CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER

MANCHESTER, NEW HAMPSHIRE

JUNE 30, 2017 AND 2016

HOWE RILEY+ HOWE
CERTIFIED PUBLIC ACCOUNTANTS
Bedford and Portsmouth, NH

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, 2017 and 2016, 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.

<u>Opinion</u>

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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Howe, Riley & Howe, PLLC

Bedford, New Hampshire
March 12, 2018

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER
Statements of Financial Position
June 30, 2017 and 2016

ASSETS

	2017	2016
Diocesan cash	3,241,946	5,665,373
Central fund cash	1,463,099	5,845,653
Accounts receivable, net	494,174	712,317
Insurance receivable, net	24,672	43,604
Interest receivable	8,574	5,954
Prepaid expenses	199,597	315,710
Diocesan investments	25,938,513	23,207,623
Notes receivable, net of discounts and allowance for losses	9,490,368	10,264,937
Cash held for restrictive purposes	144,093	144,093
Central fund deposits and investments	60,167,788	48,040,710
Fixed assets, net	317,107	305,254
Total assets	$ 101,489,931	$ 94,551,228

LIABILITIES AND NET ASSETS

	2017	2016
Accounts payable and accrued expenses	509,742	465,458
Reserves and other liabilities	641,438	414,082
Funds held for others - special collections	516,333	575,436
Insurance liabilities	4,136,530	3,234,906
Central fund deposits and investments	58,197,165	53,449,871
Mortgage note payable	-	3,228,354
Priest retirement benefit obligation	14,256,878	16,483,956
Total liabilities	78,258,086	77,852,063
NET ASSETS		
Unrestricted:		
Designated	4,150,730	3,839,356
Undesignated	5,815,553	(14,176)
	9,966,283	3,825,180
Temporarily restricted	5,109,483	4,733,016
Permanently restricted	8,156,079	8,140,969
Total net assets	23,231,845	16,699,165
Total	$ 101,489,931	$ 94,551,228

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

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER
Statement of Activities
For the Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES:				
Program revenue and assessments	6,647,493	-	-	6,647,493
Donations and bequests	161,392	177,631	138,151	477,174
Insurance	5,420,254	-	-	5,420,254
Investment income (loss), net	1,306,326	4,405	(2,347)	1,308,384
Miscellaneous	279,589	-	-	279,589
Net assets released from restriction	728,731	(728,731)	-	-
Total revenues	14,543,785	(546,695)	135,804	14,132,894
EXPENSES:				
Program:				
Christian formation	2,981,177	-	-	2,981,177
Pastoral services	1,298,036	-	-	1,298,036
Seminary	501,735	-	-	501,735
Missions	244,028	-	-	244,028
Tribunal	504,198	-	-	504,198
Donations	222,941	-	-	222,941
Other programs	439,460	-	-	439,460
Periodic pension cost - Diocesan Priests	746,411	-	-	746,411
Total program expenses	6,937,986	-	-	6,937,986
Administrative and support expenses:				
Insurance expenses	3,447,687	-	-	3,447,687
Operating expenses	2,745,365	-	-	2,745,365
Total program and administrative and support expenses	13,131,038	-	-	13,131,038
Retirement-related changes other than net periodic retirement costs	(1,964,505)	-	-	(1,964,505)
Change in net assets before net realized and unrealized gains (losses)	3,377,252	(546,695)	135,804	2,966,361
NET REALIZED AND UNREALIZED GAINS (LOSSES):				
Diocesan investments	617,573	837,566	(29,098)	1,426,041
Central fund deposits and investments	2,768,342	-	-	2,768,342
Total net realized and unrealized gains (losses)	3,385,915	837,566	(29,098)	4,194,383
TRANSFERS	-	91,596	(91,596)	-
INTEREST EXPENSE	(622,064)	(6,000)	-	(628,064)
CHANGE IN NET ASSETS	6,141,103	376,467	15,110	6,532,680
NET ASSETS - beginning of year	3,825,180	4,733,016	8,140,969	16,699,165
NET ASSETS - end of year	$ 9,966,283	$ 5,109,483	$ 8,156,079	$ 23,231,845

