THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
CHANCERY CORPORATION
(DEBTOR IN POSSESSION)
SAINT PAUL, MINNESOTA

MANAGEMENT DISCUSSION AND ANALYSIS
AND
FINANCIAL STATEMENTS - UNAUDITED

YEARS ENDED JUNE 30, 2018 AND 2017

THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
CHANCERY CORPORATION
(DEBTOR IN POSSESSION)
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YEARS ENDED JUNE 30, 2018 AND 2017

INTRODUCTION

The Fiscal Year of the Archdiocese began July 1, 2017 and ended June 30, 2018. For the first time since filing for Reorganization in U.S. Bankruptcy Court in January of 2015, the Archdiocese of Saint Paul and Minneapolis has some financial certainty.

The most significant financial development occurred June 28, 2018, shortly before the end of the Fiscal Year 2018, when the Archdiocese and the Unsecured Creditors Committee, representing more than 400 sexual abuse claimants, filed a $210 million Joint Plan of Reorganization that provides remuneration to those harmed and allows the Archdiocese to continue the mission of the Church.

The second Amended Plan of Reorganization was filed in December of 2016 and proposed a settlement of $156 million. Thanks to mediation involving all parties, that number reached $210 million in late spring. The $210 million Joint Plan was approved by the judge overseeing the case on September 25, 2018 and the Archdiocese was discharged from debts on October 11, 2018. The Archdiocese is emerging from Bankruptcy and expects the case to be closed in December of this year. As was the intention from the Plan's filing in January 2015, the consensual Plan consisted primarily of insurance settlements with carriers that issued policies for coverage over the past 70 years. The other significant sources were insurance settlements from parishes in the Archdiocese, proceeds from the sale of Archdiocesan properties, unrestricted cash, the sale of land to three Catholic high schools, and contributions from the parishes, General Insurance Program, Archdiocesan Medical Benefit Plan, and priests. In addition, the Archdiocese signed a non-interest bearing promissory note payable to the Bankruptcy Trust that requires an annual payment of $1 million over the next five years. All proceeds have been or will be transferred to the Bankruptcy Trust overseen by a trustee selected by attorneys for the survivors and most of the funds should be distributed to claimants before the end of this calendar year.

Legal and professional expenses incurred since filing for Reorganization in 2015 totaled approximately $20 million. The Archdiocese paid nearly $8 million of those expenses during the bankruptcy and the Plan calls for the remaining amount to be paid from the Bankruptcy Trust. A significant amount of these legal and professional fees were incurred to maximize insurance proceeds from Archdiocese and parish insurance policies for those harmed for events dating back as far as the 1940's. Payments from insurance carriers into the Bankruptcy Trust accounted for $175 million of the $210 million Plan.

While the Archdiocese provides administrative and pastoral support to parishes, Catholic schools and other Catholic entities in the 12 counties that make up the Archdiocese of Saint Paul and Minneapolis, this annual fiscal report does not contain their financial information. That is because, under Minnesota law, they are all independent corporations with completely separate finances and are required to prepare and publish their own financial reports.

In the commitment to accountability and transparency to the Catholic faithful and the public, the Archdiocese has released its full audited financial reports annually since June 30, 2013. This is important to Archbishop Hebda, the Archdiocesan Finance Council and staff because approximately 70% of the Archdiocese's funding comes from parish assessments, which is predominately the result of plate and envelope collections from parishioners. People who give so generously to this local Church deserve a full accounting of their resources.

For the fourth year, because of the bankruptcy reorganization, the Archdiocese asked our CPA firm to perform Agreed Upon Procedures on the financial statements for the fiscal year ending June 30, 2018. These procedures do not represent an audit and as a result, there is not an Independent Auditor's Report attached to the financial statements. The Agreed Upon Procedures were developed by management and the Archdiocesan Finance Council in consultation with the CPA firm and will assist in governance of the Archdiocese by requiring attestation procedures on key balance sheet accounts and review of income statement and internal controls. The Agreed Upon Procedures are significantly less expensive than an audit. When the Archdiocese emerges from Reorganization later this calendar year, they will return to the standard practice of annual independent audits next fiscal year and will continue the practice of releasing the information promptly after completion of the financial statements and auditor's report.

FINANCIAL CONDITION

For the year ended June 30, 2018, the Archdiocese generated a surplus from operations before Special Issues Expense of nearly $1.0 million as compared to a surplus before Special Issues Expense of $2.3 million in FY 2017. The loss from operations in FY 2018 was $20.0 million because of Special Issues Expense of $21.0 million related to the bankruptcy settlement. The loss from operations in FY 2017 was $2.6 million, which included approximately $4.8 million of Special Issues Expense.

The Special Issues Expense of nearly $21 million in FY 2018 reflects the obligations of the Archdiocese agreed to in the Plan that became effective on October 11, 2018. Those obligations include a cash payment of $23,475,000, a promissory note of $5 million, sale of land to three Catholic high schools for $4,000,000 in aggregate, assignment of rights to an estate and workers compensation refund, and mediator and bankruptcy filing fees. These expenses were offset by legal and professional fees previously recorded that were determined to be the obligation of the Bankruptcy Trust under the Plan. The $23,475,000, noted above, was transferred to the Bankruptcy Trust in October 2018 and the sale of the high school land took place in October 2018. Proceeds from the sales were transferred directly to the Bankruptcy Trust by the purchasers.

REVENUE

Total Operating Revenue in FY 2018 was $20.6 million, down approximately $150,000 from Fiscal Year 2017. Parish Assessments, Fees and Program Revenues, and Investment Income all were lower while Contributions and Other Income increased slightly. The Investment Income is generated from restricted funds and is not available for general operations.

