amounts. The accounts receivable arise in the normal course of the operation of the Central Office and are primarily due from the parishes of the Diocese of Manchester. Credit is generally extended on a short-term basis; thus accounts receivable do not bear interest. The Central Office periodically reviews the outstanding accounts receivable for the purposes of establishing an allowance for uncollectible accounts based on the average bad debt write-offs experienced in the past and its current knowledge of the accounts. It is management's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. Accounts receivable at June 30, 2014 and 2013 are reported net of an allowance for uncollectible accounts of \$77,345. Aggregate accounts receivable past due 90 days or more were approximately \$457,000 and \$419,000 as of June 30, 2014 and 2013, respectively. Delinquency status is based on normal credit terms. The Central Office does not generally require collateral for the extension of credit.

Included in accounts receivable at June 30, 2014 and 2013 were unconditional promises to give valued at \$63,986 and \$118,980, respectively, which are receivable in less than one year.

(E) Investments

Investments in marketable securities are valued at their fair values in the statements of financial position. The measurement of fair value is made using the fair value hierarchy established under current accounting standards (see Note 11).

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

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2014 and 2013

Note 1 - (F) Notes Receivable

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

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

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

(G) Fixed Assets

It is the Central Office's policy to capitalize fixed assets with a cost of at least \$1,000. Lesser amounts are charged to operations.

Fixed assets are recorded at cost, if purchased, or at estimated fair market value as of the date of donation, if donated. The composition of net fixed assets at June 30, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Land	2,129	2,129
Buildings	651,646	915,476
Building improvements	1,195,576	1,172,463
Furniture and other equipment	351,847	352,875
Computer equipment and software	<u>327,958</u>	<u>269,080</u>
	2,529,156	2,712,023
Less: accumulated depreciation	<u>2,172,264</u>	<u>2,112,159</u>
Fixed assets, net	<u>\$ 356,892</u>	<u>\$ 599,864</u>

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2014 and 2013

Note 1 - (G) Fixed Assets (Continued)

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

Depreciation expense was \$105,590 and \$129,698 during 2014 and 2013, respectively.

Included in fixed assets in the accompanying statements of financial position are assets with a net book value of \$20,152 and \$33,414 as of June 30, 2014 and 2013, respectively, which are restricted by the donor for use as the Bishop's residence.

(H) Restricted Support

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

Designated net assets represent net assets that have been designated by the Central Office for the following purposes at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Missionary support	891,832	786,099
School education fund	303,041	155,766
Priests continuing formation	560,219	433,937
Medical needs of priests	829,225	769,752
Worship and world youth day	10,070	10,070
Campus ministry	124,925	124,925
Youth ministry	442,705	442,705
St. Joseph Cathedral	146,103	144,906
Permanent Diaconate Continuing Formation	<u>341,018</u>	<u>254,911</u>
	<u>\$ 3,649,138</u>	<u>\$ 3,123,071</u>

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2014 and 2013

Note 1 - (H) Restricted Support (Continued)

Temporarily restricted net assets are available for the following purposes at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Seminarians	919,878	924,146
Missionary support	62,057	54,161
Parish masses	329,484	290,242
For specific schools	241,955	211,293
Education	1,207,149	1,019,335
For specific parishes	444,506	327,877
Missionary, Catholic education, retired priests and parish support	2,028,104	1,472,399
Non-capital purposes	246,200	215,512
For specific geographical region	238,331	217,482
Other various purposes	<u>353,460</u>	<u>280,721</u>
	<u>\$ 6,071,124</u>	<u>\$ 5,013,168</u>

Permanently restricted net assets are restricted to investment in perpetuity and were as follows at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Missionary, Catholic education, retired priests and parish support	4,338,143	4,338,143
Seminarians	638,295	638,295
Care of gravesites	34,417	34,417
Scholarships, education and tuition	1,972,798	1,714,007
Care of needy	12,672	12,672
General purposes for specific parishes	761,775	760,445
Other various purposes	<u>212,295</u>	<u>212,070</u>
	<u>\$ 7,970,395</u>	<u>\$ 7,710,049</u>

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

(I) Salary and Expense Allocations

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

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2014 and 2013

Note 1 - (J) Federal and State Income Taxes

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

The Central Office recognizes the tax benefit of an uncertain tax position only if management determines that it is more likely than not that the tax position would be sustained upon examination by taxing authorities based on the technical merit of the position. Management has determined that through June 30, 2014, the Central Office did not take any material tax positions which do not meet the criteria for recognition. The Diocese's filings (Form 990-T) for the tax years ended on June 30, 2011 through June 30, 2014 remain subject to examination by Federal taxing authorities.