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, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES:				
Program revenue and assessments	6,678,285	-	-	6,678,285
Donations and bequests	815,053	116,457	110,026	1,041,536
Insurance	5,341,448	-	-	5,341,448
Investment income (loss), net	1,259,385	5,339	370	1,265,094
Miscellaneous	289,460	-	-	289,460
Net assets released from restriction	567,117	(567,117)	-	-
Total revenues	14,950,748	(445,321)	110,396	14,615,823
EXPENSES:				
Program:				
Christian formation	2,874,214	-	-	2,874,214
Pastoral services	1,299,604	-	-	1,299,604
Seminary	408,534	-	-	408,534
Missions	291,910	-	-	291,910
Tribunal	435,624	-	-	435,624
Donations	301,021	-	-	301,021
Other programs	1,291,325	-	-	1,291,325
Periodic pension cost - Diocesan Priests	1,015,658	-	-	1,015,658
Total program expenses	7,917,890	-	-	7,917,890
Administrative and support expenses:				
Insurance expenses	2,718,226	-	-	2,718,226
Operating expenses	2,671,192	-	-	2,671,192
Total program and administrative and support expenses	13,307,308	-	-	13,307,308
Retirement-related changes other than net periodic retirement costs	(1,779,952)	-	-	(1,779,952)
Change in net assets before net realized and unrealized gains (losses) on Diocesan investments	3,423,392	(445,321)	110,396	3,088,467
NET REALIZED AND UNREALIZED LOSSES:				
Diocesan investments	(141,507)	(229,444)	(4,898)	(375,849)
Central fund deposits and investments	(726,961)	-	-	(726,961)
Total net realized and unrealized losses	(868,468)	(229,444)	(4,898)	(1,102,810)
TRANSFERS	-	283	(283)	-
INTEREST EXPENSE	(613,777)	(6,000)	-	(619,777)
CHANGE IN NET ASSETS	1,941,147	(680,482)	105,215	1,365,880
NET ASSETS - beginning of year	1,884,033	5,413,498	8,035,754	15,333,285
NET ASSETS - end of year	$ 3,825,180	$ 4,733,016	$ 8,140,969	$ 16,699,165

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, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	6,532,680	1,365,880
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	80,432	86,741
Loss on disposal of fixed assets	-	2,833
Reinvested investment income	(1,554)	-
Net realized and unrealized (gains) losses	(4,194,383)	1,102,810
Provision for losses on notes receivable	123,174	116,000
Adjustment for losses on accounts receivable	-	70,473
Adjustment for losses on notes receivable	113	61,022
Non-cash donations	(100,000)	(110,000)
Non-cash grants	-	128,825
Change in loan discounts	-	(25,773)
Decrease (increase) in:		
Accounts receivable	114,246	(290,570)
Insurance receivable	18,932	81,737
Interest receivable	(2,620)	2,705
Prepaid expenses	116,113	(107,356)
Increase (decrease) in:		
Accounts payable and accrued expenses	29,917	(32,118)
Reserves and other liabilities	227,356	130,403
Funds held for others - special collections	(59,103)	(3,990)
Insurance liabilities	901,624	(609,813)
Priest retirement benefit obligation	(2,227,078)	(800,234)
Net cash provided by operating activities	1,559,849	1,169,575
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(42,444,360)	(31,114,531)
Proceeds from sale of investments	37,988,150	31,721,788
Amounts advanced on notes receivable	(805,789)	(1,851,019)
Collections on notes receivable	1,560,968	2,213,160
Purchase of fixed assets	(77,918)	(86,212)
Net cash provided by (used for) investing activities	(3,778,949)	883,186
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (decrease) in central fund deposits and investments, net	(1,358,528)	1,350,302
Repayments of mortgage note payable	(3,228,354)	(253,613)
Net cash provided by (used for) financing activities	(4,586,882)	1,096,689

(Continued)

CENTRAL OFFICE OF THE DIOCESE OF MANCHESTER
Statements of Cash Flows
For the Years Ended June 30, 2017 and 2016

(Continued)

	2017	2016
NET CHANGE IN CASH AND CASH EQUIVALENTS	(6,805,981)	3,149,450
CASH AND CASH EQUIVALENTS - beginning of year	11,511,026	8,361,576
CASH AND CASH EQUIVALENTS - end of year	$ 4,705,045	$ 11,511,026
RECONCILIATION TO STATEMENTS OF FINANCIAL POSITION:		
DIOCESAN CASH	3,241,946	5,665,373
CENTRAL FUND CASH	1,463,099	5,845,653
TOTAL CASH AND CASH EQUIVALENTS - end of year	$ 4,705,045	$ 11,511,026

SUPPLEMENTAL DISCLOSURES:

	2017	2016
Interest paid (including interest paid on deposits payable)	$ 622,064	$ 613,777

During the years ended June 30, 2017 and 2016, accounts and interest receivable from parishes in the amounts of $103,897 and $191,925, respectively, were transferred to notes receivable.