Parish Assessments, the primary source of revenue, are generated from the 187 parishes within the Archdiocese and decreased slightly in 2018 from 2017. Assessments are calculated and billed on a two-year lag which means the parish financial results for the years ended June 30, 2015 and 2016 formed the basis for the Parish Assessment revenue for the years ended June 30, 2017 and 2018, respectively. Under the Plan, the Archdiocese agreed to not change the assessment methodology or rates to the parishes for a two-year period.

OPERATING EXPENSE

The Operating Expense before Special Issues Expense in 2018 totaled approximately $19.6 million as compared to $18.5 million in 2017, an increase of 6.1%. The increase is the result of increased costs to support seminary education and graduate education for priests and costs related to ministerial standards and safe environment initiatives. In addition, the Archdiocese increased its allowance for doubtful accounts by nearly $470,000 on loans it made decades ago under a program where parish deposits provided funds for those loans. Under the Plan, those parish deposits are required to be refunded to parishes through offsets against current and future assessment billings.

NON-OPERATING ACTIVITY – GAIN ON SALE OF ASSETS

The Archdiocese sold the Dayton Building, which was previously used as office space by staff, in 2017. This sale resulted in cash received of approximately $875,000 and a book gain from the sale of $779,000. There were no gains or losses on the sale of assets in 2018. The gain on the sale of land to the three Catholic high schools in October 2018 will be recorded during the fiscal year ending June 30, 2019.

NON-OPERATING ACTIVITY – GENERAL INSURANCE PROGRAM

The General Insurance Program of the Archdiocese of Saint Paul and Minneapolis provides comprehensive, uniform coverage to all of the parishes, Catholic schools and certain other Catholic entities within the archdiocese, as well as the Chancery Corporation. The coverage provided by the General Insurance Program includes commercial property, casualty, general liability and workers' compensation. The General Insurance Program is maintained for the benefit of the participants who have contributed those funds in exchange for obtaining insurance coverage.

The General Insurance Program had a surplus from operations of $2.8 million in 2018 as compared to $2.1 million in 2017 due to lower claims in the most recent year. As stated earlier, the General Insurance Program contributed $6 million to the Plan. The expense of this contribution is included in Special Issues Expense and not General Insurance Program Expenses. In addition, the Archdiocese has assigned a potential refund from the workers' compensation investment account of excess funds not required by the Minnesota Department of Commerce for self-funded plans. We estimated this refund for purposes of the bankruptcy settlement at $800,000 and have classified it as a Special Issues Expense. It is included on the Balance Sheet under Bankruptcy Settlement Liability. This refund request was submitted to the Minnesota Department of Commerce and the Archdiocese is anticipating a response in the near term.

NON-OPERATING ACTIVITY – PRIEST BENEFITS

The Archdiocese coordinates a self-insured health and dental benefit fund for active priests and seminarians within the Archdiocese. The Archdiocese invoices parishes, Catholic schools and other Catholic entities based on clergy assignments and pays benefit providers directly for any claims. Priest Benefits generated $487,000 of income in 2018 as compared to a slight profit in 2017 and a significant loss in 2016. The income was the result of lower claims per participant in the current year as compared to the prior year.

FINANCIAL POSITION

Net Assets of the Archdiocese were nearly $27.3 million on June 30, 2017, as of June 30, 2018, the Net Assets were approximately $10.5 million; the decrease is the result of the bankruptcy settlement recorded during the year ending June 30, 2018.

Of the total cash on June 30, 2018 of $28 million, $23,475,000 represents cash restricted for the bankruptcy settlement, cash restricted by donors of $1.9 million and unrestricted cash of $2.7 million. As of June 30, 2018, there were no Board Designated funds, as all of those funds were contributed to the bankruptcy settlement in October. The Archdiocese believes that the remaining balance of unrestricted cash, after payment of all bankruptcy settlement obligations, will allow the Archdiocese to operate and continue its mission.

The decrease in the General Insurance Program Assets was due to the classification of cash. The $6,000,000 contribution to the bankruptcy settlement was reflected in Cash Restricted for Bankruptcy at June 30, 2018, while in the prior year the cash was reflected in the General Insurance Program Assets. The decrease of approximately $8.3 million in Accounts Payable and Accrued Liabilities, Post-Petition, is the result of previously accrued and unpaid Special Issues Expense becoming obligations of the Bankruptcy Trust and not the Archdiocese under the Plan.

LOOKING FORWARD

The Archdiocese's primary objective prior to and during the Bankruptcy process of obtaining the most resources possible for the survivors was achieved while continuing the mission. The work of the staff, legal counsel, Archdiocesan Finance Council, and Corporate Board to pursue this objective was tremendous. The staff endured continuous expense reductions and layoffs and were able to continue to provide support for programs through creativity, hard work and perseverance.

The Archdiocese is fully aware of the future financial obligations to fund the Bankruptcy Trust over the next five years and are committed to making the difficult decisions required to provide the resources to meet those obligations.

THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
CHANCERY CORPORATION
(DEBTOR IN POSSESSION)
STATEMENTS OF FINANCIAL POSITION - UNAUDITED
JUNE 30, 2018 AND 2017

	2018	2017
Assets		
Cash - Unrestricted and Board Designated	$ 2,698,445	$ 9,109,463
Cash - Restricted for Bankruptcy	23,475,000	8,777,117
Cash - Restricted by Donors	1,880,642	3,057,432
Contributions Receivable, Net of Allowances	535,156	573,991
Accounts Receivables, Net of Allowances	4,784,148	4,044,160
Loans Receivable, Net of Allowances	697,604	1,105,777
Investments	1,143,414	1,077,007
Beneficial Interest in Perpetual Trusts	1,519,426	1,488,199
General Insurance Program Assets	10,773,364	14,106,969
Prepaid Expenses and Other Assets	315,003	324,092
Land, Property and Equipment, Net	4,244,390	4,540,216
Total Assets	$ 52,066,592	$ 48,204,423
Liabilities and Net Assets		
Liabilities		
Accounts Payable and Accrued Liabilities, Pre-Petition	$ 242,332	$ 242,252
Accounts Payable and Accrued Liabilities, Post-Petition	1,577,658	9,880,768
Litigation Claims Payable, Net of Insurance Recovery	-	4,600,000
Bankruptcy Settlement Liability	28,694,031	-
General Insurance Program Claims Payable and Other Liabilities	4,836,053	4,928,498
Amounts Held for Others Under Agency Transactions	175,232	127,892
Parish Demand Deposits	495,028	679,304
Deferred Revenue	144,176	75,357
Lease Payable	65,469	75,090
Deferred Rent	351,963	347,554
Note Payable - Bankruptcy Settlement	5,000,000	-
Total Liabilities	41,581,942	20,956,716
Net Assets		
Unrestricted	6,291,163	22,290,884
Temporarily Restricted	2,436,912	2,948,733
Permanently Restricted	1,756,575	2,008,090
Total Net Assets	10,484,650	27,247,707
Total Liabilities and Net Assets	$ 52,066,592	$ 48,204,423

THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
CHANCERY CORPORATION
(DEBTOR IN POSSESSION)
STATEMENTS OF ACTIVITIES - UNAUDITED
JUNE 30, 2018 AND 2017

	2018	2017
OPERATING REVENUE		
Contributions	$ 2,727,981	$ 2,644,583
Parish Assessments	14,561,156	14,596,231
Fees and Program Revenues	2,365,234	2,556,976
Investment Income, Net	291,356	400,099
Other Income	641,001	540,001
Operating Revenue	20,586,728	20,737,890
OPERATING EXPENSE		
Program Services:		
Catholic Education	1,313,560	1,231,886
Central Services	5,109,558	5,063,918
Clergy Services	4,739,194	4,124,615
Communications	1,875,894	1,849,891
Community Services	75,050	67,569
Evangelization	267,180	225,157
Marriage, Family and Life	856,950	957,191
Parish Services and Outreach	1,517,428	1,580,189
Latino Ministries	475,989	379,884
Total Program Services	16,230,803	15,480,300
Support Services:		
General and Administrative	2,905,425	2,490,280
Stewardship and Development	468,100	501,406
Total Support Services	3,373,525	2,991,686
Total Operating Expense before Special Issues Expense	19,604,328	18,471,986
Change in Net Assets from Operations before Special Issues Expense	982,400	2,265,904
Special Issues Expense	20,991,488	4,829,831
Change in Net Assets from Operations	(20,009,088)	(2,563,927)
NON-OPERATING ACTIVITY		
Gain on Sale of Assets	-	797,084
General Insurance Program Revenues	9,479,187	9,404,646
General Insurance Program Expenses	(6,720,347)	(7,303,322)
Priest Benefit Revenues	3,101,556	2,752,875
Priest Benefit Expenses	(2,614,366)	(2,618,252)
Change in Net Assets from Non-Operating Activities	3,246,031	3,033,030
CHANGES IN NET ASSETS	$ (16,763,057)	$ 469,103

NOTE 1 AMENDED JOINT CHAPTER 11 PLAN OF REORGANIZATION

On January 16, 2015, the Archdiocese of St Paul and Minneapolis ("the Archdiocese") filed a petition for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court (the "Court") for the District of Minnesota.

On June 28, 2018, the Archdiocese filed a Joint Chapter 11 Plan of Reorganization and Disclosure Statement.

On August 10, 2018, the Archdiocese filed a Second Amended Joint Chapter 11 Plan of Reorganization and Second Amended Disclosure Statement.

On September 19, 2018, the Archdiocese filed a Third Amended Joint Chapter 11 Plan of Reorganization.

On September 25, 2018, the Court issued an Order Confirming Joint Plan of Reorganization dated September 19, 2018 and on October 11, 2018 (the "Effective Date"), the Third Amended Plan became effective, and the Archdiocese was discharged from its debts.

The Archdiocese, as the Reorganized Debtor, will continue to exist after the Effective Date as a separate entity in accordance with the laws of the State of Minnesota, and, as of the Effective Date, the reorganization assets were vested in the Archdiocese free and clear of all liens, claims and interests of creditors, including any successor liability claims other than those required to meet obligations of the Plan of Reorganization.

The Joint Chapter 11 Plan of Reorganization filed on June 28, 2018, was materially consistent with the Plan approved by the Court on September 25, 2018, and as a result, the financial impact of the Plan was accounted for in the financial statements for the year ending June 30, 2018.

A final decree from the Court closing the bankruptcy case is expected to be received by December 31, 2018.

In accordance with the Plan and Confirmation Order, the Archdiocese of St. Paul and Minneapolis Trust ("Plan Trust") was established on October 11, 2018, for the benefit of claimants and the holders of future claims. The Archdiocese has no rights or interests in the Plan Trust or its assets.

The net effect of implementing the Plan provisions and funding the Plan Trust is included on the Statements of Activities for the year ended June 30, 2018, are referred to as Special Issues Expense and consists of the following:

	2018
Total Funding of Plan Trust	$27,475,000
Promissory Note with Plan Trust	5,000,000
Estimate of Workers' Compensation Refund	800,000
Assignment of Interest in Estate to Plan Trust	275,000
Bankruptcy Related Fees	417,174
Reduction in Obligations	(8,375,686)
Adjust Litigation Claims Payable	(4,600,000)
Total Special Issues Expense	$20,991,488

Total Funding of the Plan Trust includes $4,000,000 of proceeds from the sale of land to three Catholic high schools that were previously leased by the Archdiocese to the high schools. The sales were completed on October 11, 2018 and the proceeds funded directly to the Plan Trust by the three Catholic high schools. The remaining funding balance of $23,475,000 that was stipulated in the Plan of Reorganization includes funding of $6,000,000 from the General Insurance Program of the Archdiocese.

