THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
CHANCERY CORPORATION
SAINT PAUL, MINNESOTA

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013

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CHANCERY CORPORATION
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CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Board of Directors
The Archdiocese of Saint Paul and Minneapolis
Chancery Corporation
Saint Paul, Minnesota

We were engaged to audit the accompanying financial statements of The Archdiocese of Saint Paul and Minneapolis, Chancery Corporation (Chancery Corporation), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

The Chancery Corporation, as discussed in Note 13 to the financial statements is involved in several lawsuits and is also aware of a significant number of unfiled claims relating to sexual misconduct by certain members of the clergy. Due to the significant number and varying degrees of severity of the claims, management is unable to establish a reasonable estimate of their potential financial impact. This uncertainty overshadows the financial statements taken as a whole and the probable effect on the financial statements is expected to be material.

Disclaimer of Opinion

Because of the significance of the litigation matters described in the Basis for Disclaimer of Opinion paragraph, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements referred to in the first paragraph.

Emphasis-of-a-Matter

Going Concern and Litigation

The accompanying financial statements have been prepared assuming that the Chancery Corporation will continue as a going concern. As discussed in Note 13 to the financial statements, the Chancery Corporation has suffered a significant decrease in net assets and there is substantial doubt as to the eventual outcome related to claims and litigation. These conditions raise substantial doubt about the Chancery Corporation’s ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 17, 2014

THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
CHANCERY CORPORATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 AND 2013

	2014	2013
ASSETS		
Cash	$ 3,861,917	$ 9,510,724
Contributions Receivable, Net of Allowances of $-0- and $227,097, Respectively	714,516	1,824,513
Accounts Receivable, Net of Allowances of $4,566,032 and $4,950,999, Respectively	5,542,489	6,918,664
Loans and Notes Receivable, Net of Allowances of $3,486,214 and $3,773,672, Respectively	1,245,775	1,387,600
Litigation Insurance Claims Receivable	700,000	700,000
Investments	15,310,699	17,380,741
Beneficial Interest in Perpetual Trusts	1,551,285	1,363,754
General Insurance Program Assets	10,220,349	9,531,198
Prepaid Expenses and Other Assets	740,954	163,003
Land, Property and Equipment, Net	8,978,417	10,521,188
Total Assets	$ 48,866,401	$ 59,301,385
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts Payable and Accrued Liabilities	$ 4,387,768	$ 3,059,393
Litigation Claims Payable	5,300,000	5,300,000
General Insurance Program Claims Payable and Other Liabilities	5,240,134	4,567,492
Amounts Held for Others Under Agency Transactions	119,786	1,575,656
Parish Demand Deposits	1,209,075	3,177,535
Deferred Revenue	69,130	131,714
Total Liabilities	16,325,893	17,811,790
Net Assets:		
Unrestricted:		
General Insurance Program	17,651,756	17,782,881
Board Designated	5,181,047	5,181,047
Undesignated	5,038,860	13,813,768
Total Unrestricted	27,871,663	36,777,696
Temporarily Restricted	2,597,668	2,828,253
Permanently Restricted	2,071,177	1,883,646
Total Net Assets	32,540,508	41,489,595
Total Liabilities and Net Assets	$ 48,866,401	$ 59,301,385

See accompanying Notes to Financial Statements.

THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
CHANCERY CORPORATION
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2014 AND 2013