For the years ended June 30, 2017 and 2016, net activity on investment funds held for related entities was $6,105,822 and $455,211, respectively.

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

Note 1 - Summary of Significant Accounting Policies

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

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

(A) Basis of Presentation

The accompanying financial statements include the assets, liabilities and activities of the Operating Fund, the Central Fund and the Insurance Fund, as well as the Temporarily and Permanently Restricted Funds of the Diocese. The Operating Fund includes program, administrative and support services of the Central Office which are comprised of Christian formation, pastoral services, seminary, missionary, finance, real estate, insurance and administrative support services. The Central Fund holds in trust and manages the deposits and investments of the various affiliates of the Diocese of Manchester as described in Note 5 ($58,197,165 in 2017 and $53,449,871 in 2016). 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), losses on accounts, notes and insurance receivable (Notes 1, 3, and 8).

Note 1 - (C) Cash and Cash Equivalents

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

The Central Office reports certain cash equivalents managed by its investment advisors as investments and not as cash equivalents in the accompanying statements of financial position, since it is the Central Office's intention to invest these funds for long-term purposes.

The Central Office customarily maintains amounts on deposit in various bank accounts in excess of the Federal deposit insurance coverage amounts. Deposits totaling approximately $4,671,000 (prior to outstanding items clearing the bank) at June 30, 2017 are not covered by Federal deposit insurance.

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

	2017	2016
Diocesan cash	3,241,946	5,665,373
Central fund cash	1,463,099	5,845,653
	$ 4,705,045	$ 11,511,026

(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, 2017 and 2016 are reported net of an allowance for uncollectible accounts of $312,241. Aggregate accounts receivable past due 90 days or more were approximately $435,000 and $428,000 as of June 30, 2017 and 2016, respectively. Delinquency status is based on normal credit terms. The Central Office does not generally require collateral for the extension of credit.

(E) Investments

Investments represent marketable securities as well as units owned in a hedge fund portfolio. Investments in marketable securities are valued at their fair values in the statements of financial position. The measurement of fair value is made using the fair value hierarchy established under current accounting standards (Note 11). Net asset value (NAV) is used as a practical expedient to estimate fair value of the hedge funds (Note 11).

Note 1 - (E) Investments (Continued)

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

(F) Notes Receivable

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

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

(G) Fixed Assets

It is the Central Office's policy to capitalize fixed assets with a cost of at least $1,000 ($2,500 effective July 1, 2017). Lesser amounts are charged to operations.

Note 1 - (G) Fixed Assets (Continued)

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, 2017 and 2016 is as follows:

	2017	2016
Land	2,129	2,129
Buildings	651,646	651,646
Building improvements	1,317,056	1,259,791
Furniture and other equipment	355,841	363,892
Computer equipment and software	336,003	326,282
	2,662,675	2,603,740
Less: accumulated depreciation	2,345,568	2,298,486
Fixed assets, net	$ 317,107	$ 305,254

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 $80,432 and $86,741 during 2017 and 2016, respectively.

Included in fixed assets in the accompanying statements of financial position are assets with a net book value of $81,044 and $50,648 as of June 30, 2017 and 2016, 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.

Note 1 - (H) Restricted Support (Continued)

Designated net assets represent net assets that have been designated by the Central Office for the following purposes at June 30, 2017 and 2016:

	2017	2016
Missionary support	854,421	797,520
School education fund	373,403	348,318
Priests continuing formation	723,529	641,600
Medical needs of priests	757,273	737,032
Worship and world youth day	10,070	10,070
Campus ministry	124,925	124,925
Youth ministry	442,705	442,705
St. Joseph Cathedral	151,709	144,334
Permanent Deaconate Continuing Formation	712,695	592,852
	$ 4,150,730	$ 3,839,356

Temporarily restricted net assets are available for the following purposes at June 30, 2017 and 2016:

	2017	2016
Seminarians	639,625	693,624
Missionary support	65,461	61,084
Parish masses	342,091	321,379
For specific schools	174,544	162,946
Education	1,180,910	1,082,579
For specific parishes	351,948	316,590
Missionary, Catholic education, retired priests and parish support	1,575,457	1,407,521
Non-capital purposes	225,640	211,546
For specific geographical region	219,285	214,468
Other various purposes	334,522	261,279
	$ 5,109,483	$ 4,733,016

Permanently restricted net assets are restricted to investment in perpetuity and were as follows at June 30, 2017 and 2016:

	2017	2016
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	2,168,252	2,083,120
Care of needy	12,672	12,672
General purposes for specific parishes	761,744	821,775
Other various purposes	202,556	212,547
	$ 8,156,079	$ 8,140,969

Note 1 - (H) Restricted Support (Continued)

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

(I) Salary and Expense Allocations

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

(J) Federal and State Income Taxes

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

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, 2017, the Central Office did not take any material tax positions which do not meet the criteria for recognition.