As a condition of the Plan, the Archdiocese entered into a non-interest bearing Promissory Note with the Plan Trust in the amount of $5,000,000 to be payable in five equal annual installments of $1,000,000 commencing on the 365th day after the Effective Date. The note may be prepaid at any time at the option of the Archdiocese.

The Archdiocese has assigned a potential refund from the workers' compensation investment account of excess funds not required by the Minnesota Department of Commerce for self-funded plans. The refund is estimated at $800,000 at June 30, 2018.

The Archdiocese entered into an agreement with the Plan Trust on October 10, 2018 agreeing to assign the residuary distribution of an estate to the Plan Trust, which was estimated at $275,000 as of June 30, 2018.

Reduction in Obligations consists mainly of legal and professional fees incurred during the bankruptcy, which under the Plan will be funded by the Plan Trust.

The Archdiocese accrued a Litigation Claims Payable of $4,600,000 as of June 30, 2014, prior to filing a petition for relief under Chapter 11 on January 15, 2015. With the discharge of the debt, the litigation reserve was eliminated.

The Bankruptcy Settlement Liability as of June 30, 2018, totaling $28,694,031, represents the obligations related to the Plan and consists of the Total Funding of the Plan Trust of $27,475,000, $800,000 estimate of workers' compensation refund, $275,000 related to the Assignment of Interest in Estate to Plan Trust, and US Bankruptcy Trustee Fees of $144,031.

Under Chapter 11, certain claims against the Archdiocese in existence prior to the filing are stayed while the Archdiocese continued business operations as a Debtor in Possession. These claims are reflected on the June 30, 2018 and 2017 Statements of Financial Position as "Pre-Petition Accounts Payable and Accrued Liabilities" within the liabilities section of the statement. Under the Plan, trade vendors that comprise the "Pre-Petition Accounts Payable and Accrued Liabilities" are divided into two types of claims and their claims will be paid by the

Archdiocese. Trade vendors who have a claim of $1,000 or less will receive payment for their claim within 30 days of the Effective Date. For those trade vendors who have a claim of greater than $1,000, they will receive their claim in two equal installments, with the first payment due within 90 days of the Effective Date and the second payment due within 180 days of the Effective Date.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Archdiocese

The Archdiocese of Saint Paul and Minneapolis (the Archdiocese) was first established as a diocese by the Holy See in 1850 (originally Minnesota and the Dakotas), and elevated to archdiocese 38 years later. Now comprising a 12-county area, there are 187 parishes and 90 Catholic schools (including elementary and high schools) within the Archdiocese. The Archdiocese is home to over 825,000 Catholics, including hundreds of clergy and religious sisters and brothers as well as thousands of lay personnel and volunteers who serve in parishes, Catholic schools and in many other ministries within the Archdiocese. The mission of The Archdiocese of Saint Paul and Minneapolis is making the name of Jesus Christ known and loved by promoting and proclaiming the Gospel in word and deed through vibrant parish communities, quality Catholic education and ready outreach to the poor and marginalized.

Nature of Organization

The financial statements include administrative and program offices and departments of the Chancery Corporation, which serves as the secular arm of the Archdiocese. Under the laws of the State of Minnesota, parishes, their related schools and other separately incorporated and operated Roman Catholic entities within the 12 county area of the Archdiocese are not under the fiscal or operating control of the Chancery Corporation and, therefore, in accordance with accounting principles generally accepted in the United States of America, are not included in the Chancery Corporation’s financial statements.

Catholic Services Appeal Foundation

Effective January 1, 2014, an independent 501(c)(3) organization called the Catholic Services Appeal Foundation (CSAF) was established to solicit, collect, hold and distribute all Catholic Services Appeal (CSA) donations for the benefit of a prescribed group of Catholic organizations and Chancery Corporation ministries as outlined in the CSAF by-laws. The Chancery Corporation received contributions from the CSAF to provide for these ministries, including but not limited to Latino Ministry, Evangelization and Catechesis, Youth Ministry and chaplain services at hospitals and prisons throughout the Archdiocese. See further impact of this within contributions receivable in Note 2.

Basis of Presentation – Accounting for Net Assets

The financial statements of the Chancery Corporation have been prepared on the accrual basis of accounting.

The Chancery Corporation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets, based on the existence or absence of donor-imposed restrictions. These classes of net assets are summarized as follows:

Unrestricted Net Assets – Accounts for resources that the board has discretion and intention to use in carrying out the Chancery Corporation's operations. The General Insurance Program is maintained for the benefit of parishes and other Catholic entities as well as the Chancery Corporation (the Participants).

Temporarily Restricted Net Assets – Accounts for resources that are limited by donor restrictions as to either time restrictions or purpose restrictions to support certain program activities.

Permanently Restricted Net Assets – Those resources that are limited by donor-imposed stipulations to invest the principal in perpetuity and to expend the income for program activities.

Programs and Other Activities

The Chancery Corporation accomplishes its mission in the following program areas:

Catholic Education

The mission of the Office of Catholic Schools is to develop strong partnerships between home and school that fully infuse Catholic teaching and values into every element of the student's educational experience and foster academic excellence. Students are formed to live out the Gospel message, achieve academic excellence, and lead by faith, virtue, and reason. The support provided to the 90 Catholic schools within the Archdiocese includes Catholic identity review and support, leadership development, and programmatic oversight to promote innovation and excellence in local urban Catholic schools. Major responsibilities include identification of the strategic needs of Catholic schools and continuing to serve families in the tradition of excellence Catholic schools have cultivated for more than 160 years.