Note 2 - Investments

The Central Office and its affiliated agencies and funds deposit money into the Central Fund. The Central Fund pools all of the money received for the purpose of making loans (Note 3) and investing in marketable securities, primarily consisting of money market funds, equities and fixed income securities.

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	32.5%
Equity securities - international	32.5%
Fixed income securities	35.0%

The Diocese is the sole remainder beneficiary of an irrevocable charitable remainder trust. Under the terms of the trust, the income beneficiaries of the trust receive a unitrust amount equal to 8% of the fair market value of the trust assets determined annually, paid in equal monthly installments. Upon the death of the surviving income beneficiary, the trustee is to distribute all remaining principal and income of the trust to the Diocese to be used to establish a scholarship fund to benefit students in Catholic regional schools within New Hampshire. The net present value of the beneficial interest in the trust is included in assets held for restricted purposes in the accompanying financial statements using an assumed rate of return of 6.5% in 2014 and 2013 and discounted at 4.4% in 2014 and 4% in 2013 (\$867,529 and \$614,803 at June 30, 2014 and 2013, respectively). The fair value of the trust assets was \$1,633,158 and \$1,229,275 at June 30, 2014 and 2013, respectively.

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

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

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER
Notes to Financial Statements
June 30, 2014 and 2013

Note 2 - Investments (Continued)

Investments are included in the accompanying financial statements as follows:

	<u>2014</u>	<u>2013</u>
Short-term investments	326,859	200,608
Investments in marketable securities, net of short-term investments	56,030,062	48,007,432
Assets held for restricted purposes	<u>15,465,807</u>	<u>13,855,900</u>
	<u>\$ 71,822,728</u>	<u>\$ 62,063,940</u>

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

	<u>2014</u>	<u>2013</u>
Dividends, interest and other income	1,518,692	1,694,326
Net realized and unrealized gains	7,214,513	4,727,593
Investment fees, net of fees earned	<u>(99,114)</u>	<u>(97,074)</u>
Total investment income, net	<u>\$ 8,634,091</u>	<u>\$ 6,324,845</u>

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

The Central Office had investments in four investment funds that comprised approximately 92% of total investments as of June 30, 2014 and, 2013.

The market values of investments fluctuate and future market values may be higher or lower than the values as of June 30, 2014.

Note 3 - Notes Receivable

Notes receivable from diocesan entities (parishes, cemeteries, and schools) are unsecured and are reported at their unpaid principal balances less an allowance for losses. Interest on notes receivable is recognized over the term of the loan and is calculated using either the simple interest method or the amortization method on principal amounts outstanding. Notes to certain diocesan entities are non-interest bearing or are at a reduced rate of interest. These notes generally have been recorded net of applicable discounts to reflect the present value of the notes, based on the interest rates normally charged on other notes (4.00% in 2014 and 2013).

Interest income on notes receivable was \$301,821 in 2014 (including new loan discounts, amortization due to the passage of time and adjustments of (\$19,413)). Interest income was \$349,162 in 2013 (including new loan discounts, amortization due to the passage of time and adjustments of (\$105,992)).

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2014 and 2013

Note 3 - Notes Receivable (Continued)

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

Due to the nature of the relationships with Diocesan entities, the Central Office has been willing, under appropriate circumstances, to make concessions for borrowers whose payments were not current or to refinance outstanding obligations. Once modified in a troubled debt restructuring, a loan is generally considered impaired until its contractual maturity. At the time of restructuring, the loan is evaluated for an allowance for credit losses. The Central Office continues to specifically reevaluate the loan in subsequent periods, regardless of the borrower's performance under the modified terms. There were no troubled debt restructurings for the year ended June 30, 2014. During the year ended June 30, 2013, there were concessions granted to certain borrowers including lowering the contractual interest rates, granting payment forbearance periods and/or extending the repayment periods of the loans. The financial effect of modifying these loans was lost interest, which management determined was not material to the financial statements.

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, 2014 and 2013 were \$7,886,158 and \$10,704,975, respectively. Non-performing notes receivables as of June 30, 2014 and 2013 were \$7,939,034 and \$5,770,108, respectively.