	June 30, 2014				June 30, 2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUE								
Contributions	$ 2,753,957	$ 773,985	$ -	$ 3,527,942	$ 1,230,369	$ 2,555,801	$ -	$ 3,786,170
Catholic Services Appeal, Net of Parish Rebates of $-0- and $2,009,212, Respectively	368,050	-	-	368,050	8,109,237	-	-	8,109,237
Parish Assessments	13,776,682	-	-	13,776,682	14,093,473	-	-	14,093,473
Fees and Program Revenues	4,957,004	-	-	4,957,004	4,587,813	-	-	4,587,813
Investment Income, Net	1,156,604	263,727	-	1,420,331	184,158	166,077	-	350,235
Change in Value of Perpetual Trust	-	-	187,531	187,531	-	-	109,564	109,564
Other Income	1,288,192	-	-	1,288,192	1,700,981	-	-	1,700,981
Total Operating Revenue	24,300,489	1,037,712	187,531	25,525,732	29,906,031	2,721,878	109,564	32,737,473
Net Assets Released from Restrictions	1,268,297	(1,268,297)	-	-	2,232,195	(2,232,195)	-	-
Net Operating Revenue	25,568,786	(230,585)	187,531	25,525,732	32,138,226	489,683	109,564	32,737,473
OPERATING EXPENSE								
Program Services:								
Catholic Education	4,753,327	-	-	4,753,327	6,546,710	-	-	6,546,710
Central Services	7,419,381	-	-	7,419,381	6,155,693	-	-	6,155,693
Clergy Services	5,513,753	-	-	5,513,753	5,603,961	-	-	5,603,961
Communications	3,004,937	-	-	3,004,937	3,607,854	-	-	3,607,854
Community Services	1,534,072	-	-	1,534,072	2,437,927	-	-	2,437,927
Marriage, Family and Life	1,054,818	-	-	1,054,818	1,249,532	-	-	1,249,532
Parish Services and Outreach	2,337,966	-	-	2,337,966	2,237,508	-	-	2,237,508
Total Program Services	25,618,254	-	-	25,618,254	27,839,185	-	-	27,839,185
Support Services:								
Litigation Reserve Expense	-	-	-	-	3,950,000	-	-	3,950,000
Special Issues	4,180,228	-	-	4,180,228	-	-	-	-
General and Administrative	3,183,337	-	-	3,183,337	3,236,200	-	-	3,236,200
Development and Stewardship	1,664,589	-	-	1,664,589	1,580,929	-	-	1,580,929
Total Support Services	9,028,154	-	-	9,028,154	8,767,129	-	-	8,767,129
Total Operating Expense	34,646,408	-	-	34,646,408	36,606,314	-	-	36,606,314
Changes in Net Assets from Operating Activities	(9,077,622)	(230,585)	187,531	(9,120,676)	(4,468,088)	489,683	109,564	(3,868,841)
CHANGES IN NET ASSETS FROM NON-OPERATING ACTIVITIES								
General Insurance Program Revenue	6,700,775	-	-	6,700,775	8,272,436	-	-	8,272,436
General Insurance Program Expense	(6,831,899)	-	-	(6,831,899)	(5,844,483)	-	-	(5,844,483)
Priest Benefits Revenue	3,058,037	-	-	3,058,037	2,813,619	-	-	2,813,619
Priest Benefits Expense	(2,755,324)	-	-	(2,755,324)	(2,816,666)	-	-	(2,816,666)
Changes in Net Assets from Non-Operating Activities	171,589	-	-	171,589	2,424,906	-	-	2,424,906
CHANGES IN NET ASSETS	(8,906,033)	(230,585)	187,531	(8,949,087)	(2,043,182)	489,683	109,564	(1,443,935)
Net Assets - Beginning of Year	36,777,696	2,828,253	1,883,646	41,489,595	38,820,878	2,338,570	1,774,082	42,933,530
NET ASSETS - END OF YEAR	$ 27,871,663	$ 2,597,668	$ 2,071,177	$ 32,540,508	$ 36,777,696	$ 2,828,253	$ 1,883,646	$ 41,489,595

See accompanying Notes to Financial Statements.

THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
CHANCERY CORPORATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ (8,949,087)	$ (1,443,935)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	1,197,642	1,038,208
Debt Forgiveness and Change in Allowance for Doubtful Loans and Accounts	(544,043)	(553,262)
Loss on Disposal of Equipment	628,074	-
Net Appreciation on Investments and Reinvested Earnings	(1,543,299)	(334,448)
Interest Income Accrued in Loans and Notes Receivable	(56,684)	(149,125)
Change in Assets and Liabilities:		
Contributions Receivable	1,337,094	(333,902)
Accounts Receivable	1,716,085	864,323
Litigation Insurance Claims Receivable	-	(700,000)
General Insurance Program Assets	(689,151)	(380,729)
Prepaid Expenses	(577,951)	256,058
Accounts Payable and Accrued Liabilities	1,328,375	495,963
Litigation Claims Payable	-	4,650,000
General Insurance Program Claims Payable and Other Liabilities	672,642	30,360
Amounts Held for Others Under Agency Transactions	(1,455,870)	(35,693)
Deferred Revenue	(62,584)	129,079
Net Cash Provided (Used) by Operating Activities	(6,998,757)	3,532,897
CASH FLOWS FROM INVESTING ACTIVITIES		
Repayment of Loans and Notes Receivable	175,545	977,329
Disbursements for Loans and Notes Receivable	-	(27,250)
Proceeds from Sale of Investments	3,425,810	108,810
Purchase of Property and Equipment	(282,945)	(1,254,420)
Net Cash Provided (Used) by Investing Activities	3,318,410	(195,531)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Withdrawals of Parish Demand Deposits	(1,968,460)	(493,428)
NET INCREASE (DECREASE) IN CASH	(5,648,807)	2,843,938
Cash - Beginning of Year	9,510,724	6,666,786
CASH - END OF YEAR	$ 3,861,917	$ 9,510,724

See accompanying Notes to Financial Statements.

NOTE 1 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 Corporation named The Archdiocese of Saint Paul and Minneapolis Chancery Corporation (Chancery Corporation). 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.

Related Parties

The Chancery Corporation shares some common directors who serve as a minority on many other Catholic organization boards within the Archdiocese. Given these interrelationships, the majority of transactions with Catholic organizations including parishes, seminaries and other religious organizations are with related parties.

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. For this reason, contributions received for the 2014 CSA campaign are not included in the Chancery Corporation statements for the year ended June 30, 2014. Reductions in revenue and expenses related to this change resulted in a net overall negative financial impact of approximately $3.7 million for the year ended June 30, 2014 compared to the year ended June 30, 2013. 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 1.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 a trust consisting of funds that are held for parishes and other Catholic entities as well as the Chancery Corporation (the Participants).

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

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

Programs and Other Activities

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

Catholic Education

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

Central Services

Central Services provides support and services to the Chancery Corporation staff and the parishes. The Department includes: Victim Advocacy and Assistance; 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Programs and Other Activities (Continued)

Clergy Services

Various offices and programs of the Chancery Corporation work to provide personal and ministerial resources for priests and deacons to enhance the fruitfulness of their ministries. The Center for Clergy Formation provides an integrated approach to priestly and diaconal formation and ongoing clergy education. 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. This program area also provides oversight of 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. *The Catholic Spirit* became a program of the Chancery Corporation effective July 1, 2013.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Programs and Other Activities (Continued)

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. Pope John Paul II and the documents of Second Vatican Council call the laity to transform the world where they live. Our 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.

Special Issues

Special Issues represent expenses incurred by the Chancery Corporation through third party professionals during the year ending June 30, 2014 related specifically to addressing issues from the lifting of the statute of limitations on sexual misconduct. These professionals had expertise in the areas of legal, investigative, insurance, and financial and communications matters. The majority of these expenses relate to expenses incurred to review priest files, investigate insurance coverage and analyze financial options.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Programs and Other Activities (Continued)

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 is a trust, of which the Chancery Corporation is the Trustee and provides comprehensive, uniform coverage for all of the Participants. The net assets of the Program are held for the benefit of the Participants as the Participants have contributed such funds in exchange for obtaining insurance coverage. 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. The Chancery Corporation provides an allowance for estimated uncollectible contributions.

Prior to January 1, 2014, The Chancery Corporation managed the annual Catholic Services Appeal and revenue was recognized when a CSA pledge was received, net of a rebate allocated to parishes. CSA contributions were raised for the benefit of a prescribed group of Catholic organizations and Chancery Corporation ministries as outlined in campaign materials. Effective January 1, 2014 the Catholic Services Appeal Foundation was established as a separately governed and managed corporation to collect, hold, and distribute all Catholic Services Appeal (CSA) donations for the benefit of the prescribed group of Catholic organizations and Chancery Corporation ministries.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions Receivable (Continued)

At June 30, 2013, contributions receivable and amounts held for others under agency transactions included net activity of the Catholic Services Appeal which are no longer applicable at June 30, 2014. Included within support receivables at June 30, 2014 are contributions and reimbursable expenses receivable from CSAF of $348,741.