Central Services

Central Services provides support and services to the Chancery Corporation staff and the parishes. The Department includes Parish Accounting Service Center; Parish Standards; Metropolitan Tribunal; Records and Archives; Chancellor's Office; IT/Computer Services; Human Resources and Benefits Administration; and Printing Services.

Clergy Services

Various offices and programs of the Chancery Corporation work to provide personal and ministerial resources as well as formation and ongoing clergy education for priests and deacons to enhance the fruitfulness of their ministries. The Office of Clergy Services helps support clergy assignment at parishes and other institutions, as well as hospital and correctional facility chaplaincies. The Office of Vocations encourages prayerful discernment of call to ordained or religious life. The Saint Paul Seminary provides formation for men preparing for ordination to the priesthood. The Byrne Residence offers housing for retired priests. The Office of Clergy Services also provides oversight of victim advocacy and assistance: abuse prevention efforts, intervention on clergy misconduct, support of the work of the Clergy Review Board to ensure prompt and thorough review of clergy misconduct allegations, the Promotion of Ministerial Standards program to ensure that all priests and deacons uphold the standards expected of Catholic clergy, and are provided appropriate support for their spiritual, physical, and mental well-being.

Communications

The mission of the Office of Communications is to communicate the spiritual messages and theological teachings of the Church as articulated through the Archbishop and his auxiliary bishops. The Office of Communications is also charged with ensuring effective ongoing two-way communications between the Chancery Corporation offices and the many audiences they serve. Office of Communications staff produce *The Catholic Spirit* newspaper every other week, assist with other dioceses' newspapers, send the bi-weekly Archdiocesan Update electronic newsletter to 1,500 parish and Catholic school leaders, and manage nearly 20 web sites, blogs and social media sites.

Community Services

Through the work of offices of the Chancery Corporation and the support of community partners, we help men, women, and children most in need, including the hungry and homeless, as well as immigrants, the elderly, those with disabilities and others with special needs.

Evangelization

The Office of Evangelization (OE) creates opportunities for people to encounter Jesus Christ and to make the truth of Christ and his Church clearly understood and accessible. Evangelization efforts are created and experienced in cooperation with parishes and Catholic schools and the many ministry groups throughout this local Church.

Marriage, Family and Life

The mission of the Office of Marriage, Family and Life is to assist and encourage all Christians to fulfill their call to holiness. This office promotes a culture of life through programs that support the vocation of marriage, the single state and outreach to youth and young adults. Programs and advocacy efforts include marriage enrichment, marriage preparation, Early Catholic Family Life and other family outreach, respect life and prolife groups, bio-medical ethics and outreach for persons with disabilities. In addition, Archdiocesan Youth Day, World Youth Day, National Catholic Youth Conference and other youth events are coordinated through the staffing and support of the department. In all, the office sponsors or collaborates on over 50 events and programs annually.

Parish Services and Outreach

Several offices and programs offer services to parishes within the Archdiocese, including the Office of Parish Services, which encourages a community of sharing and collaboration in parishes and helps parishes learn from one another.

The Office of Worship supports the liturgical life of the local Church and serves as a resource on liturgical law and practice for pastors and parishes serving within the Archdiocese. The Office coordinates major Archdiocesan liturgical celebrations, and provides catechetical and practical support for the full, conscious and active participation of God's Holy People in the Church's sacramental and liturgical life.

Latino Ministries

The Office of Latino Ministry serves the large number of Latino Catholics in the community at more than 20 parishes with Spanish language Masses, catechetical offering and pastoral care. Indian ministry for members of the local Native American community and Deaf Ministry are also supported. Through the generosity of Catholics in the Archdiocese, 65,000 people in Ciudad Guayana, Venezuela are offered access to the sacraments, food and essential services at the Jesucristo Resucitado mission parish. The important work of the Archdiocesan Council of Catholic Women is also supported in this parish service program area.

Special Issues

Special Issues represent expenses related to the Archdiocese Bankruptcy Settlement for the year ending June 30, 2018. Those expenses are detailed in Note 1 to the financial statements. Special Issues Expense for the year ending June 30, 2017 consist mainly of third party professionals related predominantly to both fees incurred for attorneys representing the Archdiocese in the reorganization and the Ramsey County charges, as well as attorneys representing the unsecured creditors committee and the parish committee. The Bankruptcy Court ruled that these legal fees would be paid from the Plan Trust and are not the responsibility of the Archdiocese. As a result, these legal fees are reflected as a reduction of Special Issues Expense.

General Insurance

The Chancery Corporation, both for itself and as the agent for parishes and various other Catholic entities operating within the boundaries of the Archdiocese, participates in the General Insurance Program (the Program). The Program provides comprehensive, uniform coverage for all of the Participants. The coverage includes general liability, employment practices, building and contents, burglary, personal property, student accident, auto, public library, boilers D and O coverage and workers' compensation. The Program pays a premium to the Workers' Compensation Reinsurance Association for stop loss coverage and has a self-insured retention policy for its property and general liability insurance. The Program also participates in the Catholic Umbrella Pool (CUP), which provides extended coverage for liability claims.

The General Insurance Program, under the Plan, funded $6,000,000 to the Plan Trust on October 11, 2018. The $6,000,000 is included in the Bankruptcy Settlement Liability on the Balance Sheet at June 30, 2018 and the expense is included in Special Issues Expense. In addition, as part of the Plan, the Archdiocese, on October 10, 2018, entered into an agreement with the Plan Trust to assign to the Plan Trust excess funds not required by the Minnesota Department of Commerce for funding of the Workers' Compensation Investment account. The amount of the excess funds is estimated at $800,000.