The following reflects the age analysis of notes receivable as of June 30, 2014 and 2013, respectively:

	<u>Age Analysis - 2014</u>		
	<u>Diocesan Entity Notes</u>	<u>Priest and Seminarian Notes</u>	<u>Total</u>
Current	7,886,158	-	7,886,158
30-59 days	1,371,367	-	1,371,367
60-89 days	-	-	-
90+ days	<u>1,801,229</u>	<u>4,766,438</u>	<u>6,567,667</u>
Total notes receivable	<u>\$ 11,058,754</u>	<u>\$ 4,766,438</u>	<u>\$ 15,825,192</u>
Total notes receivable on non-accrual status	<u>\$ 3,158,951</u>	<u>\$ 4,766,438</u>	<u>\$ 7,925,389</u>
Notes receivable 90+ days past due and still accruing	<u>\$ 413,319</u>	<u>\$ -</u>	<u>\$ 413,319</u>

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2014 and 2013

Note 3 - Notes Receivable (Continued)

	Age Analysis - 2013		
	Diocesan Entity Notes	Priest and Seminarian Notes	Total
Current	10,704,975	-	10,704,975
30-59 days	312,355	-	312,355
60-89 days	-	-	-
90+ days	939,971	4,517,782	5,457,753
Total notes receivable	<u>\$ 11,957,301</u>	<u>\$ 4,517,782</u>	<u>\$ 16,475,083</u>
Total notes receivable on non-accrual status	<u>\$ 3,194,124</u>	<u>\$ 4,517,782</u>	<u>\$ 7,711,906</u>
Notes receivable 90+ days past due and still accruing	<u>\$ 31,911</u>	<u>\$ -</u>	<u>\$ 31,911</u>

The following provides informative data at June 30, 2014 and 2013, and for the years then ended separately presented based on whether or not management has recognized an allowance for credit losses with respect to the impaired loans:

	Impaired Loans - 2014		
	Diocesan Entity Notes	Priest and Seminarian Notes	Total
Impaired loans for which no allowance for credit losses is recognized:			
Recorded investment	\$ 3,324,062	\$ -	\$ 3,324,062
Unpaid principal balance	3,357,134	-	3,357,134
Average recorded investment	3,736,316	-	3,736,316
Interest income recognized while impaired	57,960	-	57,960
Impaired loans for which an allowance for credit losses is recognized:			
Recorded investment	2,028,286	3,576,560	5,604,846
Unpaid principal balance	2,028,286	4,766,438	6,794,724
Average recorded investment	2,015,580	3,483,314	5,498,894
Interest income recognized while impaired	37,055	-	37,055

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2014 and 2013

Note 3 - Notes Receivable (Continued)

	Impaired Loans - 2013		
	Diocesan Entity Notes	Priest and Seminarian Notes	Total
Impaired loans for which no allowance for credit losses is recognized:			
Recorded investment	\$ 4,148,569	\$ -	\$ 4,148,569
Unpaid principal balance	4,224,392	-	4,224,392
Average recorded investment	4,670,177	-	4,670,177
Interest income recognized while impaired	101,697	-	101,697
Impaired loans for which an allowance for credit losses is recognized:			
Recorded investment	2,002,874	3,390,068	5,392,942
Unpaid principal balance	2,002,874	4,517,782	6,520,656
Average recorded investment	2,109,149	3,278,718	5,387,867
Interest income recognized while impaired	44,982	-	44,982

The following reflects the allowance for losses, discounts, and the related recorded investment in notes receivable as of June 30, 2014 and 2013, respectively:

	2014		
	Diocesan Entity Notes	Priest and Seminarian Notes	Total
Allowance for losses:			
Beginning balance	1,745,000	3,390,068	5,135,068
Provision	30,000	186,492	216,492
Ending balance	\$ 1,775,000	\$ 3,576,560	\$ 5,351,560
Ending balance: individually evaluated for impairment	1,556,021	-	1,556,021
Ending balance: aggregate remaining balance evaluated for impairment	218,979	3,576,560	3,795,539
Ending balance	\$ 1,775,000	\$ 3,576,560	\$ 5,351,560

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2014 and 2013

Note 3 - Notes Receivable (Continued)

