# 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, 2016 AND 2015

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

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**YEARS ENDED JUNE 30, 2016 AND 2015**


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**THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS**
**CHANCERY CORPORATION**
**(DEBTOR IN POSSESSION)**
**MANAGEMENT DISCUSSION AND ANALYSIS**
**FINANCIAL STATEMENTS - UNAUDITED**
**YEARS ENDED JUNE 30, 2016 AND 2015**

## INTRODUCTION

Fiscal year 2016 began July 1, 2015 and ended June 30, 2016. It was a year of continuing financial challenges for the Archdiocese of Saint Paul and Minneapolis, and it was the first full year in Reorganization in U.S. Bankruptcy Court. But it was also a year of clarity, hope, and positive developments.

After much consultation, the Archdiocese filed for Reorganization January 16, 2015 due to the increasing number of claims of clergy sexual abuse of minors against the Archdiocese following adoption of the Minnesota Child Victim Act in 2013. After the August 3, 2015 claim filing deadline, the Archdiocese learned that there were more than 400 claimants, a number Archbishop Bernard Hebda called "breathtaking." Effort began in earnest at that time and continues to the present to engage more than a dozen insurance companies that covered the Archdiocese since the 1940s and contribute to a proposed trust that will eventually compensate those who have been harmed.

Mediation efforts involving Archbishop Hebda, Bishop Andrew Cozzens, members of the Corporate Board and Finance Council and attorneys representing the Archdiocese, the parishes, and claimants have been positive and productive. All involved agree on common goals: To ensure that all people are safe in our churches and schools, that those who have been harmed receive fair compensation, and ensure that the Archdiocese can continue to fulfill its core missions.

The Plan of Reorganization filed on November 15, 2016, contains a proposed Trust with more than $130 million, with almost $100 million from Archdiocese carriers, the single highest amount provided by insurance carriers in any diocesan bankruptcy to date. This Plan includes proposed settlement offers from over 10 different carriers. At this point, there are only two carriers that have not agreed to a settlement with the Archdiocese. The Plan provides for the appointment of an independent Bankruptcy Court-appointed trustee to determine how much compensation each claimant receives from the Trust. The Archdiocese believes the settlement offers incorporated in the plan are fair and reasonable.

The Plan will be submitted to claimants and other creditors following court approval of a disclosure statement, at which time these parties will have an opportunity to vote on the Plan. Settlements with most of the carriers are contingent on approval of the proposed Archdiocese Plan. If the Plan is not approved due to opposition by claimants counsel, the Archdiocese may have no choice but to file an amended Plan without the insurance settlements and other proceeds, which would leave a relatively small sum for the victims. Those remaining proceeds could be largely exhausted by professional fees incurred before and after Plan confirmation.

The extensive legal efforts in Fiscal Year 2016, described above, drove much of the Archdiocese's spending and continue to do so into Fiscal Year 2017. Legal and professional fees, referred to as "Special Issues Expense" in our Statement of Activities, totaled $7.9 million, up from $5.9 million in FY 2015, partially a result of a full year of bankruptcy expenses in FY 2016 as compared to FY 2015. It is important to note that these fees include charges from not only Archdiocese legal counsel and advisors but also the fees of professionals representing parishes and abuse claimants. Significant amounts were spent opposing a motion to consolidate the assets of over 200 Catholic entities into the bankruptcy and addressing issues raised by a Plan of Reorganization proposed by counsel for abuse claimants.

While our Special Issues Expense grew in 2016, the effort to continue minimizing our Operating Expense was successful. Operating Expense before Special Issues Expense in 2016 was $18.6 million, down from $22.9 million in 2015. In 2014 Operating Expense before Special Issues Expense was $30.5 million. In the past three years, the Archdiocese have cut expenses approximately $12 million, a decrease of 39 percent, while still offering parishes and schools valuable services and resources to better carry out the mission of this local Church.