Accounts Receivable

Accounts receivable are due from parishes and other Catholic entities and are non-interest bearing, unsecured and due currently. Approximately 59% and 63% of the outstanding receivables from parishes and other related entities is attributable to eleven and thirteen parishes at June 30, 2014 and 2013, 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. 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 58% and 64% of total accounts receivable is due from parish assessments at June 30, 2014 and 2013, respectively.

Loans and Notes Receivable

Loans receivable 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. 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. 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 and accounts 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 accounts receivable, 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 other receivables are written off and charged to the allowance only under extraordinary circumstances and write-offs must be approved by the Archbishop.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans and Notes Receivable (Continued)

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 on a recurring basis using the lowest level input available in the fair value hierarchy except money market funds which are carried at deposit value. Marketable securities and mutual funds are recorded at fair value, based on quoted values. Some investments and 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.

Fair Value

The Chancery Corporation's accounting for fair value measurements of assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring or nonrecurring basis adhere to the Financial Accounting Standards Board (FASB) fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value (Continued)

The three levels of the fair value hierarchy are as follows:

Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Chancery Corporation has the ability to access at the measurement date.

Level 2 – Inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – Inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Chancery Corporation uses valuation techniques in a consistent manner from year-to-year.

Land, Property and Equipment

Land, property and equipment are stated at cost for purchased items or at fair value at the date of receipt, in the case of donated items. 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. Interest accrues on the balances at an annual rate of 0.8% at the beginning of each quarter. The deposit balances are payable on demand and are unsecured.

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 1 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.

Contributed Services

The Chancery Corporation recognizes contributed services at their estimated fair value if the services have value to the Chancery Corporation and require specialized skills that would have been purchased if not provided by contributors. No contributed services were recognized during fiscal years 2014 or 2013.

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 Catholic Services Appeal pledges, 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pension and Medical Benefit Plans

The Chancery Corporation contributes to the Pension Plan for Priests and to the Pension Plan for Lay Employees of the Chancery Corporation, parishes and Catholic schools, and certain other Catholic entities within the Archdiocese. These contributions include normal costs, and an amount to amortize the unfunded past service liabilities of the plans. The actuarial present values of accumulated plan benefits and net assets available for benefits are not available at the individual organization level. The plans are multiple-employer, defined benefit plans and cover substantially all priests and most full-time lay employees of participating employers operating within the boundaries of the Archdiocese. Benefits for full-time lay employees under the Pension Plan for Lay Employees were frozen January 31, 2011.

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

Income Taxes

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

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

Reclassifications

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. The reclassification within Note 6 separated a right to use asset from leasehold improvements.

Subsequent Events

The Chancery Corporation has evaluated subsequent events through November 17, 2014, the date which the financial statements were available to be issued.

NOTE 2 LOANS AND NOTES RECEIVABLE

Loans receivable are summarized as follows as of June 30:

	2014	2013
Loans and Interest from Parishes	$ 4,543,629	$ 4,803,444
Other Loans Receivable	147,973	147,973
Notes Receivable	40,387	209,855
	4,731,989	5,161,272
Less: Allowance for Doubtful Loans	(3,486,214)	(3,773,672)
Total Loans, Net	$ 1,245,775	$ 1,387,600

Approximately 86% and 81% of the total principal and interest outstanding balance was due from three related organizations for the years ended June 30, 2014 and 2013, respectively.

NOTE 3 INVESTMENTS

The fair value and composition of investments at June 30 are as follows:

	2014	2013
Mutual Funds - Fixed Income	$ 12,137,627	$ 14,678,199
Mutual Funds - Large Cap	77,531	61,723
Money Market Mutual Funds	34,689	11,279
Investments held at CCF	3,060,852	2,629,540
Total	$ 15,310,699	$ 17,380,741

Investments are used as follows as of June 30:

	2014	2013
Donor Restricted Endowment Investments	$ 1,367,058	$ 1,229,282
Board Designated Endowment Investments	3,808,419	3,596,923
Other Investments	10,135,222	12,554,536
Total	$ 15,310,699	$ 17,380,741

At June 30, 2014 and 2013, investments totaling $5,900,000 and $4,118,612, respectively, were pledged as collateral for a letter of credit (Note 7).