	2014		
	<u>Diocesan Entity Notes</u>	<u>Priest and Seminarian Notes</u>	<u>Total</u>
Discounts:			
Beginning balance	75,823	1,127,714	1,203,537
Provision	(42,751)	62,164	19,413
Ending balance	\$ 33,072	\$ 1,189,878	\$ 1,222,950
Ending balance: individually evaluated for impairment	33,072	-	33,072
Ending balance: aggregate remaining balance evaluated for impairment	-	1,189,878	1,189,878
Ending balance	\$ 33,072	\$ 1,189,878	\$ 1,222,950
Recorded investment in notes receivable:			
Ending balance: individually evaluated for impairment	5,385,419	-	5,385,419
Ending balance: aggregate remaining balance evaluated for impairment	5,673,335	4,766,438	10,439,773
Ending balance	\$11,058,754	\$ 4,766,438	\$ 15,825,192
	2013		
	<u>Diocesan Entity Notes</u>	<u>Priest and Seminarian Notes</u>	<u>Total</u>
Allowance for losses:			
Beginning balance	1,585,000	3,167,368	4,752,368
Provision	160,000	222,700	382,700
Ending balance	\$ 1,745,000	\$ 3,390,068	\$ 5,135,068
Ending balance: individually evaluated for impairment	1,503,099	-	1,503,099
Ending balance: aggregate remaining balance evaluated for impairment	241,901	3,390,068	3,631,969
Ending balance	\$ 1,745,000	\$ 3,390,068	\$ 5,135,068

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2014 and 2013

Note 3 - Notes Receivable (Continued)

	2013		
	Diocesan Entity Notes	Priest and Seminarian Notes	Total
Discounts:			
Beginning balance	44,065	1,053,480	1,097,545
Provision	31,758	74,234	105,992
Ending balance	\$ 75,823	\$ 1,127,714	\$ 1,203,537
Ending balance: individually evaluated for impairment	75,823	-	75,823
Ending balance: aggregate remaining balance evaluated for impairment	-	1,127,714	1,127,714
Ending balance	\$ 75,823	\$ 1,127,714	\$ 1,203,537
Recorded investment in notes receivable:			
Ending balance: individually evaluated for impairment	6,227,266	-	6,227,266
Ending balance: aggregate remaining balance evaluated for impairment	5,730,035	4,517,782	10,247,817
Ending balance	\$ 11,957,301	\$ 4,517,782	\$ 16,475,083

There were no changes to the accounting policy for notes receivable for the years ended June 30, 2014 and 2013. There were no purchases, sales, or reclassifications of notes receivables for the years ended June 30, 2014 and 2013.

Note 4 - Related Party Transactions

The Central Office rents space at the property located at the Diocesan Bureau of Housing, Inc., an organization related through management, for the purpose of storing its archive files. The total rent paid was \$4,320 and \$7,740 in 2014 and 2013, respectively.

The Central Office enters into various transactions with New Hampshire Catholic Charities, also an organization related through management, who has its main office located in facilities owned and shared by the Central Office. Below is a summary of rent and program related expenses paid to New Hampshire Catholic Charities:

	2014	2013
Rent received	\$ 108,450	\$ 110,316
Program costs paid	41,664	32,400

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2014 and 2013

Note 4 - Related Party Transactions (Continued)

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

	<u>2014</u>	<u>2013</u>
Assessments received (excluding insurance)	\$ 6,056,150	\$ 5,850,111
Insurance revenue (see Note 8)	4,978,600	4,784,867
Grants, subsidies and donations paid	2,025,758	2,115,488
Investment management fees earned	223,571	194,049

Amounts due from the parishes and other affiliates, primarily for assessments, insurance and interest (net of allowance) was \$887,166 and \$643,363 at June 30, 2014 and 2013, respectively. Amounts due to the parishes and other affiliates at June 30, 2014 and 2013 were \$160,469 and \$170,164, respectively.

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

The Central Office participates in the Roman Catholic Bishop of Manchester Employee Benefit Plan and Trust (the Plan) which is managed and overseen by the Diocese. The Plan provides health, dental, life and disability insurance benefits. Total expense incurred and paid to the Plan during 2014 and 2013 was approximately \$343,000 and \$360,000, respectively.

The Central Office provides certain administrative services related to the operation of the Plan. The amount billed to the Plan was \$84,000 and \$80,000 in 2014 and 2013, respectively.