In 2016, the Archdiocese sold real estate not directly involved with the mission. The Hayden Center, which is home to more than 100 Archdiocesan employees, was sold to the Minnesota Historical Society in February, 2016 for $4.3 million. The Chancery and Archbishop's Residence, located across the street from the Cathedral of Saint Paul, were sold to a real estate group for $3.2 million in April. In addition, the Hazelwood property near Northfield, used as a weekend retreat, was sold in March for approximately $350,000. Those proceeds are in a separate account, designated to be used in the Plan and noted on the Statement of Financial Position as Cash – Restricted by Bankruptcy. The Archdiocese added approximately $875,000 more with the sale of the Dayton Building, home to the Offices of Communications and Evangelization and Catechesis, in August of 2016.

While selling our properties, the Court approved the lease of 777 Forest Street, on Saint Paul's East Side. It was built in 1939 and was the original headquarters of 3M. All Archdiocesan employees will be moving into the space in February 2017. It will be the first time in decades that all employees will be working in the same location. The Archdiocese is confident it will lead to better communication, collaboration, and service to the parishes, schools and faithful. Renting is expected to provide cash savings, considering the amount of needed deferred maintenance to the buildings currently occupied.

It has been the practice since the year ended June 30, 2013 to release the full audited financial report to be transparent and accountable to the many stakeholders among the Catholic faithful. Almost 70% of the support for the valuable missions comes from parish assessments which are the result of contributions to the local church by parishioners. It is for this reason that Archbishop Hebda, the Archdiocesan Finance Council and management continue to support full transparency and timely reporting of financial results.

For the second straight year, because of the ongoing Reorganization, the Archdiocese in consultation with the Archdiocesan Finance Council and Corporate Board of Directors, filed a motion with the bankruptcy court, and were granted approval, to allow the independent accounting firm to perform Agreed Upon Procedures on the financial statements for the Fiscal Year 2016. 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 in consultation with the Audit and Risk Assessment Committee of the Corporate Board and the independent accounting firm and will assist in governance of the Archdiocese by requiring attestation procedures on key balance sheet accounts and internal controls. The financial records are submitted on a monthly basis to the bankruptcy court and United States Trustee and are subject to their review. When the Archdiocese emerges from Reorganization, it intends to return to the standard practice of annual independent audits and will continue the practice of release promptly after completion of the financial statements and auditor's report.

## FINANCIAL CONDITION

For the year ended June 30, 2016 (Fiscal Year 2016), the Archdiocese generated a profit from Operations before Special Issues Expense of $2,165,075 as compared to a loss from Operations before Special Issues Expense of $464,014 in FY 2015. The loss from operations in FY 2016 was $5,772,467 and compares favorably to a loss of $6,401,017 for FY 2015. Special Issues Expense was $7,937,542 and $5,937,003 in 2016 and 2015, respectively.

The Special Issues Expense of $7,937,542 incurred by the Archdiocese during 2016 related predominately to both legal fees incurred by attorneys representing the Archdiocese in the Reorganization and the Ramsey County charges, as well as legal counsel representing the Unsecured Creditors Committee and the Parish Committee. Within Reorganization, the Archdiocese is referred to as the "Debtor in Possession" and, as such, is responsible for paying all legal fees incurred both by the Archdiocese legal counsel and the legal counsel representing the plaintiffs or victims of sexual abuse. This is generally not the case with the defense of claims in civil law and is unique to Bankruptcy Reorganization.

The Archdiocese legal counsel has spent hundreds of hours working with numerous insurance carriers who issued policies to the Archdiocese over the past seven decades and are working closely with the insurance carriers to determine coverage for claims and to find equitable insurance settlements for abuse claims. Special Issues Expense is substantial, but necessary in order to achieve the goal of obtaining fair compensation for sexual abuse claimants. The Archdiocese recognizes that it cannot sustain this level of spending for Special Issues Expense indefinitely and that is why it is imperative that a fair resolution to this Reorganization in the near term is negotiated. While Special Issues Expense to date is significant, this spending has resulted in the Archdiocese insurance carriers contributing almost $100 million into the Plan of Reorganization and has moved the process closer to resolution.