Note 2 - Investments

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

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

Equity securities - domestic	10% - 50%
Equity securities – international and emerging markets	10% - 35%
Fixed income securities	30% - 38%
Alternative investments	5% - 25%
Private equities	0% - 10%
Cash and cash equivalents	.5% - 5%

Note 2 - Investments (Continued)

The Diocese is the sole remainder beneficiary of an irrevocable charitable remainder trust. Under the terms of the trust, the income beneficiaries of the trust receive a unitrust amount equal to 8% of the fair market value of the trust assets determined annually, paid in equal monthly installments. Upon the death of the surviving income beneficiary, the trustee is to distribute all remaining principal and income of the trust to the Diocese to be used to establish a scholarship fund to benefit students in Catholic regional schools within New Hampshire. The net present value of the beneficial interest in the trust is included in assets held for restricted purposes in the accompanying financial statements using an assumed rate of return of 6% in 2017 and 6.5% in 2016, and discounted at 3.75% in 2017 and 3.5% in 2016 ($1,007,266 and $943,656 at June 30, 2017 and 2016, respectively). The fair value of the trust assets was $1,761,957 and 1,542,561 at June 30, 2017 and 2016, respectively.

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

Investments are included in the accompanying financial statements as follows:

	2017	2016
Diocesan investments	25,938,513	23,207,623
Central fund deposits and investments	60,167,788	48,040,710
	$ 86,106,301	$ 71,248,333

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

	2017	2016
Dividends, interest and other income	1,383,328	1,401,714
Investment fees paid, net	(74,944)	(136,620)
Total investment income, net	$ 1,308,384	$ 1,265,094

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

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

Note 3 - Notes Receivable

Notes receivable from diocesan entities (parishes, cemeteries, and schools) are unsecured and are reported at their unpaid principal balances less an allowance for losses. Notes receivable from priests and seminarians are unsecured, non-interest bearing and have no specific payment terms.

Total outstanding notes receivable from priests and seminarians were deemed immaterial to the financial statements in June 30, 2017 and 2016 and have been excluded from the analysis of outstanding receivables. These notes were fully reserved.

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 2017 and 2016).

Interest income on notes receivable was $397,618 in 2017. Interest income was $457,336 in 2016.

Due to the nature of the relationships with Diocesan entities, the Central Office has been willing, under appropriate circumstances, to make concessions for borrowers whose payments were not current or to refinance outstanding obligations. At the time of restructuring, the loan is evaluated for an allowance for credit losses. The Central Office continues to specifically reevaluate the loan in subsequent periods, regardless of the borrower’s performance under the modified terms. There were no troubled debt restructurings for the years ended June 30, 2017 and 2016. During the years ended June 30, 2017 and 2016, one borrower was granted a concession for the forbearance of principal payments. Since the borrower continues to make interest payments, management has determined there is no effect to the financial statements for modifying the loan.

In assessing performance of notes receivables on an annual basis, the Central Office considers notes receivable less than 30 days past due to be current and classified as performing. An additional grace period was granted only for determining current status as of June 30, 2017, due to a change in the payment mailing address effective on July 1, 2017. The Central Office also classifies loans which have contractual terms that require no payments in a given year as current and performing. Performing notes receivables as of June 30, 2017 and 2016 were $9,603,812 and $10,708,208, respectively. Non-performing notes receivables as of June 30, 2017 and 2016 were $2,126,730 and $1,673,729, respectively.

Note 3 - Notes Receivable (Continued)

The following reflects the age analysis of notes receivable as of June 30, 2017 and 2016, respectively:

	2017	2016
Current	9,603,812	10,708,208
30 - 59 days	590,486	81,310
60 - 89 days	-	76,593
90+ days	1,536,244	1,515,826
Total notes receivable	$ 11,730,542	$ 12,381,937
Total notes receivable on non-accrual status	$ 1,791,107	$ 1,896,759
Notes receivable 90+ days past due and still accruing	$ 166,051	$ 145,632

The following provides informative data at June 30, 2017 and 2016, 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:

	2017	2016
Impaired loans for which no allowance for credit losses is recognized:		
Recorded investment	$ 2,080,435	$ 3,282,381
Unpaid principal balance	2,080,435	3,282,381
Average recorded investment	2,681,408	2,682,883
Interest income recognized while impaired	36,755	87,232
Impaired loans for which an allowance for credit losses is recognized:		
Recorded investment	2,831,215	2,369,568
Unpaid principal balance	2,831,215	2,369,568
Average recorded investment	2,600,392	2,298,407
Interest income recognized while impaired	73,088	51,733

Note 3 - Notes Receivable (Continued)

The following reflects the allowance for losses, discounts, and the related recorded investment in notes receivable as of June 30, 2017 and 2016, respectively:

	2017	2016
Allowance for losses:		
Beginning balance	2,117,000	2,001,000
Provision	123,174	116,000
Ending balance	$ 2,240,174	$ 2,117,000
Ending balance: individually evaluated for impairment	2,035,174	1,915,000
Ending balance: aggregate remaining balance evaluated for impairment	205,000	202,000
Ending balance	$ 2,240,174	$ 2,117,000
Discounts:		
Beginning balance	-	25,773
Provision	-	(25,773)
Ending balance	$ -	$ -
Recorded investment in notes receivable:		
Ending balance: individually evaluated for impairment	4,911,650	5,651,948
Ending balance: aggregate remaining balance evaluated for impairment	6,818,892	6,729,989
Ending balance	$ 11,730,542	$ 12,381,937

There were no changes to the accounting policy for notes receivable for the years ended June 30, 2017 and 2016. There were no purchases, sales, or reclassifications of notes receivables for the years ended June 30, 2017 and 2016.

Note 4 - Related Party Transactions

The Central Office rents space at the property located at the St. Joseph Cathedral Parish, a Diocesan entity, for storing its archive files. The total rent paid was $4,320 in 2017 and 2016.

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

	2017	2016
Rent received	$ 98,750	$ 113,700
Program costs paid	26,800	32,400

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:

	2017	2016
Assessments received (excluding insurance)	$ 5,981,340	$ 6,019,701
Insurance revenue (see Note 8)	5,420,254	5,341,448
Grants, subsidies and donations paid	1,829,549	1,887,988
Investment management fees earned	266,525	205,873

Amounts due from the parishes and other affiliates, primarily for assessments, insurance and interest (net of allowance) was $473,174 and $623,943 at June 30, 2017 and 2016, respectively. Amounts due to the parishes and other affiliates at June 30, 2017 and 2016 were $180,389 and $191,341, respectively.

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

The Central Office participates in the Roman Catholic Bishop of Manchester Employee Benefit Plan and Trust (the Plan) which is managed and overseen by the Diocese. The Plan provides health, dental, life and disability insurance benefits. Total expense incurred and paid to the Plan during 2017 and 2016 was approximately $355,000 and $361,000, respectively.

The Central Office provides certain administrative services related to the operation of the Plan. The amount billed to the Plan was $84,000 in 2017 and 2016.

Note 5 - Central Fund Deposits and Investments

The Central Office holds deposits and investments from its various parishes, schools and other entities within the Diocese. Interest is paid on these deposits at a rate of 1.0% in 2017 and 2016. Effective July 1, 2016, interest is paid at 2.6% to cemeteries with deposits in the Perpetual Care Fund. Amounts are due on demand. Interest expense on deposits was $497,200 and $406,651 for 2017 and 2016, respectively. In addition, the Central Office maintains the pooled investments on behalf of the Sick Priests Fund as well as various parishes and other entities. The investment return on these funds is excluded from the financial statements and the investment risk for these funds is with the participating entity. The Central Fund deposits and investments at June 30, 2017 and 2016 consist of the following:

	2017	2016
Due to:		
Parishes	32,997,429	32,118,342
Cemeteries	12,713,599	9,788,223
Schools	8,524,252	8,064,360
Sick Priests Fund	2,803,987	2,436,021
Other Diocesan entities	1,157,898	1,042,925
	$ 58,197,165	$ 53,449,871

Note 6 - Mortgage Note Payable

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

Interest expense for this loan amounted to $119,167 and $202,072 during 2017 and 2016, respectively. The principal balance due was $3,228,354 at June 30, 2016. The outstanding balance of the loan was paid in full during 2017.

Note 7 - Retirement Benefits

(A) Diocesan Administration Employees

The Central Office has a tax-deferred annuity plan under Internal Revenue Code Section 403(b) for the benefit of its eligible diocesan administration employees. Contributions to the plan are based on 3% of eligible wages. Total contributions to this plan during 2017 and 2016 amounted to $96,683 and $79,980, respectively.