Note 5 - Deposits Payable

The Central Office holds deposits from its various parishes, schools and other entities within the Diocese. Interest is paid on these deposits at a rate of 1.0% in 2014 and 2013. Amounts are due on demand. Interest expense on deposits was \$425,380 and \$421,145 for 2014 and 2013, respectively. In addition, the Central Office maintains the pooled investments on behalf of the Sick Priests Fund and on behalf of various parishes. The deposits payable at June 30, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Due to:		
Parishes	32,242,381	30,611,954
Schools	9,622,952	9,905,177
Cemeteries	9,099,160	9,156,605
Sick Priests Fund	1,949,531	1,496,064
Other Diocesan entities	<u>1,259,449</u>	<u>1,118,497</u>
	<u>\$ 54,173,473</u>	<u>\$ 52,288,297</u>

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2014 and 2013

Note 6 - Mortgage Note Payable

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

The note also includes a prepayment penalty for the first sixty nine months. The prepayment penalty is 2.5% of the amount of prepayment in the first twenty one months, decreasing by .5% every twelve months thereafter.

Interest expense for this loan amounted to \$230,683 and \$243,475 during 2014 and 2013, respectively. The principal balance due was \$3,740,375 and \$3,945,850, at June 30, 2014 and 2013, respectively.

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

<u>Fiscal year</u>	
2015	237,718
2016	252,380
2017	267,946
2018	284,473
2019	302,018
Thereafter	<u>2,395,840</u>
	<u>\$ 3,740,375</u>

Note 7 - Retirement Benefits

(A) Diocesan Administration Employees

The Central Office has a tax-deferred annuity plan under Internal Revenue Code Section 403(b) for the benefit of its eligible diocesan administration employees. Contributions to the plan are based on 3% of eligible wages. Total contributions to this plan during 2014 and 2013 amounted to \$82,771 and \$76,036, respectively.

(B) Diocesan Priests

On June 27, 2007, the Diocese established the Diocesan Priest Retirement Plan (the Plan) and the Diocesan Priest Retirement Trust Fund (the Trust) for the purpose of funding the retirement benefits of retired priests incardinated in the Diocese of Manchester who are granted permission by the Bishop of Manchester to retire. Under the Plan, retired priests receive a monthly stipend, medical and dental coverage, and are eligible for personal automobile insurance reimbursement. Priests born in or before 1948 are eligible to request retirement from the Bishop of Manchester at the earlier of attainment of age 68 or completion of 40 years of service; priests born between 1949 and 1956 (inclusive) are eligible to request retirement at age 70; priests born between 1957 and 1970 (inclusive) are eligible to request retirement at age 71; priests born during or after 1971 are eligible to request retirement at age 72. Earlier retirement is permitted only with the approval

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2014 and 2013

Note 7 - (B) Diocesan Priests (Continued)

of the Bishop. In accordance with the terms of the Plan, the Central Office assumed the obligations of the Plan, including the unfunded benefit obligation as of the date the Plan was established. In addition, the Central Office has recognized the unfunded obligation of the retirement plan in its statements of financial position in accordance with accounting principles generally accepted in the United States of America.

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

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

Effective July 1, 2014, the monthly retired priest's stipend increased from \$1,500 to \$1,550. This resulted in an increase of \$463,866 to the priest retirement benefit obligation.

The following information relates to the Diocesan Priest Retirement Plan, Medical Insurance Fund and Sustenance Program, and includes amounts determined as of June 30, 2014 and 2013 measurement dates:

	<u>2014</u>			<u>2013</u>		
	<u>Diocesan Priests Retirement Plan</u>	<u>Medical Insurance Fund</u>	<u>Sustenance Program</u>	<u>Diocesan Priests Retirement Plan</u>	<u>Medical Insurance Fund</u>	<u>Sustenance Program</u>
Projected benefit obligation	(21,665,233)	(1,608,628)	(2,136,613)	(22,063,597)	(1,720,308)	(2,442,773)
Fair value of plan assets	<u>8,581,566</u>	<u>-</u>	<u>-</u>	<u>7,229,164</u>	<u>-</u>	<u>-</u>
Funded status	<u>\$ (13,083,667)</u>	<u>\$(1,608,628)</u>	<u>\$(2,136,613)</u>	<u>\$ (14,834,433)</u>	<u>\$(1,720,308)</u>	<u>\$(2,442,773)</u>