## REVENUE

Total Operating Revenue in 2016 was $20,780,084 as compared to $22,483,188 in 2015. The major reason for this decline is a decrease in Contributions and Fees and Program Revenues, offset by a slight increase in Parish Assessments and Other Income. Fees and Program Revenues decreased as a result of lower revenue generated from The Catholic Spirit, and Other Income increased due to a court approved settlement with a software vendor.

Parish Assessments, the primary source of revenue, are generated from the 187 parishes within the Archdiocese, increased by 4.1% to $14,826,794 in 2016 from $14,246,426 in 2015. Assessments are calculated and billed on a two-year lag which means the parish financial results for the years ended June 30, 2014 and 2013 formed the basis for the Parish Assessments revenue for the years ended June 30, 2016 and 2015, respectively. Assessments increased as a result of increased parish income and an increase in dollars received from capital campaigns.

## OPERATING EXPENSE

Operating Expense, without Special Issues Expense in 2016, totaled $18,615,009 as compared to $22,947,202 in 2015, an 18.9% decrease. The decrease is due to the significant expense reductions in Program Service expenses including personnel reductions implemented in November of 2014 which the full year impact was realized in 2016. These reductions were necessary to enable the Archdiocese to continue to operate knowing that Special Issues Expense would be significant and required. Every Program and Support Service category saw a reduction in expenses from 2015 to 2016.

## NON-OPERATING ACTIVITY – GAIN ON SALE OF ASSETS

As previously mentioned, the Archdiocese sold three properties in 2016. These sales resulted in cash received of approximately $7,849,000 and a book gain from the sales of $4,266,719.

## NON-OPERATING ACTIVITY – GENERAL INSURANCE PROGRAM

The General Insurance Program of the Archdiocese of Saint Paul and Minneapolis provides comprehensive, uniform commercial general liability and workers’ compensation coverage to all of the parishes, Catholic schools and certain other Catholic entities within the Archdiocese, as well as the Chancery Corporation. 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 $3,090,775 in 2016 as compared to a deficit from operations of $846,211 in 2015. The increase year-over-year was due to an increase of premiums from participating parishes, schools and other Catholic entities from July 1, 2015 through June 30, 2016 and lower than expected claims.

## 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 a slight loss in 2016 and a slight income in 2015.

## FINANCIAL POSITION

Net Assets of the Archdiocese were $26,739,817 on June 30, 2016 as compared to $25,479,177 in 2015, a $1,260,640 or 4.9% increase as a result of the Statement of Activities Changes in Net Assets in 2016. The increase in Cash to $18,092,712 in 2016 from $15,304,260 in 2015 is the result of the sale of properties and the deficit from operations of $5,772,467 due to Special Issues Expense. Of the total Cash on June 30, 2016 of $18,092,712, $3,366,138 represents Unrestricted Cash and $4,148,990 is Board Designated. Cash Restricted by the Bankruptcy is $7,855,560 and Cash Restricted by Donors is $2,722,024. The availability of Cash for operations will be determined at a future date by the U.S. Bankruptcy Court.

The significant decrease in Land, Property and Equipment from $8,207,566 to $4,054,110 is due to the sale of the three properties. General Insurance Program Assets increased as a result of an increase in cash due to the increased premiums and lower than expected claims.

It is important to understand that the value of the assets and liabilities on the Statements of Financial Position are not reflective of the outcome of Reorganization. With the exception of the Litigation Reserve, they are based on Generally Accepted Accounting Principles. Assets, particularly Land, Property and Equipment, are recorded at their net book value which may not reflect their fair market value. Final determination of the value of the assets and liabilities will be at the discretion of the U.S. Bankruptcy Court.

## LOOKING FORWARD

The Archdiocese is hopeful that the Plan of Reorganization will be quickly approved so the local Church is able to continue to carry out its core mission of spreading the gospel message of Jesus Christ.

The Archdiocese continues to be thankful to all the clergy, lay leaders, staff, volunteers, parishioners and others throughout the Archdiocese for their commitment to God's people during these challenging times of uncertainty.

**THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS**
**CHANCERY CORPORATION**
**(DEBTOR IN POSSESSION)**
**STATEMENTS OF FINANCIAL POSITION- UNAUDITED**
**YEARS ENDED JUNE 30, 2016 AND 2015**

| | 2016 | 2015 |
|---|---|---|
| **Assets** | | |
| Cash - Unrestricted and Board Designated | $ 7,515,128 | $ 12,768,089 |
| Cash - Restricted by Bankruptcy | 7,855,560 | - |
| Cash - Restricted by Donors | 2,722,024 | 2,536,171 |
| Contributions Receivable, Net of Allowances | 502,018 | 597,553 |
| Accounts Receivables, Net of Allowances | 4,538,350 | 4,972,445 |
| Loans and Notes Receivable, Net of Allowances | 1,053,609 | 1,037,286 |
| Investments | 979,597 | 1,062,779 |
| Beneficial Interest in Perpetual Trusts | 1,370,187 | 1,485,029 |
| General Insurance Program Assets | 11,992,782 | 8,963,084 |
| Prepaid Expenses and Other Assets | 418,996 | 1,170,448 |
| Land, Property and Equipment, Net | 4,054,110 | 8,207,566 |
| **Total Assets** | $ 43,002,361 | $ 42,800,450 |
| **Liabilities and Net Assets** | | |
| **Liabilities** | | |
| Accounts Payable and Accrued Liabilities, Pre-Petition | $ 239,741 | $ 628,257 |
| Accounts Payable and Accrued Liabilities, Post-Petition | 5,459,256 | 6,252,052 |
| Litigation Claims Payable, Net of Insurance Recovery of $700,000 | 4,600,000 | 4,600,000 |
| General Insurance Program Claims Payable and Other Liabilities | 4,915,635 | 4,976,711 |
| Amounts Held for Others Under Agency Transactions | 106,164 | 122,032 |
| Parish Demand Deposits | 679,304 | 679,304 |
| Deferred Revenue | 262,444 | 62,916 |
| **Total Liabilities** | 16,262,544 | 17,321,272 |
| **Net Assets** | | |
| Unrestricted: | | |
| General Insurance Program | 19,896,322 | 16,805,547 |
| Undesignated | 2,270,004 | 4,026,189 |
| Total Unrestricted | 22,166,326 | 20,831,736 |
| Temporarily Restricted | 2,683,413 | 2,642,520 |
| Permanently Restricted | 1,890,078 | 2,004,922 |
| **Total Net Assets** | 26,739,817 | 25,479,178 |
| **Total Liabilities and Net Assets** | $ 43,002,361 | $ 42,800,450 |

**THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS**
**CHANCERY CORPORATION**
**(DEBTOR IN POSSESSION)**
**STATEMENTS OF ACTIVITIES- UNAUDITED**
**YEARS ENDED JUNE 30, 2016 AND 2015**

| | 2016 | 2015 |
|---|---|---|
| **OPERATING REVENUE** | | |
| Contributions | $ 2,379,452 | $ 3,117,446 |
| Parish Assessments | 14,826,794 | 14,246,426 |
| Fees and Program Revenues | 2,348,287 | 4,465,142 |
| Investment Income, Net | 7,043 | 37,237 |
| Other Income | 1,218,508 | 616,937 |
| **Operating Revenue** | 20,780,084 | 22,483,188 |
| **OPERATING EXPENSE** | | |
| Program Services: | | |
| Catholic Education | 1,304,156 | 2,393,136 |
| Central Services | 5,147,631 | 5,884,442 |
| Clergy Services | 4,302,642 | 4,984,442 |
| Communications | 2,044,509 | 2,238,271 |
| Community Services | 46,108 | 225,000 |
| Evangelization & Catechesis | 332,701 | 535,580 |
| Marriage, Family and Life | 806,161 | 888,429 |
| Parish Services and Outreach | 1,724,992 | 1,990,116 |
| **Total Program Services** | 15,708,900 | 19,139,416 |
| Support Services: | | |
| General and Administrative | 2,421,347 | 3,196,654 |
| Development and Stewardship | 484,762 | 611,132 |
| **Total Support Services** | 2,906,109 | 3,807,786 |
| Total Operating Expense before Special Issues Expense | 18,615,009 | 22,947,202 |
| Change in Net Assets from Operations before Special Issues Expense | 2,165,075 | (464,014) |
| Special Issues Expense | 7,937,542 | 5,937,003 |
| Change in Net Assets from Operations | (5,772,467) | (6,401,017) |
| **NON-OPERATING ACTIVITY** | | |
| Gain on Sale of Assets | 4,267,286 | - |
| General Insurance Program Revenues | 9,659,854 | 6,847,405 |
| General Insurance Program Expenses | (6,569,079) | (7,693,616) |
| Priest Benefit Revenues | 2,738,973 | 3,050,633 |
| Priest Benefit Expenses | (3,063,927) | (2,772,503) |
| Change in Net Assets from Non-Operating Activities | 7,033,107 | (568,081) |
| **CHANGES IN NET ASSETS** | $ 1,260,640 | $ (6,969,098) |