Priest Benefits

The Archdiocese of St. Paul and Minneapolis coordinates a self-insured health and dental benefit fund for active clergy members and seminarians within the Archdiocese. The Archdiocese invoices other Catholic entities based on clergy assignments and pay benefit providers directly for any claims.

Cash

At times throughout the year, cash balances may exceed amounts insured by the Federal Deposit Insurance Corporation. Cash is classified into three categories, Unrestricted and Board Designated, Restricted for Bankruptcy, and Restricted by Donors. The Cash classified as Restricted for Bankruptcy at June 30, 2017 represents net proceeds from the sale of properties owned by the Archdiocese and interest earned on those funds, which the Court ordered to be placed in a restricted account. Restricted Cash for Bankruptcy as of June 30, 2018 represents the funds required by the Plan of Reorganization to be funded on the Effective Date. There are no Board Designated funds as of June 30, 2018 as all previously identified Board Designated funds are included in Restricted for Bankruptcy.

Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Conditional promises to give are not included as support until the conditions are substantially met.

Included within support receivables at June 30, 2018 and 2017 are contributions and reimbursable expenses receivable from Catholic Services Appeal Foundation of $260,156 and $208,216, respectively.

Accounts Receivable

Accounts receivable are due from parishes and other Catholic entities and are non-interest bearing, unsecured and due currently. Credit terms for payment of assessments, insurance and other billings are extended to the borrowers in the normal course of operations, and no collateral is required. Approximately 76% and 77% of the outstanding receivables from parishes and other related entities are attributable to 13 and 11 parishes at June 30, 2018 and 2017, respectively. A portion of the parish assessments will be repaid over a period of several years. The aging of these receivables, as well as any extended payment terms, are factored into the allowance for doubtful accounts. The Chancery Corporation provides for an allowance for doubtful loans, and bases its estimate of the allowance on a variety of factors including the status of the receivables, collection experience and the financial condition of the creditor. Accounts receivable are written off and charged to the allowance only under extraordinary circumstances. Because of the inherent uncertainties in estimating the allowance for doubtful accounts, it is at least reasonably possible that the estimates used will change within the near term. Approximately 45% and 46% of total accounts receivable are due from parish assessments at June 30, 2018 and 2017, respectively.

Loans Receivable

Loans are due from parishes and other Catholic entities and represent outstanding demand notes (although generally paid on a long-term basis). Loans receivable are recorded at their net realizable values, net of an allowance for doubtful accounts, where applicable. The Chancery Corporation also grants loans to related Catholic entities operating within the boundaries of the Archdiocese either directly or through its loan fund. Interest is charged on these loans at variable rates. For certain loans, the Chancery Corporation imputes interest and recognizes that interest as contributed income and expense. Interest on impaired loans is generally recognized according to the terms of the notes, and the provision for doubtful loans may be increased each year by the amount of the interest income recognized. No collateral is available for these loans.

The Chancery Corporation provides for an allowance for doubtful loans, and bases its estimate of the allowance on a variety of factors including the status of the receivables, collection experience and the financial condition of the borrower. Loans and notes receivable are written off and charged to the allowance only under extraordinary circumstances, and write-offs must be approved by the Archbishop.

Investments

Investments are measured at fair value. Investments in perpetual trust assets held at The Catholic Community Foundation of Minnesota (CCF), are pooled with other organizations' funds and invested in diversified portfolios of marketable equity and fixed income securities, as well as limited marketability investments. Such assets held at CCF are reported at fair value/estimated fair value as reported to the Chancery Corporation by CCF. The Chancery Corporation's remaining interest in perpetual trust assets held at a bank is reported based on the fair value of the underlying trust assets.

Realized and unrealized gains and losses on investments are recorded in the statement of activities based upon the existence or absence of donor-imposed restrictions.

In general, investments are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

Land, Property and Equipment

Land, property and equipment are recorded at their net book value and are not necessarily reflective of an outcome of bankruptcy. Depreciation is recorded over the estimated useful lives of the assets using the straight-line method. Maintenance and repairs are expensed as incurred; major improvements and betterments are capitalized according to the Archdiocesan capitalization policy.

Parish Demand Deposits

The Chancery Corporation serves as a fiduciary to a fund for the benefit of parishes with excess funds. The purpose of the fund is to allow these parishes to deposit such excess funds for the administrative ease of these parishes. Participation in the fund is at the complete discretion of each parish. Parish demand deposits represent amounts held on deposit with the Chancery Corporation. No interest accrues on the balances. Under the Plan, an Archdiocesan Parish that owes assessments to the Archdiocese as of the Effective Date in an amount in excess of the demand deposits is entitled to a reduction in the balance of assessments payable in an amount equal to the demand deposits. An Archdiocesan Parish that holds demand deposits in excess of the balance of assessments payable as of the Effective Date is entitled to a reduction of the assessment payable and the remaining excess balance of the demand deposits will be satisfied by a credit against the balance of assessments payable on a quarterly basis against future assessments. Parish Demand

Deposits were $495,028 and $679,304 as of June 30, 2018 and 2017, respectively, and represents four and five parishes, respectively. The decrease was the result of demand deposits offset against Accounts Receivable at June 30, 2018.

Contributions and Revenue Recognition

The Chancery Corporation reports gifts of cash 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 as net assets released from restrictions in the statement of activities.

The Chancery Corporation reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Chancery Corporation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Assessments, fees and program revenue are recognized throughout the year as earned. These revenues are treated as earned when billed. Program revenue received for services to be provided in a future period are recorded as deferred revenue at the time of receipt and earned when the services are delivered.