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2014 and 2013

Note 7 - (B) Diocesan Priests (Continued)

Significant assumptions at June 30, 2014 and 2013 include:

	2014			2013		
	Diocesan Priests Retirement Plan	Medical Insurance Fund	Sustenance Program	Diocesan Priests Retirement Plan	Medical Insurance Fund	Sustenance Program
Discount rate	4.33%	4.33%	4.33%	4.4%	4.4%	4.4%
Expected return on plan assets	6.5%	N/A	N/A	6.5%	N/A	N/A
Annual cost increases	6% trending to 4%	6% trending to 4%	6% trending to 4%	6.5% trending to 4%	6.5% trending to 4%	6.5% trending to 4%
Year that the rate reaches the ultimate trend rate	2019	2019	2019	2018	2018	2018
Rate of compensation increase	N/A	N/A	N/A	N/A	N/A	N/A
Mortality	RP-2000 Mortality Table			RP-2000 Mortality Table		
Benefit cost	1,017,028	(111,680)	(50,962)	1,582,365	(513,684)	438,827
Employer contributions and donations	1,505,046	-	255,197	1,570,731	-	232,287
Participant contributions	54,450	-	-	53,000	-	-
Benefits paid	1,322,515	49,781	255,197	1,349,450	68,387	232,287

The net periodic pension cost consists of:

	2014	2013
Diocesan Priest Retirement Plan:		
Amortization of prior service costs	67,611	328,694
Investment return	(470,017)	(407,542)
Current service cost	388,697	410,964
Interest cost	937,168	942,651
Amortization of gains or losses	93,569	307,598
Sustenance program	(50,962)	438,827
Medical insurance fund	(111,680)	(513,684)
Total	\$ 854,386	\$ 1,507,508

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

	2014	2013
Amortization of prior service costs	(67,611)	(328,694)
Net gain not yet recognized	(1,391,337)	(3,265,663)
Funding by affiliates	(1,308,846)	(1,277,915)
	\$ (2,767,794)	\$ (4,872,272)

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2014 and 2013

Note 7 - (B) Diocesan Priests (Continued)

The accumulated benefit obligations were as follows:

	<u>Diocesan Priests Retirement Plan</u>	<u>Medical Insurance Fund</u>	<u>Sustenance Program</u>
June 30, 2014	\$ 19,423,554	\$ 980,192	\$ 1,879,082
June 30, 2013	\$ 19,617,456	\$ 1,018,494	\$ 2,139,307

The Central Office expects to contribute approximately \$1,670,000 to the Retirement Plan during the year ending June 30, 2015. Benefits expected to be paid during the ensuing five years and five years thereafter are as follows:

	<u>Diocesan Priests Retirement Plan</u>	<u>Medical Insurance Fund</u>	<u>Sustenance Program</u>
2015	\$ 1,602,000	\$ 79,179	\$ 193,218
2016	1,630,000	84,370	185,591
2017	1,619,000	87,957	177,278
2018	1,584,000	89,329	168,338
2019	1,531,000	89,261	194,415
2020 - 2024	7,182,000	455,370	827,658

Assets of the Trust are invested with other marketable securities of the Central Office and its affiliated agencies (Note 2). The allocation of the fair value of plan assets by category at June 30, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Money market funds	.5%	.5%
Equity securities - domestic	35.5%	35%
Equity securities - international	32%	31.5%
Fixed income securities	32%	33%

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.

The measurement of the fair value of the Diocesan Priest Retirement Plan investments as of June 30, 2014 and 2013 was made using the fair value hierarchy described in Note 11.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2014 and 2013

Note 7 - (B) Diocesan Priests (Continued)

The following table sets forth by level, within the fair value hierarchy, the valuation techniques used to determine the fair value of these investments as of June 30, 2014 and 2013:

	2014			Total
	Level 1	Level 2	Level 3	
Money market funds	-	39,279	-	39,279
Equity securities - domestic	-	3,032,134	-	3,032,134
Equity securities - international	-	2,729,861	-	2,729,861
Fixed income securities	<u>2,737,544</u>	<u>-</u>	<u>-</u>	<u>2,737,544</u>
	<u>\$ 2,737,544</u>	<u>\$ 5,801,274</u>	<u>\$ -</u>	<u>\$ 8,538,818</u>
	2013			
	Level 1	Level 2	Level 3	Total
Money market funds	-	23,723	-	23,723
Equity securities - domestic	-	2,514,589	-	2,514,589
Equity securities - international	-	2,275,207	-	2,275,207
Fixed income securities	<u>2,375,129</u>	<u>-</u>	<u>-</u>	<u>2,375,129</u>
	<u>\$ 2,375,129</u>	<u>\$ 4,813,519</u>	<u>\$ -</u>	<u>\$ 7,188,648</u>

Note 8 - Insurance

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

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

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2014 and 2013

Note 8 - 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 \$359,734 and \$79,646 at June 30, 2014 and 2013, respectively, and have been recorded as insurance receivable in the accompanying statements of financial position.