Investment returns on all investments of the Chancery Corporation were as follows for the years ended June 30:

	2014	2013
Interest Income and Dividends	$ 480,566	$ 407,020
Unrealized and Realized Gains (Losses)	939,765	(56,785)
Investment Income, Net	$ 1,420,331	$ 350,235

NOTE 3 INVESTMENTS (CONTINUED)

The Chancery Corporation is the beneficiary of certain General Seminary Endowment and Catholic Services Appeal funds owned by CCF which are restricted solely for the purpose of seminary education and Catholic Services Appeal approved ministries and operations. CCF retains variance power over these funds and can redirect the distribution of these assets at the discretion of its board.

Additionally, the Chancery Corporation owns and invests funds that are managed by CCF which are restricted for the benefit of Catholic school tuition assistance and other Catholic school support.

Investments held at CCF are carried at fair value and consisted of the following at June 30:

	2014	2013
General Seminary Endowment	$ 1,036,429	$ 901,360
Catholic Services Appeal	547,638	475,928
Scholarships and Other	1,476,785	1,252,252
Total	$ 3,060,852	$ 2,629,540

The following is the approximate fund allocation at June 30 of investments held at CCF:

	2014	2013
Cash and Cash Equivalents	3 %	8 %
Corporate Bonds	16	13
Corporate Stocks	64	56
Alternative Investments	17	23
Total	100 %	100 %

NOTE 4 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 $1,551,285 and $1,363,754 at June 30, 2014 and 2013, 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 value of future cash flows from the trusts, which is 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 5 FAIR VALUE

The following table sets forth the balances of assets by level, within the fair value hierarchy, carried at fair value as of June 30, 2014:

	June 30, 2014			
	Fair Value Measurement Using			Fair Value
	Level 1	Level 2	Level 3	Amount
Assets:				
Investments:				
Mutual Funds - Fixed Income	$ 12,137,627	$ -	$ -	$ 12,137,627
Mutual Funds - Large Cap	77,531	-	-	77,531
Investments Held at CCF	-	-	3,060,852	3,060,852
Beneficial Interest in Perpetual Trusts	-	-	1,551,285	1,551,285
Total	$ 12,215,158	$ -	$ 4,612,137	$ 16,827,295

The following table sets forth the balances of assets by level, within the fair value hierarchy, carried at fair value as of June 30, 2013:

	June 30, 2013			
	Fair Value Measurement Using			Fair Value
	Level 1	Level 2	Level 3	Amount
Assets:				
Investments:				
Core Plus Bond Fund, LLC	$ 14,678,199	$ -	$ -	$ 14,678,199
Mutual Funds - Large Cap	61,723	-	-	61,723
Investments Held at CCF	-	-	2,629,540	2,629,540
Beneficial Interest in Perpetual Trusts	-	-	1,363,754	1,363,754
Total	$ 14,739,922	$ -	$ 3,993,294	$ 18,733,216

Money market mutual funds of $34,689 and $11,279 at June 30, 2014 and 2013, respectively, are carried at deposit value and are excluded from the fair value hierarchy presented above.

NOTE 5 FAIR VALUE (CONTINUED)

The reconciliation of beginning and ending balances for assets and liabilities measured at fair value using significant unobservable inputs (Level 3) are as follows:

	Investments Held at CCF	Beneficial Interest in Perpetual Trusts
Beginning Balance, July 1, 2012	$ 2,376,783	$ 1,254,190
Realized Gains	99,231	39,243
Unrealized Losses	205,675	126,665
Investment Income	33,263	18,217
Commissions and Fees	(26,686)	(18,919)
Distributions	(58,726)	(55,642)
Ending Balance, June 30, 2013	2,629,540	1,363,754
Realized Gains	114,934	87,971
Unrealized Gains	366,501	159,478
Investment Income	32,433	19,391
Commissions and Fees	(26,616)	(24,278)
Contributions	-	-
Distributions	(55,940)	(55,031)
Ending Balance, June 30, 2014	$ 3,060,852	$ 1,551,285

The fair values of investments held at or managed by CCF, perpetual trusts held at CCF, and remainder trusts are based on the Chancery Corporation's interest in the fair value/estimated fair value of the underlying assets as reported to the Chancery Corporation by CCF or the trustee and are reported as Level 3 investments. A substantial portion of the underlying assets of CCF are measured at fair value using Level 1 and 2 inputs. The fair value of the Chancery Corporation's beneficial interest in the perpetual trust held by the bank is based on the underlying trust assets held by the perpetual trust. A substantial portion of these underlying trust assets are measured using Level 1 inputs.