## NOTE 1 PETITION FOR RELIEF UNDER CHAPTER 11

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. Under Chapter 11, certain claims against the Archdiocese in existence prior to the filing are stayed while the Archdiocese continues business operations as a Debtor in Possession. These claims are reflected on the June 30, 2016 and 2015 Statements of Financial Position as "Pre-Petition Accounts Payable and Accrued Liabilities" within the liabilities section of the statement. Additional claims may arise subsequent to the filing date resulting from rejection of executory contracts and a determination by the Court of allowed claims. A timely filing deadline for the filing of claims of sexual abuse and general creditor claims was set at August 3, 2015 and subsequently additional claims were filed.

The Archdiocese received permission from the Court to pay or otherwise honor certain of its pre-petition obligations, including the costs of employee wages, benefits and expense reimbursements.

It is important to understand that the value of the assets and liabilities on the Statements of Financial Position are not reflective of the outcome of Reorganization. With the exception of the Litigation Reserve, they are based on Generally Accepted Accounting Principles. Assets, particularly Land, Property and Equipment, are recorded at their net book value which may not reflect their fair market value. Final determination of the value of the assets and liabilities will be at the discretion of the U.S. Bankruptcy Court.

## 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.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Nature of Organization

The financial statements include all 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, and tuition assistance for students with family need attending Catholic schools within 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.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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.

Effective July 1, 2015, the Office of Catholic Schools has been transformed to the new Office of Mission of Catholic Education. The office has been re-orientated with a view towards the critical questions of Catholic formation and vision. The office works to center Catholic schools in the Archdiocese on what makes them different in the marketplace of school choice: the Catholic formation of the whole person.

#### 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.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Programs and Other Activities (Continued)

#### 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.

#### 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 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.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Programs and Other Activities (Continued)

#### Parish Services and Outreach (Continued)

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.

#### Special Issues

Special Issues represent expenses incurred by the Chancery Corporation through third party professionals during the years ending June 30, 2016 and 2015 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 Archdiocese is responsible for paying all legal fees incurred for its own legal counsel as well as for legal counsel representing the plaintiffs or victims of sexual abuse, the parish committee, and in connection with the pending mediation and proceedings and activities as required under the bankruptcy code and rules. These professionals have expertise in the areas of legal, investigative, insurance, financial and communication matters.

#### 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 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.

#### Priest Benefits

The Archdiocese of St. Paul and Minneapolis coordinates a self-insured health and dental benefit fund for active and retired 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.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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 by Bankruptcy, and Restricted by Donors. The Cash classified as Restricted by Bankruptcy represents net proceeds from the sale of property owned by the Archdiocese which the Bankruptcy Court ordered to be placed in a restricted account.

### 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, 2016 and 2015 are contributions and reimbursable expenses receivable from Catholic Services Appeal Foundation of $136,243 and $231,778, 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 72% and 66% of the outstanding receivables from parishes and other related entities are attributable to eleven parishes at June 30, 2016 and 2015, 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 current 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 48% and 68% of total accounts receivable are due from parish assessments at June 30, 2016 and 2015, respectively.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Loans and Notes 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 current 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.