Expense Allocation

Occupancy expenses are charged to programs and supporting services based on estimated space used in each building. Certain general and administrative costs are allocated to programs based on an analysis of time.

Accounting Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets, liabilities and net assets, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Significant management estimates include the allowance for uncollectible loans and accounts receivable, the estimate of depreciable lives of property and equipment, workers' compensation claims payable, other contingency losses, such as the estimates for litigation and environmental remediation and guarantees on debt contingencies, and the allocation of expenses on a functional basis. Actual results could differ from those estimates and estimates may change during the near term.

Pension and Medical Benefit Plans

The Chancery Corporation contributes to the Pension Plan for Priests and to the Pension Plan for Lay Employees of the Chancery Corporation, parishes and Catholic schools, and certain other Catholic entities within the Archdiocese. These contributions include normal costs, and an amount to amortize the unfunded past service liabilities of the plans. The actuarial present values of accumulated plan benefits and net assets available for benefits are not available at the individual organization level. The plans are multiple-employer, defined benefit plans and cover substantially all priests and most full-time lay employees of participating employers operating within the boundaries of the Archdiocese.

Benefits for full-time lay employees under the Pension Plan for Lay Employees were frozen January 31, 2011. The Chancery Corporation contributes to the Archdiocesan Medical Benefit Plan, which is a multiple-employer plan, providing medical, dental and other flexible benefits to the participating employer's participating employees. The Plan is a self-insured plan with stop-loss protection. In the event the Plan is terminated and all obligations to the insurers providing group benefits and to the beneficiaries of the Plan have been satisfied, any remaining trust funds shall be distributed to the Chancery Corporation and the Trust shall terminate. The Plan's Trustees have no plans to terminate the Plan.

Income Taxes

The Chancery Corporation is exempt from Federal and state income taxes under provisions of Section 501(c)(3) of the Internal Revenue Code, and similar state statutes.

The Chancery Corporation has evaluated whether it has any significant tax uncertainties that would require recognition or disclosure. Primarily due to the exempt status, the Chancery Corporation does not have any significant tax uncertainties that would require recognition or disclosure.

Reclassifications and Adjustments

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. These reclassifications had no effect on the change in net assets or total net assets as previously reported.

NOTE 3 LOANS RECEIVABLE

Loans receivable consist of loans and interest receivable from parishes net of an allowance for doubtful loans. Net loans receivable balances were $697,604 and $1,105,777 as of June 30, 2018 and 2017, respectively. The total principal and interest outstanding balance was due from one and four organizations for the years ended June 30, 2018 and 2017, respectively.

NOTE 4 INVESTMENTS

Unrestricted investments were liquidated in January 2015 as required by the United States Trustee as a part of the reorganization process.

NOTE 5 BENEFICIAL INTEREST IN PERPETUAL TRUST

The Chancery Corporation is the sole income beneficiary in three irrevocable perpetual trusts, the assets of which are not in the possession of the Chancery Corporation and for which the Chancery Corporation is not the trustee. The values of these trusts totaled $1,519,426 and $1,488,199 at June 30, 2018 and 2017, respectively. These trusts were established with specific donor intent for restricted purposes. The assets recorded on the statement of financial position represent the estimated present values of future cash flows from the trusts, which are assumed to equal the fair value of the underlying trust investments. The Chancery Corporation has legally enforceable rights and claims to distributions from the trusts but not to the underlying assets themselves and receives income distributions based on the funds' income after certain trust expenses. These income distributions are restricted for specific purposes: the Saint Paul Seminary support, support for physically disabled priests, and housing for elderly members of the Christian Brothers religious order.

NOTE 6 LAND, PROPERTY AND EQUIPMENT

Land, property and equipment consisted of the following at June 30:

	Life in Years	2018	2017
Building	20 - 400	$ 9,064,422	$ 9,063,127
Furniture, Equipment and Software	3 - 10	2,445,019	2,305,094
Vehicles	3 - 5	185,413	185,412
Leasehold Improvements	10 - 20	1,299,744	1,281,462
Right to Use Asset	*See Below	1,721,613	1,721,613
		14,716,211	14,556,708
Less: Accumulated Depreciation		(10,471,821)	(10,016,492)
Net, Property and Equipment		$ 4,244,390	$ 4,540,216

Certain facilities owned by the Chancery Corporation are utilized and subject to third-party mortgages. The Chancery Corporation has a lease agreement with the Cathedral of Saint Paul with a base rent of $1 per year. The lease agreement matures in May 2021 and has a renewal option for an additional 20 years.

The Chancery Corporation has a long-term lease agreement with the St. Paul Seminary for the rent-free use of the Byrne Residence property. The lease agreement matures in 2094 and automatically renews for 25-year terms unless the Chancery Corporation provides a notice prior to the expiration of the lease.

In addition, the Chancery Corporation leased land to three Catholic high schools within the Archdiocese for $1 per year. The leases had varying terms of approximately 20-30 years, which were set to expire on December 31, 2025, June 30, 2030 and June 30, 2038. On October 11, 2018, the Archdiocese sold the land previously leased by three Catholic high schools to each of the schools for an aggregate sales price of $4,000,000. The purchasers were responsible for all of the closing costs and related expenses. The sales price of $4,000,000 was directly transferred to the Plan Trust. The Chancery Corporation for the year ended June 30, 2018, recorded a Bankruptcy Settlement Liability and Special Issues Expense in the amount of $4,000,000 and will record the gain on the sales of approximately $3,388,470 on October 11, 2018.