NOTE 6 LAND, PROPERTY AND EQUIPMENT

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

	Life in Years	2014	2013
Land		$ 16,701	$ 16,701
Building	20 - 400	18,724,472	18,651,454
Furniture, Equipment and Software	3 - 10	5,423,057	5,967,867
Vehicles	3 - 5	151,458	188,179
Leasehold Improvements	*See Below	848,532	848,532
Right to Use Asset	*See Below	1,721,613	1,721,613
		26,885,833	27,394,346
Less: Accumulated Depreciation		(17,907,416)	(16,873,158)
Net Land, Property and Equipment		$ 8,978,417	$ 10,521,188

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. These leases have terms of 20-30 years which expire on December 31, 2025, June 30, 2030 and June 30, 2038. The Chancery Corporation has imputed a fair value rent subsidy of $540,000 in both 2014 and 2013. These amounts are included in other income and Catholic education expenses in the statement of activities.

The organizations utilizing these facilities directly incur all costs of utilities, insurance, repairs, maintenance, and improvements and pay no further lease payments to the Chancery Corporation. In addition, these leases are contingent upon the organizations continual use of the property for their respective intended purposes as Catholic institutions. The Chancery Corporation continues support of such lease agreements because they assist in fulfillment of our mission to make the name of Jesus Christ known and loved.

NOTE 7 GENERAL INSURANCE PROGRAM

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

	2014	2013
ASSETS		
Cash	$ 7,985,279	$ 7,470,722
Premiums Receivable, Net of Allowance of $2,151,056 and $2,196,113 in 2014 and 2013, Respectively	1,113,881	1,129,909
Catholic Umbrella Pool Deposits	1,015,847	857,661
Other Assets	105,342	72,906
Subtotal	10,220,349	9,531,198
Funds Provided to Chancery Corporation General Operating Funds	12,819,175	12,819,175
Total Assets	$ 23,039,524	$ 22,350,373
LIABILITIES AND NET ASSETS		
Accounts Payable	$ 147,067	$ 82,727
Deferred Revenue	156,326	-
Insurance Claims Payable	4,936,741	4,484,765
Subtotal	5,240,134	4,567,492
Due to the Chancery Corporation	147,634	-
Total Liabilities	5,387,768	4,567,492
Unrestricted Net Assets of the Participants	17,651,756	17,782,881
Total Liabilities and Net Assets	$ 23,039,524	$ 22,350,373
CHANGE IN NET ASSETS		
Total Premium and Other Revenue	$ 6,700,775	$ 8,272,436
Total Claims Expense and Operating Costs	(6,831,899)	(5,844,483)
Increase in General Insurance Program Net Assets	$ (131,124)	$ 2,427,953

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. As of July 1, 2014 a corporate resolution was passed establishing a repayment plan.

NOTE 7 GENERAL INSURANCE PROGRAM (CONTINUED)

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.

The activity within insurance claims payable for the years ended June 30, 2014 and 2013 were as follows:

	2014	2013
Balance at Beginning of Year	$ 4,484,765	$ 4,537,132
Claims Incurred	2,650,890	2,317,088
Claims Paid	(2,198,914)	(2,369,455)
Balance at End of Year	$ 4,936,741	$ 4,484,765

The Chancery Corporation had a letter of credit of $4,118,612 for the self-insured workers' compensation program for the year ended June 30, 2013. The letter of credit were secured by marketable securities. In August 2013, the Chancery Corporation extended the letter of credit of $4,118,612 until November 2013. In November 2013 the Chancery Corporation reduced the letter of credit to $3,846,684 and extended it until August 2014 but pledged $5,900,000 of collateral with investments (See Note 3). Subsequent to year-end, the letter of credit was extended to September 30, 2014.

