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, 2015 AND 2014

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Introduction

At the time of release of financial statements last year, the Archdiocese was facing an unknown number of claims due to the lifting of the civil statute of limitations for sexual abuse of minors until May 2016. The Archdiocese was considering all options to address this situation and Archdiocesan leaders sought the best path to ensure fairness for victims of clergy sexual abuse and fairness for the faithful whose stewardship has made archdiocesan ministry possible. Archdiocesan leaders consulted with various representative clergy and lay leadership groups and outside professionals with this decision regarding Reorganization. Archdiocesan leaders concluded that Reorganization was and is a way to respond to all victims by allowing the available funds to be equitably distributed to all who have made claims, not just those who have the earliest trial dates or settlements. The process is bringing together the victims, the Archdiocese, parishes, and insurers, to come up with a fair and just settlement for all who have been abused and made claims. In comparison to other diocesan bankruptcies nationally, it's an unprecedented comprehensive process that has all sides working towards the same goal of healing and hope for a better tomorrow. Further, Reorganization would allow the Archdiocese a fresh start to adhere to reforms made to minimize the threat of this circumstance ever happening again and to continue its service and support of the faithful and the stewardship which makes archdiocesan ministry possible.

Before the Archdiocese filed for Reorganization in January of this year, efforts had already begun to significantly reduce operating expenses and be better stewards of the monies parishes contribute through assessments and other contributions received directly by the Archdiocese every year. In addition, in order to weather the Reorganization process, conservation of resources would be necessary because much would be consumed as legal and other professionals were engaged in preparing for Reorganization and to assist with negotiating with insurance carriers and plaintiffs counsels. In November of 2014, the painful and necessary decision to reduce the workforce and non-personnel expenses was made. These reductions resulted in almost $5 million in expense reductions, which was 20% of the entire annual operating expense budget. Total Operating Expenses, without Special Issues expenses, decreased from $30.5 million in 2014 to $22.9 million in 2015, a 25% reduction.

After much analysis and consultation, the Archdiocese also made the difficult, but necessary decision to place the Chancery, Archbishop's Residence, Hayden Center, Dayton Building and the Hazelwood property on the market for sale. These buildings, which are located across from and behind the Cathedral of Saint Paul and in Northfield, are being aggressively marketed for sale by Cushman & Wakefield and a purchase agreement for $4.5 million on the Hayden Center has been signed. The proceeds from their eventual sales will generate cash with the hope of and desire to help move through Reorganization efficiently.

Due to the fact that the buildings have not yet sold, a new facility, which would be leased, has not been selected. The Archdiocese is committed to find property in an area where the Church's presence can be an integral part of a neighborhood revitalization and renewal effort. It is anticipated that the annual expenses of leasing office space will be neutral to the current costs of maintaining the existing facilities.

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It is important to understand that this financial report does not cover parishes, schools, or other Catholic entities within the 12-county area that comprises the Archdiocese of Saint Paul and Minneapolis. All of those organizations are separate legal entities and prepare their own financial accounting reports.

It has been the practice since the year ended June 30, 2013 to release full audited financial report to be transparent and accountable to the many stakeholders among the Catholic faithful. Indeed, almost 65% 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 staff continue to support full transparency and timely reporting of financial results.

Fiscal Year 2014, which ended June 30, 2014, was the first year the Archdiocese did not receive an unqualified opinion from its CPA firm. The CPA firm issued a disclaimer of opinion and a going concern qualification as a result of the inability of the Archdiocese to provide an estimate of the liability related to ongoing litigation and claims of sexual abuse. At that time, there were pending claims and a significant number of notices of claims, with each claim being unique and requiring factual development to determine the liability, if any, that existed.