Note 7 - (B) Diocesan Priests

The Diocese established the Diocesan Priest Retirement Plan (the Plan) and the Diocesan Priest Retirement Trust Fund (the Trust) for the purpose of funding the retirement benefits of retired priests incardinated in the Diocese of Manchester who are granted permission by the Bishop of Manchester to retire. Under the Plan, retired priests receive a monthly stipend, medical and dental coverage, and are eligible for personal automobile insurance reimbursement. Priests born before 1949 are eligible to request retirement from the Bishop of Manchester at the earlier of attainment of age 68 or completion of 40 years of service; priests born between 1949 and 1956 (inclusive) are eligible to request retirement at age 70; priests born between 1957 and 1970 (inclusive) are eligible to request retirement at age 71; priests born during or after 1971 are eligible to request retirement at age 72. Earlier retirement is permitted only with the approval of the Bishop. In accordance with the terms of the Plan, the Central Office assumed the obligations of the Plan, including the unfunded benefit obligation as of the date the Plan was established. In addition, the Central Office has recognized the unfunded obligation of the retirement plan in its statements of financial position in accordance with accounting principles generally accepted in the United States of America.

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

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

During 2017, the monthly stipend increased from $1,600 to $1,700 for retired priests and from $2,000 to $2,250 for retired bishops. This resulted in an increase of $1,050,204 to the priest retirement benefit obligation.

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

The actuarial assumptions for the mortality, discount rates, and trend rates were changed during the year ended June 30, 2016. The changes in these actuarial assumptions increased the priest retirement obligation by approximately $1,207,000.

Note 7 - (B) Diocesan Priests (Continued)

The following information relates to the Diocesan Priest Retirement Plan, Medical Insurance Fund and Sustenance Program, and includes amounts determined as of June 30, 2017 and 2016 measurement dates:

	2017			2016		
	Diocesan Priests Retirement Plan	Medical Insurance Fund	Sustenance Program	Diocesan Priests Retirement Plan	Medical Insurance Fund	Sustenance Program
Projected benefit obligation	(22,882,661)	(1,622,206)	(888,675)	(22,592,224)	(1,712,315)	(1,897,659)
Fair value of plan assets	11,136,664	-	-	9,718,242	-	-
Funded status	$ (11,745,997)	$(1,622,206)	$ (888,675)	$ (12,873,982)	$(1,712,315)	$(1,897,659)

The following components of the projected benefit obligation of the Diocesan Priest Retirement Plan at June 30, 2017 and 2016 have not been recognized as periodic pension costs:

	2017	2016
Unrecognized prior service cost	$ 2,626,892	$ 1,697,617
Unrecognized net loss	$ 2,290,831	$ 3,951,407

Significant assumptions at June 30, 2017 and 2016 include:

	2017			2016		
	Diocesan Priests Retirement Plan	Medical Insurance Fund	Sustenance Program	Diocesan Priests Retirement Plan	Medical Insurance Fund	Sustenance Program
Discount rate	3.75%	3.75%	3.75%	3.50%	3.50%	3.50%
Expected return on plan assets	6.00%	N/A	6.00%	6.50%	N/A	6.50%
Annual cost increases:						
Medical and dental	5.5% trending to 4.0%	5.5% trending to 4.0%	5.5% trending to 4.0%	6.0% trending to 4.0%	6.0% trending to 4.0%	6.0% trending to 4.0%
Automobile insurance premiums	3.0%	N/A	3.0%	3.0%	N/A	3.0%
Year that the rate reaches the ultimate trend rate	2020	2020	2020	2020	2020	2020
Rate of compensation increase	N/A	N/A	N/A	N/A	N/A	N/A
Mortality	RP-2014 White Collar Mortality Table projected fully generational with scale MP-2016			RP-2014 Mortality Table projected fully generational with scale MP-2015		
Benefit cost	836,520	(90,109)	(847,915)	961,114	54,544	136,995
Employer contributions and donations	1,678,910	-	161,069	1,806,737	-	172,935
Participant contributions	51,750	-	-	51,250	-	-
Benefits paid	1,067,818	31,335	161,069	1,124,863	32,769	172,935

Note 7 - (B) Diocesan Priests (Continued)

The net periodic pension cost consists of:

	2017	2016
Diocesan Priest Retirement Plan:		
Amortization of prior service costs	120,929	120,929
Investment return	(588,811)	(555,507)
Current service cost	418,375	396,880
Interest cost	767,110	908,410
Amortization of gains or losses	118,917	90,402
Medical insurance fund	(90,109)	54,544
Total	$ 746,411	$ 1,015,658