Notes receivable are recorded at their net realizable value. Based on the historical collection experience and the current status of these receivables, the Chancery Corporation is of the belief that these accounts are fully collectible and, therefore, an allowance for doubtful accounts for these receivables is not necessary.

### 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.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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. The deposit balances are unsecured claims within the bankruptcy.

### 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 on the basis of estimated space used in each building. Certain general and administrative costs are allocated to programs based on an analysis of time.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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.

Subsequent to the publication of last year's financial report, the Bankruptcy Court approved professional fees of $485,000 incurred by the parish committee prior to June 30, 2015. Accordingly, our Statement of Activities and Statement of Financial Position for the year ended June 30, 2015 have been adjusted to reflect this expense.

## NOTE 3 LOANS & NOTES RECEIVABLE

Loans receivable consist of loans and interest receivable from parishes net of an allowance for doubtful loans. Net loans receivable balances were $1,053,609 and $1,037,286 as of June 30, 2016 and 2015, respectively. Approximately 100% and 90% of the total principal and interest outstanding balance were due from four organizations for the years ended June 30, 2016 and 2015, 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 TRUSTS

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 $1,370,187 and $1,485,029 at June 30, 2016 and 2015, 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 | 2016 | 2015 |
|---|---|---|---|
| Building | 20 - 400 | $ 9,388,463 | $ 18,817,813 |
| Furniture, Equipment and Software | 3 - 10 | 6,012,428 | 5,622,277 |
| Vehicles | 3 - 5 | 151,458 | 151,458 |
| Leasehold Improvements | * See Below | 852,471 | 848,532 |
| Right to Use Asset | * See Below | 1,721,613 | 1,721,612 |
| | | 18,126,433 | 27,161,692 |
| Less: Accumulated Depreciation | | (14,072,323) | (18,954,126) |
| Net, Property and Equipment | | $ 4,054,110 | $ 8,207,566 |

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 Parish 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 University of St. Thomas 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 cancellation notice two years prior to the expiration of the lease.

In addition, the Chancery Corporation leases land to three Catholic high schools within the Archdiocese for $1 per year. The leases have terms of 20-30 years which expire on December 31, 2025, June 30, 2030 and June 30, 2038.

During the year ending June 30, 2016, the Chancery Corporation sold three properties with a net book value of $3,581,057 and received net proceeds of $7,847,776 resulting in a gain on the sales of $4,266,719. The proceeds from these sales per court order are required to be held in a separate bank account and are shown separately on the Statement of Financial Position.

Subsequent to year end, in August 2016, 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 will also be held in a separate bank account as required by court order.

## NOTE 7 GENERAL INSURANCE PROGRAM

Summary financial information for the General Insurance Program for the fiscal years ended June 30 is as follows:

| | 2016 | 2015 |
|---|---|---|
| **ASSETS** | | |
| Cash & Equivalents | $ 5,810,075 | $ 2,941,726 |
| Investment - Work Comp Pledge | 3,943,626 | 3,871,158 |
| Premiums Receivable, Net of Allowance of $2,071,761 and $2,137,801 in 2016 and 2015, respectively | 1,531,404 | 1,256,473 |
| Other Receivables | 62,722 | 184,786 |
| CUP Capital Contribution | 533,586 | 587,230 |
| Other Assets | 111,369 | 121,710 |
| Subtotal | 11,992,782 | 8,963,083 |
| Funds Provided to Chancery Corporation General Operating Funds | 12,819,175 | 12,819,175 |
| Total Assets | $ 24,811,957 | $ 21,782,258 |
| **LIABILITIES AND NET ASSETS** | | |
| Accounts Payable, Post-Petition | 66,448 | 136,434 |
| Insurance Claims Payable | 4,773,190 | 4,773,190 |
| Subtotal | 4,839,638 | 4,909,624 |
| Due to the Chancery Corporation | 75,997 | 67,087 |
| Total Liabilities | 4,915,635 | 4,976,711 |
| Unrestricted Net Assets of the Participants | 19,896,322 | 16,805,547 |
| Total Liabilities and Net Assets | $ 24,811,957 | $ 21,782,258 |
| **CHANGE IN NET ASSETS** | | |
| Total Premium and Other Revenue | 9,659,854 | 6,847,405 |
| Total Claims Expense and Operating Costs | 6,569,079 | 7,693,616 |
| Assets | $ 3,090,775 | $ (846,211) |