As a result of the continued inability to estimate the liability related to sexual abuse claims at June 30, 2015, of which 416 sexual abuse claims were filed by the August 3, 2015 timely filing deadline, the Archdiocese was not able to have an audit of the financial statements for the year ended June 30, 2015. In consultation with the Archdiocesan Finance Council and Corporate Board of Directors, a motion was filed with the Bankruptcy Court, and approval granted, to allow the CPA firm to perform Agreed Upon Procedures on the Fiscal Year 2015. These procedures do not represent an audit and as a result you will not see an Independent Auditor's Report attached to the financial statements. The Agreed Upon Procedures were developed by management in consultation with the CPA 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, 2015 (our Fiscal Year 2015), the Archdiocese incurred a loss from operations before Special Issues expenses of $516,542 as compared to a loss from operations before Special Issues expenses of $4,940,448 in FY 2014. The loss from operations in FY 2015 was $5,750,086 and compares favorably to a loss of $9,120,676 for FY 2014. Special Issues expenses were $5,233,544 and $4,180,228 in FY 2015 and FY 2014, respectively. In addition, in Fiscal Year 2014 there was a $4.7 million negative impact to operating activities as a result of two unusual items, of which $1 million was a write-off that did not negatively impact our cash. After adjusting for these two unusual items, the deficits, before Special Issues expense, in FY 2015 and FY 2014 were comparable.

The Special Issues expense of $5,233,544 incurred by the Archdiocese during FY 2015 related predominately to both legal fees incurred by attorney's 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 their 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 Reorganization.

Archdiocesan legal counsel and staff have spent thousands of hours going through clergy files, conducting investigations, and reviewing claims and financial records to assist in the goal of a fair, just and expedient Reorganization. Resources were also spent on working with numerous insurance carriers who issued policies to the Archdiocese over the past seven decades dating back to the late 1940's. Legal counsel and staff are working closely with the insurance carriers to determine coverage for claims and to find equitable settlements for those who were abused. Reviewing and investigating sexual abuse claims against the Archdiocese, which now total 416, is expensive as are the costs of legal notifications in national, regional, state and local publications. Special Issues expenses are substantial, but necessary in order to achieve the goal of obtaining the most resources for those sexually abused by clergy. The Archdiocese clearly recognizes that it cannot sustain this level of spending for Special Issues indefinitely and that is why it is imperative that a fair and just resolution to this Reorganization is negotiated in the near term.

Revenue

Total Operating Revenue in 2015 was $22,430,660 as compared to $25,525,732 in 2014. The major reason for this decline is a decrease in Investment Income and Contributions, offset by a slight increase in Parish Assessments. The decline in Investment Income is the result of the Archdiocese selling investments prior to filing for Reorganization. U.S. Bankruptcy Court rules required the Archdiocese to sell investments and convert them to cash or low-risk investments such as government backed securities and the decision was made to convert most of the investments to cash.

Parish Assessments, the primary source of revenue, is generated from the 187 parishes within the Archdiocese, increased by 3.4% to $14,246,426 in 2015 from $13,776,682 in 2014. Assessments are calculated and billed on a two-year lag which means the parish financial results for the years ended June 30, 2013 and 2012 formed the basis for the Parish Assessment revenue for the years ended June 30, 2015 and 2014, respectively. Sunday collection revenue at the parishes is the most significant driver of the assessment calculation and increased from2012 to 2013.

Operating Expense

Operating Expense, without Special Issues in 2015 totaled $22,947,202 as compared to $30,466,180 in 2014, a 25% decrease. After adjusting the 2014 Operating Expense for the two unusual items mentioned earlier, Operating Expenses in 2014 were $25,772,538. That almost $2.8 million or 11% decrease is due to the significant expense reductions in program expenses including personnel reductions implemented in November of 2014. On an annual basis, those reductions will equate to almost $5 million and highlights the willingness to make the tough decisions to operate going forward (post-Reorganization) with some surplus which will allow the Archdiocese to build reserves as it is anticipated that little to no liquid assets will be available after emerging from Reorganization.

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 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 deficit from operations of $972,739 in 2015 as compared to a deficit from operations of $131,124 in 2014. The decrease year over year was due to billing credits effective from January 1, 2014 through June 30, 2014 and a reduction of premiums charged to participating parishes, schools and other Catholic entities from July 1, 2014 through June 30, 2015 because the reserves were larger than required by professionals engaged to determine the appropriate reserve for outstanding and incurred 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 income in both 2015 and 2014.