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

	2017	2016
Amortization of prior service costs	(120,929)	(120,929)
Current year gain not yet recognized	(775,758)	(534,160)
Funding by affiliates	(1,067,818)	(1,124,863)
	$ (1,964,505)	$ (1,779,952)

The accumulated benefit obligations were as follows:

	Diocesan Priests Retirement Plan	Medical Insurance Fund	Sustenance Program
June 30, 2017	$ 20,338,113	$ 949,146	$ 828,805
June 30, 2016	$ 20,000,910	$ 983,600	$ 1,656,690

The Central Office expects to contribute approximately $5,540,836 to the Retirement Plan during the year ending June 30, 2018. Benefits and expenses expected to be paid during the ensuing five years and five years thereafter are as follows:

	Diocesan Priests Retirement Plan	Medical Insurance Fund	Sustenance Program
2018	$ 1,366,000	$ 62,830	$ 110,177
2019	1,397,000	67,167	104,190
2020	1,406,000	70,292	97,785
2021	1,386,000	71,689	91,051
2022	1,381,000	73,447	84,094
2023 - 2027	7,258,000	419,835	320,010

Note 7 - (B) Diocesan Priests (Continued)

Assets of the Trust are invested with other marketable securities and hedge funds of the Central Office and its affiliated agencies (Note 2). The Central Office's investment policy with respect to assets of the Trust is consistent with the policy outlined in Note 2.

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

See Note 11 for a discussion of the fair value measurements of the Diocesan Priest Retirement Plan investments.

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, 2017 and 2016:

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

Note 7 - (B) Diocesan Priests (Continued)

	2016				
	Level 1	Level 2	Level 3	Net Asset Value*	Total
Equity securities:					
Domestic	2,302,161	-	-	-	2,302,161
International and emerging markets	1,236,187	-	-	-	1,236,187
Fixed income securities:					
Corporate bonds	-	2,172,837	-	-	2,172,837
Government securities	-	336,623	-	-	336,623
Certificates of deposit	-	948,061	-	-	948,061
Preferred stock	2,853	-	-	-	2,853
Alternative investments:					
Real estate investment trusts	395,580	-	-	-	395,580
Total assets in the fair value hierarchy	3,936,781	3,457,521	-	-	7,394,302
Hedge funds	-	-	-	1,708,791	1,708,791
Investments at fair value	$ 3,936,781	$ 3,457,521	$ -	$ 1,708,791	$ 9,103,093
Cash and cash equivalents					406,040
Total investments					$ 9,509,133

* In accordance with current accounting standards certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of financial position (see Note 11).

Note 8 - Insurance

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

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

The Central Office records a liability for unpaid claims based on amounts due on settlements, and case base estimates of reported losses, plus supplemental amounts for incurred but not reported losses (IBNR) calculated based on loss projections using actuarial analysis and studies of historical loss experience. Amounts due from insurance companies on settled claims were $24,672 and $43,604 at June 30, 2017 and 2016, respectively, and have been recorded as insurance receivable in the accompanying statements of financial position.

Note 8 - Insurance (Continued)

The following summarizes the estimated liability for unpaid claims at June 30, 2017 and 2016:

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

	2016		
Type	Claims Payable, net	IBNR	Total
Liability	561,641	235,978	797,619
Property	85,388	312,721	398,109
Workers' compensation	2,039,178	-	2,039,178
	$ 2,686,207	$ 548,699	$ 3,234,906

While the Central Office believes that the amounts reported represent its best estimate of the amount necessary to cover the ultimate cost of these claims, these estimates are subject to change. Any change in estimates is made in consultation with an actuary and is recorded in the year the change is determined.

Claims and legal expense paid for all of the above coverages amounted to approximately $742,000 and $1,505,000 in 2017 and 2016, respectively.

Note 9 - Contingencies

Through June 30, 2017, numerous claims and lawsuits have been filed against the Diocese of Manchester regarding reports of sexual misconduct with minors by some priests and others associated with the Diocese.

The Diocese has entered into settlement agreements with a substantial number of the complainants. Under the terms of the agreements through June 30, 2017, the Diocese has agreed to pay $26,530,271 to the complainants, and the complainants have agreed to withdraw their claims. The cost of the settlements, including a provision for pending settlements, net of estimated insurance recoveries of approximately $8,813,000, has been provided for as an expense in the year in which the liability for payment was determined to be probable and the amount was subject to reasonable estimation.