The Funds Provided to Chancery Corporation General Operating Funds does not appear on the statements of financial position because it is eliminated against the corresponding payable by the Chancery Corporation.

## NOTE 7 GENERAL INSURANCE PROGRAM (CONTINUED)

At June 30, 2016 and 2015, approximately 76% and 81% of the General Insurance Program's gross premiums receivable was due from 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, 2016 and 2015 the balance of the investment was $3,943,626 and $3,871,158, respectively.
Total expenses paid to Catholic Mutual, which processed claims on a contractual basis during the years ended June 30, 2016 and 2015 for the program premiums, were $2,341,476 and $2,713,714, 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 $106,164 and $122,032 as of June 30, 2016 and 2015, respectively.

## NOTE 9 NET ASSETS

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

| | 2016 | 2015 |
|---|---|---|
| Clergy Services | $ 1,874,526 | $ 2,110,730 |
| Catholic Education | 261,286 | 270,530 |
| Parish Services | 29,535 | 14,298 |
| Marriage, Family and Life | 277,059 | 246,962 |
| Other | 241,007 | - |
| Total | $ 2,683,413 | $ 2,642,520 |

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

| | 2016 | 2015 |
|---|---|---|
| Clergy Services | $ 1,884,778 | $ 1,999,622 |
| Other | 5,300 | 5,300 |
| | $ 1,890,078 | $ 2,004,922 |

## 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:

| | 2016 | 2015 |
|---|---|---|
| Pension Plan for Lay Employees | $ 267,660 | $ 269,013 |
| Pension Plan for Priests | 485,315 | 777,984 |
| Archdiocesan Medical Benefit Plan | 1,074,317 | 1,385,462 |
| Total | $ 1,827,292 | $ 2,432,459 |

**<u>Pension Plans</u>**

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.

## NOTE 12 PENSION AND MEDICAL BENEFIT PLANS (CONTINUED)

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 13 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 2016. The amount outstanding on this loan was $4,477,074 and $4,516,396 at June 30, 2016 and 2015, respectively.

Subsequent to June 30, 2016, 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 environment 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.

## NOTE 14 LITIGATION CONTINGENCIES

As of June 30, 2013, litigation claims payable related to sexual abuse was $4,600,000, net of insurance recovery. The amount of the litigation claims payable was based on the minimum amount of the range as no amount within the range was a better estimate of an outcome. The Chancery Corporation had no practical means to determine the likelihood of outcome for amounts above that which would be more likely than any other outcome. No amounts were accrued for unknown claims as losses were not able to be reasonably

## NOTE 14 LITIGATION CONTINGENCIES (CONTINUED)

determined. The amounts recorded were management's estimates and were not intended to be indicative of the actual legal outcomes of the individual cases.

Subsequent to June 30, 2013, the timely claims filing deadline of August 3, 2015 resulted in the filing of 416 claims of sexual abuse. Additional claims were filed prior to the closing of the statute of limitations in late May of 2016 bringing the total claims of sexual abuse to 444. It is not possible to predict the likely outcome or disposition of the claims due to the uniqueness of each claim, the degrees of sexual abuse, and the age of some of the claims. An estimate of the financial exposure of the Chancery Corporation cannot be made. For that reason, management has not changed the litigation claims payable at June 30, 2015 and 2016.

Discussion and negotiation of the claims are a part of the mediation process and it is impossible to predict the likely outcome or disposition of the claims. It is management's opinion that in the aggregate they will be material.