Financial Position

Net Assets of the Archdiocese were $26,056,959 on June 30, 2015 as compared to $32,540,508 in 2014, a $6,483,549 or 20% decrease as result of the Statement of Activities deficit in 2015. The increase in Cash to $15,304,260 in 2015 from $3,861,917 in 2014 is the result of converting Investments to Cash as required by the U.S. Bankruptcy Court. Of the total Cash on June 30, 2015 of $15,304,260, $8,726,282 represents Unrestricted Cash. The remaining Cash is Board Designated and Restricted. The categories of Board Designated and Restricted and their availability for operations will be determined at a future date by the U.S. Bankruptcy Court.

Total Cash and Investments on June 30, 2015 were $16,367,039 compared to a balance on June 30, 2014 of $19,172,616, and decreased by $2,805,577 or 15%, mainly as a result of the cash outlay for Special Issues expenses.

The Litigation Reserve of $4,600,000 did not change from 2014 to 2015 as a result of management's inability to estimate the liability related to ongoing litigation and claims of sexual abuse as each of the 416 claims are unique and require factual development to determine financial exposure.

It is important to understand that the value of the assets and liabilities on the Condensed Statements of Financial Position are not necessarily 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

Shortly after filing for Reorganization in January of 2015, Judge Robert Kressel ordered the parties into mediation. It is the Archdiocese's plan to continue to work with insurance carriers, victim's counsel, creditors, parishes, and other Catholic entities to obtain a fair and just settlement of victim claims. At that time, the next step would be to file a Plan and Disclosure Statement and obtain Confirmation of a Plan with the U.S. Bankruptcy Court.

Archdiocesan leadership is taking the necessary steps to ensure that the financial situation is resolved fairly and just compensation is received for victims of clergy abuse while honoring the gifts of stewardship of past and present faithful in pursuit of the mission of the Church. This has not changed and has been the goal since this chapter of the Church's history began a few years ago. The focus has been and will continue to be fairness to victims of clergy abuse and adherence to reforms.

THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
CHANCERY CORPORATION
(DEBTOR IN POSSESSION)
STATEMENTS OF FINANCIAL POSITION - UNAUDITED
JUNE 30, 2015 AND 2014

		2015		2014
ASSETS				
Cash	$	15,304,260	$	3,861,917
Contributions Receivable		597,553		714,516
Accounts Receivable, Net of Allowances of $4,399,698 and $4,566,032, Respectively		4,972,445		5,542,489
Loans and Notes Receivable, Net of Allowances of $3,486,214 and $3,486,214, Respectively		1,037,286		1,245,775
Investments		1,062,779		15,310,699
Beneficial Interest in Perpetual Trusts		1,485,029		1,551,285
General Insurance Program Assets		8,963,083		10,220,349
Prepaid Expenses and Other Assets		1,170,449		740,954
Land, Property and Equipment, NET		8,207,566		8,978,417
Total Assets	$	42,800,450	$	48,166,401
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts Payable and Accrued Liabilities, Pre-Petition	$	628,257	$	4,387,768
Accounts Payable and Accrued Liabilities, Post-Petition		5,615,681		-
Litigation Claims Payable, Net of Insurance Recovery of $700,000		4,600,000		4,600,000
General Insurance Program Claims Payable and Other Liabilities		5,035,301		5,240,134
Amounts Held for Others Under Agency Transactions		122,032		119,786
Parish Demand Deposits		679,304		1,209,075
Deferred Revenue		62,916		69,130
Total Liabilities		16,743,491		15,625,893
Net Assets:				
Unrestricted				
General Insurance Program		16,679,871		17,651,756
Undesignated		4,729,647		10,219,907
Total Unrestricted		21,409,518		27,871,663
Temporarily Restricted		2,642,520		2,597,668
Permanently Restricted		2,004,921		2,071,177
Total Net Assets		26,056,959		32,540,508
Total Liabilities and Net Assets	$	42,800,450	$	48,166,401