In August 2017, the Chancery Corporation sold an additional property with a book value of $97,139 and received net proceeds of $872,278 resulting in a gain of $775,139. These funds were also held in a separate bank account as required by a court order.

NOTE 7 GENERAL INSURANCE PROGRAM

At June 30, 2018 and 2017, approximately 76% and 76% of the General Insurance Program's gross premiums receivable was due from eight and six participants, respectively.

Insurance claims payable include unpaid estimated property claim costs up to the general insurance program's aggregate retention, unpaid estimated workers' compensation claim costs up to the stop loss limit, and an estimate for claims incurred but not reported. Claims liability estimates and assumptions are periodically reviewed and updated with any resulting adjustments to claim liabilities reflected in current operating results.

On September 30, 2014, the Chancery Corporation entered into a custodial agreement with the Minnesota Department of Commerce, directly pledging general insurance fund assets for the self-insured workers' compensation program. At June 30, 2018 and 2017, the balance of the investment was $4,011,485 and $3,914,068, respectively.

Total expenses paid to Catholic Mutual, which processed claims on a contractual basis during the years ended June 30, 2018 and 2017 for the program premiums, were $2,348,075 and $2,338,982, respectively.

NOTE 8 AMOUNTS HELD FOR OTHERS UNDER AGENCY TRANSACTIONS

Amounts held for others under agency transactions consist of charitable collection accounts and funds held for others totaling $175,232 and $127,892 as of June 30, 2018 and 2017, respectively.

NOTE 9 NET ASSETS

Temporarily restricted (by donors) net assets are available for the following purposes at June 30:

	2018	2017
Clergy Services	$ 1,521,543	$ 2,028,669
Catholic Education	242,648	251,995
Parish Services	40,005	43,227
Marriage, Family and Life	223,400	264,802
Other	409,316	360,040
Total	$ 2,436,912	$ 2,948,733

Permanently restricted (by donors) net assets are available for the following purposes at June 30:

	2018	2017
Clergy Services	$ 1,751,575	$ 2,002,790
Other	5,000	5,300
Total	$ 1,756,575	$ 2,008,090

NOTE 10 ENDOWMENT FUNDS

The Chancery Corporation's endowment consists of donor-restricted endowment funds established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Chancery Corporation receives distributions from these endowments each year based on the spending policies of the financial institution where these endowment funds are held.

NOTE 11 PENSION AND MEDICAL BENEFIT PLANS

Chancery Corporation contributions to benefit plans were as follows for the years ended June 30:

	2018	2017
Pension Plan for Lay Employees	$ 267,660	$ 267,660
Pension Plan for Priests	351,450	307,009
Archdiocesan Medical Benefit Plan	1,520,498	1,411,466
Total	$ 2,139,608	$ 1,986,135

Pension Plans

Effective January 31, 2011, the Pension Plan for Lay Employees (Lay Pension Plan) was frozen. Due to the frozen status of the plan, active plan participants are no longer earning benefits, are no longer accruing additional credited years of service, and pension benefits upon participant retirement will be based upon the participant's credited years of service and salary history as of January 31, 2011. Participants in the plan who were not vested as of the freeze date will continue to earn vesting service after January 31, 2011, for each year in which they work in a full time capacity until these participants become fully vested by reaching five years of full time service. Employees who terminate with five or more years of credited service are generally entitled to annual pension benefits as defined by the Lay Employee Plan. Pension benefits are based primarily on years of service and final average earnings calculated as the average of the employee's five highest earning years.

The Pension Plan for Priests (Priest Pension Plan) covers substantially all incardinated priests, or those beginning the process of incardination established by the Chancery Corporation or one of the participating employers. Priest retirement benefits are computed in accordance with the plan document, which can be changed by the trustees of the plan. Pension benefits are calculated primarily based on age at the date of retirement through 65 and years of service, not to exceed 40. Active participants who become totally and permanently disabled receive disability benefits computed as though they had been employed to normal retirement age. The board of trustees has the discretionary authority to pay the cost of medical and dental insurance for participants who retire or become disabled.

The risks of participating in these multiple-employer plans are shared with the other employers participating in the plans. Because this is a multiple-employer plan, valuation information is not available specific to each individual or participating employer. The Chancery Corporation's contribution to the Lay Pension Plan is a fixed amount based on a percentage of qualified salaries and the contribution to the Priest Pension Plan are a fixed amount per priest established by the trustees of the Priest Pension Plan. The Chancery Corporation is authorized to continue programs during pendency of bankruptcy case.

NOTE 12 CONTINGENCIES AND COMMITMENTS

Cathedral of Saint Paul

In 2001, the Cathedral of Saint Paul Parish (the Parish) took out a loan for improvements to the Cathedral property that the Parish leases and which the Chancery Corporation owns. The Chancery Corporation allowed the property to be mortgaged at that time. In August 2011, the Parish loan was refinanced to an interest only loan with principal due at maturity in August 2017. The amount outstanding on this loan was $4,418,729 and $4,438,456 at June 30, 2018 and 2017, respectively.

In August 2016, the loan was refinanced, requiring accrued interest payments monthly and interest and principal due at maturity in August 2021.

The Archdiocese is not a guarantor of the loan. In the event of a default, the lender would have the right to foreclose on the property.

Asbestos Containing Materials

A survey of Chancery Corporation buildings was done in 2007 by an environmental consulting firm, which identified the presence of asbestos containing materials (ACM’s). Management's current obligation with respect to the presence of the ACMs is primarily that of monitoring and maintenance. If there is renovation or repair work necessary that disturbs the asbestos, then special removal techniques must be utilized.

Management has determined that an asset retirement obligation related to the presence of ACMs cannot be reasonably determined at this time because insufficient information is available in that both the method of retirement and the expected dates of such retirement cannot be estimated.