The following summarizes the estimated liability for unpaid claims at June 30, 2014 and 2013:

<u>Type</u>	<u>2014</u>		
	<u>Claims Payable, net</u>	<u>IBNR</u>	<u>Total</u>
Liability	540,601	445,124	985,725
Property	511,844	69,844	581,688
Workers' compensation	<u>2,569,068</u>	<u>-</u>	<u>2,569,068</u>
	<u>\$ 3,621,513</u>	<u>\$ 514,968</u>	<u>\$ 4,136,481</u>
<u>Type</u>	<u>2013</u>		
	<u>Claims Payable, net</u>	<u>IBNR</u>	<u>Total</u>
Liability	924,138	353,230	1,277,368
Property	308,333	43,176	351,509
Workers' compensation	<u>2,511,932</u>	<u>-</u>	<u>2,511,932</u> *
	<u>\$ 3,744,403</u>	<u>\$ 396,406</u>	<u>\$ 4,140,809</u>

* As restated (see Note 14).

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 claims expense paid for all of the above coverages amounted to approximately \$1,498,000 and \$1,514,000 in 2014 and 2013, respectively.

Note 9 - Contingencies

Through June 30, 2014, numerous claims and lawsuits have been filed against the Diocese of Manchester in connection with reports of sexual misconduct with minors by some priests and others associated with the Diocese.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2014 and 2013

Note 9 - Contingencies (Continued)

The Diocese has entered into settlement agreements with a substantial number of the complainants. Under the terms of the agreements through June 30, 2014, the Diocese has agreed to pay approximately \$25,263,650 to the complainants, and the complainants have agreed to withdraw their claims. The cost of the settlements, including a provision for pending settlements, net of estimated insurance recoveries of approximately \$8,813,000, has been provided for as an expense in the year in which the liability for payment was determined to be probable and the amount was subject to reasonable estimation.

The accompanying financial statements include an estimated liability for the remaining reported claims and an estimate of the liability relating to unreported claims. As discussed in Note 8, it is possible that these estimates will change in the near term, and these changes may be material to the financial statements.

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

As it pertains to health care benefits, the Plan is responsible for the payment of claims up to a maximum amount for each specific claim for each plan year. Claims above the maximum amounts for the plan year are insured with an independent insurer. In the event that the Plan does not have sufficient resources to pay all claims, premiums and administrative expenses for which it is responsible, the Central Office would be responsible for funding any related deficit. As of June 30, 2014, management has determined that the Plan had sufficient resources to fund all such costs.

Note 10 - Risk and Uncertainties

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

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2014 and 2013

Note 11 - Fair Value Measurements

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

The following table sets forth by level, within the fair value hierarchy, the valuation techniques used to determine the fair value of the Central Office's assets as of June 30, 2014 and 2013.

	2014			
	Level 1	Level 2	Level 3	Total
Money market funds	-	326,859	-	326,859
Equity securities – domestic	245,959	25,029,786	213,398	25,489,143
Equity securities – international	-	22,538,439	-	22,538,439
Fixed income securities	22,600,517	241	-	22,600,758
Beneficial interest in charitable remainder trust	-	-	867,529	867,529
	<u>\$ 22,846,476</u>	<u>\$ 47,895,325</u>	<u>\$ 1,080,927</u>	<u>\$ 71,822,728</u>
	2013			
	Level 1	Level 2	Level 3	Total
Money market funds	-	200,608	-	200,608
Equity securities – domestic	215,390	21,345,223	213,398	21,774,011
Equity securities – international	-	19,311,800	-	19,311,800
Fixed income securities	20,162,596	122	-	20,162,718
Beneficial interest in charitable remainder trust	-	-	614,803	614,803
	<u>\$ 20,377,986</u>	<u>\$ 40,857,753</u>	<u>\$ 828,201</u>	<u>\$ 62,063,940</u>