See accompanying Notes to Financial Statements

THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
CHANCERY CORPORATION
(DEBTOR IN POSSESSION)
STATEMENTS OF ACTIVITIES - UNAUDITED
YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
Operating Revenues and Gains		
Contributions	$ 3,117,446	$ 3,895,992
Parish Assessments	14,246,426	13,776,682
Fees and Program Revenues	4,465,142	4,957,004
Investment Income, Net	37,233	1,607,862
Other Income	563,561	1,288,192
Total Operating Revenues, Gains and Other Support	**22,429,808**	**25,525,732**
Operating Expenses		
Program Services		
Catholic Education	2,393,136	4,753,327
Central Services	5,665,950	7,247,153
Clergy Services	4,984,442	5,685,981
Communications	2,238,271	2,676,251
Community Services	225,000	1,534,072
Evangelization & Catechesis	535,580	328,686
Marriage, Family and Life	888,429	1,054,818
Parish Service and Outreach	1,990,116	2,337,966
Total Program Services	18,920,924	25,618,254
Support Services		
General and Administrative	3,415,148	3,183,337
Development and Stewardship	611,132	1,664,589
Total Support Services	4,026,280	4,847,926
Total Operating Expense before Special Issues Expense	**22,947,204**	**30,466,180**
Change in Net Assets from Operations before Special Issues Expense	**(517,396)**	**(4,940,448)**
Special Issues Expense	**5,233,544**	**4,180,228**
Change in Net Assets from Operations	**(5,750,940)**	**(9,120,676)**
Non-operating Changes in Net Assets		
General Insurance Program Revenue	5,674,873	6,700,775
General Insurance Program Expenses	(6,646,758)	(6,831,899)
Priest Benefits Revenue	3,050,633	3,058,037
Priest Benefits Expense	(2,811,357)	(2,755,324)
Non-operating Change in Net Assets	**(732,609)**	**171,589**
Change in Net Assets	**$ (6,483,549)**	**$ (8,949,087)**

See accompanying Notes to Financial Statements

THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
CHANCERY CORPORATION
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 1 PETITION FOR RELIEF UNDER CHAPTER 11

On January 16, 2015, the Archdiocese of St Paul and Minneapolis (the "Debtor-in-Possession") (the "Debtor") 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 Debtor in existence prior to the filing are stayed while the Debtor continues business operations as a Debtor-in-Possession. These claims are reflected on the June 30, 2015 Statement 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 has been set at August 3, 2015.

The Debtor 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.

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 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Programs and Other Activities (Continued)

Catholic Education (Continued)

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.

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 diocese's 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Programs and Other Activities (Continued)

Community Services

Through the work of offices of the Chancery Corporation and our 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 our community at more than 20 parishes with Spanish language Masses, catechetical offerings 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.

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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Programs and Other Activities (Continued)

Special Issues

Special Issues represent expenses incurred by the Chancery Corporation through third party professionals during the year ending June 30, 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 Debtor-in-Possession 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 communications matters. For the fiscal year ended June 30, 2014, the majority of these expenses relate to expenses incurred to review clergy files, investigate insurance coverage and analyze financial options.

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.

Cash

At times throughout the year, cash balances may exceed amounts insured by the Federal Deposit Insurance Corporation.

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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions Receivable (Continued)

Included within support receivables at June 30, 2015 and 2014 are contributions and reimbursable expenses receivable from Catholic Services Appeal Foundation of $231,778 and $348,741, 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 66% and 59% of the outstanding receivables from parishes and other related entities is attributable to eleven parishes at June 30, 2015 and 2014, 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. Accounts receivable are written off and charged to the allowance only under extraordinary circumstances and write-offs must be approved by the Archbishop or Apostolic Administrator. 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 68% and 58% of total accounts receivable is due from parish assessments at June 30, 2015 and 2014, respectively.

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 or Apostolic Administrator.

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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and Revenue Recognition (Continued)

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.