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

Note 10 - Risk and Uncertainties

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

Note 11 - Fair Value Measurements

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

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, 2017 and 2016.

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

Note 11 - Fair Value Measurements (Continued)

	2016				
	Level 1	Level 2	Level 3	Net Asset Value*	Total
Equity securities:					
Domestic	17,090,628	-	213,398	-	17,304,026
International and emerging markets	9,082,441	-	-	-	9,082,441
Fixed income securities:					
Corporate bonds	-	15,961,081	-	-	15,961,081
Government securities	-	2,474,874	-	-	2,474,874
Certificates of deposit	-	6,968,913	-	-	6,968,913
Preferred stock	21,138	-	-	-	21,138
Exchange-traded and closed-end funds	38,386	-	-	-	38,386
Alternative investments:					
Real estate investment trusts	2,907,612	-	-	-	2,907,612
Beneficial interest in charitable remainder trust	-	-	943,656	-	943,656
Total assets in the fair value hierarchy	29,140,205	25,404,868	1,157,054	-	55,702,127
Hedge funds	-	-	-	12,557,713	12,557,713
Investments at fair value	$ 29,140,205	$25,404,868	$ 1,157,054	$12,557,713	$68,259,840
Cash and cash equivalents					2,988,493
Total investments (Note 2)					$71,248,333

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

The following table shows a summary of changes in the fair value of the Central Office's Level 3 assets for the years ended June 30, 2017 and 2016:

	2017		
	Investment in Insurance Company	Charitable Remainder Trust	Total
Balance, beginning of year	213,398	943,656	1,157,054
Unrealized losses	-	(36,391)	(36,391)
Contributions	-	100,000	100,000
	$ 213,398	$ 1,007,265	$ 1,220,663

Note 11 - Fair Value Measurements (Continued)

	2016		
	Investment in Insurance Company	Charitable Remainder Trust	Total
Balance, beginning of year	213,398	837,289	1,050,687
Unrealized losses	-	(3,633)	(3,633)
Contributions	-	110,000	110,000
	$ 213,398	$ 943,656	$ 1,157,054

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

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

Investments measured at net asset value (NAV) represent units owned in a hedge fund portfolio, with varying investment strategies. Valuation of the hedge funds within the portfolio are at the NAV of the underlying investments held by the individual funds. NAV is used as the practical expedient to estimate fair value. This practical expedient would not be used if it is determined to be probable that the Central Office will sell the investment for an amount different from the reported NAV. Hedge funds investing in more liquid assets are valued daily using published market prices, whereas hedge funds investing in less liquid assets are valued at least monthly using prices for identical or similar assets in markets that are not active. The redemption frequency and redemption notice period varies between the individual hedge funds within the portfolio. If the Central Office initiates a full redemption, the investment advisor requires 30 days of notice. This redemption notice period is applicable only to the Central Office.

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

Note 12 - Donor-Designated Endowments

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

Note 12 - Donor-Designated Endowments (Continued)

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

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

Endowment net asset composition as of June 30, 2017 and 2016 and changes in endowment net assets for the years ended June 30, 2017 and 2016 are as follows:

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

Note 12 - Donor-Designated Endowments (Continued)

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	(243)	3,909,407	8,035,754	11,944,918
Contributions	-	150	110,025	110,175
Transfers	-	283	(283)	-
Interest and dividends	-	137	-	137
Net depreciation in value of investments	(1,120)	(205,032)	(4,528)	(210,680)
Amounts appropriated for expenditure	-	(491,052)	-	(491,052)
Endowment net assets, end of year	$ (1,363)	$ 3,213,893	$ 8,140,968	$11,353,498

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, 2017.

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

Spending Policy. The Central Office has a policy of appropriating for distribution each year up to 5% of its endowment fund's average fair value of the previous three years. In addition, in the event that an amount in excess of the 5% threshold is required for any single year in order to accomplish the purposes for which a particular donor restricted fund has been established, the proposed appropriation shall be reviewed by the Diocesan Finance Council, which will then make a recommendation to the Bishop as to its concurrence or non-concurrence with the proposed appropriation. For fiscal year ending June 30, 2017, a 4% distribution was recommended by the Diocese Finance Council and approved by the Bishop. In establishing this policy, the Central Office considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, some of which must be maintained in perpetuity because of donor-restrictions, the possible effects of inflation, and the provisions of SPMIFA.

Note 13 - Reclassifications

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 presentation.

Note 14 - Subsequent Events

Management has evaluated subsequent events through March 12, 2018, the date when the financial statements were available to be issued.