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2014 and 2013

Note 11 - Fair Value Measurements (Continued)

The following table shows a summary of changes in the fair value of the Central Office's Level 3 assets for the years ended June 30, 2014 and 2013:

	2014			
	Investment in Insurance Company	Charitable Remainder Trust	Total	
Balance, beginning of year	213,398	614,803	828,201	
Unrealized gains	-	2,726	2,726	
Purchases	-	250,000	250,000	
	<u>\$ 213,398</u>	<u>\$ 867,529</u>	<u>\$ 1,080,927</u>	
	2013			
	Domestic Equity Security	Investment in Insurance Company	Charitable Remainder Trust	Total
Balance, beginning of year	59,986	213,398	435,688	709,072
Unrealized losses	(9,827)	-	-	(9,827)
Unrealized gains	-	-	119,115	119,115
Purchases (sales)	(50,159)	-	60,000	9,841
	<u>\$ -</u>	<u>\$ 213,398</u>	<u>\$ 614,803</u>	<u>\$ 828,201</u>

Realized and unrealized gains and losses are reported as investment income in the statements of activities.

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

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

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

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2014 and 2013

Note 11 - 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 12 - Donor-Designated Endowments

The Central Office follows the accounting guidance established by the Financial Accounting Standards Board for the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The guidance also requires certain disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA. The State of New Hampshire enacted UPMIFA effective July 1, 2008, the provisions of which apply to endowment funds existing on or established after that date. The Central Office has determined that permanently restricted net assets meet the definition of endowment funds under UPMIFA.

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

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

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2014 and 2013

Note 12 - Donor-Designated Endowments (Continued)

Endowment net asset composition as of June 30, 2014 and 2013 and changes in endowment net assets for the years ended June 30, 2014 and 2013 are as follows:

	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	-	3,554,672	7,710,049	11,264,721
Contributions	-	250	250,225	250,475
Interest and dividends	-	8,288	-	8,288
Net appreciation in value of investments	-	1,486,345	10,121	1,496,466
Amounts appropriated for expenditure	-	(607,483)	-	(607,483)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 4,442,072</u>	<u>\$ 7,970,395</u>	<u>\$12,412,467</u>
	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	(363)	2,978,776	7,528,141	10,506,554
Contributions	-	853	60,225	61,078
Interest and dividends	262	67,790	-	68,052
Net appreciation in value of investments	101	1,041,248	121,683	1,163,032
Amounts appropriated for expenditure	-	(533,995)	-	(533,995)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 3,554,672</u>	<u>\$ 7,710,049</u>	<u>\$ 11,264,721</u>

Funds with Deficiencies. From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Central Office to retain as a fund of perpetual duration. No significant deficiencies were reported in temporarily restricted or unrestricted net assets as of June 30, 2014.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

Notes to Financial Statements

June 30, 2014 and 2013

Note 12 - Donor-Designated Endowments (Continued)

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

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

Note 13 - Subsequent Events

Management has evaluated subsequent events through November 21, 2014, the date when the financial statements were available to be issued.

Note 14 - Prior Period Adjustment

The accompanying financial statements for 2013 have been restated to record an estimated liability for an unpaid workers' compensation claim determined by management to be in excess of insured amounts. In addition, the net assets as of July 1, 2012 were restated to correct the insurance liability reported in prior years.

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER
Notes to Financial Statements
June 30, 2014 and 2013

Note 14 - Prior Period Adjustment (Continued)

The effects of this correction on the various June 30, 2013 financial statement items were as follows:

	<u>As Previously Reported</u>	<u>As Adjusted</u>	<u>Effect of Change</u>
Insurance liabilities	1,628,877	4,140,809	2,511,932
Unrestricted net assets (deficit) - undesignated	(9,379,428)	(11,891,360)	(2,511,932)
Insurance expenses	2,546,508	2,635,451	88,943
Unrestricted net assets (deficit) - beginning of year	(14,937,759)	(17,360,748)	(2,422,989)
Unrestricted net assets (deficit) - end of year	(6,256,357)	(8,768,289)	(2,511,932)
Change in net assets	9,582,513	9,493,570	(88,943)
Increase (decrease) in insurance liabilities	(537,398)	(448,455)	88,943