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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pension and Medical Benefit Plans (Continued)

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

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. These reclassifications had no effects 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 $1,015,047 and $1,057,415 as of June 30, 2015 and 2014, respectively. Approximately 90% and 86% of the total principal and interest outstanding balance was due from three related organizations for the years ended June 30, 2015 and 2014, 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 $1,485,029 and $1,551,285 at June 30, 2015 and 2014, 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	2015	2014
Land		$ -	$ 16,701
Building	20 - 400	18,817,811	18,724,472
Furniture, Equipment and Software	3 - 10	5,622,277	5,423,057
Vehicles	3 - 5	151,458	151,458
Leasehold Imporvements	*See Below	848,532	848,532
Right to Use Asset	*See Below	1,721,613	1,721,613
		27,161,691	26,885,833
Less: Accumulated Depreciation		(18,954,125)	(17,907,416)
Net Land, Property and Equipment		$ 8,207,566	$ 8,978,417

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 2 year 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.

NOTE 7 GENERAL INSURANCE PROGRAM

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

		2015		2014
ASSETS				
Cash & Equivalents	$	2,941,726	$	7,985,279
Investment - Work Comp Pledge		3,871,158		-
Premiums Receivable, Net of Allowance of $2,137,801 and $2,151,056 in 2015 and 2014, Respectively		1,256,473		1,113,881
CUP Capital Contribution		587,230		1,015,847
Other Assets		306,496		105,342
Subtotal		8,963,083		10,220,349
Funds Provided to Chancery Corporation General Operating Funds		12,819,175		12,819,175
Total Assets	$	21,782,258	$	23,039,524
LIABILITIES AND NET ASSETS				
Accounts Payable, Pre-Petition	$	-	$	147,067
Accounts Payable, Post-Petition		262,111		-
Deferred Revenues		-		156,326
Insurance Claims Payable		4,773,190		4,936,741
Subtotal		5,035,301		5,240,134
Due to the Chancery Corporation		67,086		147,634
Total Liabilities		5,102,387		5,387,768
Unrestricted Net Assets of the Participants		16,679,871		17,651,756
Total Liabilities and Net Assets	$	21,782,258	$	23,039,524
CHANGE IN NET ASSETS				
Total Premium and Other Revenue		5,674,873		6,700,775
Total Claims Expense and Operating Costs		(6,646,758)		(6,831,899)
Increase/(Decrease) in General Insurance Program Net Assets	$	(971,885)	$	(131,124)

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.

Insurance claims payable includes 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.

NOTE 7 GENERAL INSURANCE PROGRAM (CONTINUED)

The Chancery Corporation had a letter of credit of $3,846,684 for the self-insured workers' compensation program for the year ended June 30, 2014. The letter of credit was secured by marketable securities. 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, 2015 the balance of the investment was $3,871,158. At June 30, 2015 and 2014, approximately 81% and 77% of the General Insurance Program's gross premiums receivable was due from six participants, respectively.

Total expenses paid to Catholic Mutual, which processed claims on a contractual basis during the years ended June 30, 2015 and 2014 for the program premiums were $2,713,714 and $2,652,285, 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 $122,032 and 119,786 as of June 30, 2015 and 2014, respectively.

NOTE 9 NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30:

	2015	2014
Clergy Services	$ 2,110,730	$ 2,087,356
Catholic Education	270,530	291,992
Parish Services	14,298	11,769
Marriage, Family and Life	246,962	206,551
Total	$ 2,642,520	$ 2,597,668

Permanently restricted net assets are available for the following purposes at June 30:

	2015	2014
Clergy Services	$ 1,999,621	$ 2,065,877
Other	5,300	5,300
	$ 2,004,921	$ 2,071,177

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:

	2015	2014
Pension Plan for Lay Employees	269,013	273,072
Pension Plan for Priests	777,984	702,119
Archdiocesan Medical Benefit Plan	1,385,462	1,482,788
Total	2,432,459	2,457,979

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 2016. The amount outstanding on this loan was approximately $4,516,396 and $4,771,000 at June 30, 2015 and 2014, respectively.

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 13 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 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 number of claims increased and formal Notices of Claims tendered were substantial. Management believed that additional claims would be filed prior to the closing of the statute of limitations in May of 2016. At that time, it was not possible to predict the likely outcome or disposition of the prior year, current year and unknown future 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 could not be made. For that reason, management did not increase the litigation claims payable at June 30, 2014 and 2015.

Subsequent to June 30, 2015, the timely claims filing deadline of August 3, 2015 resulted in the filing of 416 claims of sexual abuse. 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.