As of September 30, 2014, the letter of credit expired and the Chancery Corporation entered into a custodial agreement with the Minnesota Department of Commerce, directly, pledging $3,846,684 of general insurance fund assets for the self insured workers’ compensation program.

At June 30, 2014 and 2013, 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, a related party, which processed claims on a contractual basis during the years ended June 30, 2014 and 2013 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 the following as of June 30:

	2014	2013
Catholic Services Appeal Rebates to Parishes	$ -	$ 1,513,102
Charitable Collection Accounts and Funds Held for Others	119,786	62,554
Total	$ 119,786	$ 1,575,656

Catholic Services Appeal rebates to parishes are discussed in Note 1 with contributions receivable. See Note 1 for further discussion on CSA activity subsequent to January 1, 2014.

NOTE 9 NET ASSETS

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

	2014	2013
Clergy Services	$ 2,087,356	$ 1,823,655
Catholic Education	291,992	712,732
Parish Services	11,769	12,485
Marriage, Family and Life	206,551	207,145
Other	-	72,236
Total	$ 2,597,668	$ 2,828,253

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes, by the occurrence of other events specified by donors, or by the passage of time. Net assets released from restrictions are as follows for the years ended June 30:

	2014	2013
Clergy Services	$ 165,047	$ 336,784
Catholic Education	966,696	1,238,502
Parish Services	2,167	511,848
Marriage, Family and Life	62,151	59,491
Other	72,236	85,570
Total	$ 1,268,297	$ 2,232,195

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

	2014	2013
Endowments	$ 519,892	$ 519,892
Perpetual Trusts	1,551,285	1,363,754
Total	$ 2,071,177	$ 1,883,646

NOTE 10 ENDOWMENT FUNDS

The Chancery Corporation's endowment consists of funds established for a variety of purposes, and includes both donor-restricted endowment funds and funds designated by the Corporate Board of the Chancery Corporation to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Corporate Board to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

Interpretation of Relevant Law

The Archdiocesan Corporate Board has interpreted the Minnesota Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Chancery Corporation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Chancery Corporation in a manner consistent with the standard of prudence prescribed by UPMIFA.

Return Objectives and Risk Parameters

As approved by the Corporate Board, a majority of the Chancery Corporation's endowment funds are held at CCF. Those funds are managed according to CCF’s investment and spending policies. These policies attempt to provide a consistent return on assets, preserve capital and the purchasing power of the endowment assets, while providing a predictable funding stream to support programs. Endowment assets held at CCF include those assets of donor-restricted funds that the Chancery Corporation must hold in perpetuity as well as certain board-designated funds. Under these policies, these assets are invested by CCF in a manner to achieve a return over a rolling 10-year period which exceeds the rate of inflation by 5% to 7%, while outperforming a passive market index portfolio consisting of similar asset allocations over a rolling 5-year period.

The endowment funds held and managed by the Chancery Corporation are subject to similar policies as directed by the Chancery Corporation Corporate Board.

NOTE 10 ENDOWMENT FUNDS (CONTINUED)

Return Objectives and Risk Parameters (Continued)

To satisfy its long-term rate-of-return objectives, the Chancery Corporation rely on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Chancery Corporation targets diversified asset allocations that seek to achieve its long-term return objectives within prudent risk constraints. CCF targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

As approved by the Chancery Corporation Corporate Board, the endowment assets invested by CCF are managed according to CCF's investment and spending policies. The Chancery Corporation receives distributions from these endowments each year based on CCF's spending policies. CCF has a policy of appropriating for distribution each year a board-determined percentage of its endowment fund's average fair value over a designated measurement period. CCF's board-determined distribution percentages ranged from 4% to 5% in 2014 and 2013. In establishing this policy, CCF considered the long-term expected return on its endowment.

With respect to endowment funds held and managed by the Chancery Corporation, the board has an informal policy of appropriating for distribution sufficient funds to achieve program objectives while considering the long-term expected return on its investment assets, considering the nature and duration of the individual endowment funds, and the possible effects of inflation.

These spending policies are consistent with the Chancery Corporation's objective to maintain the purchasing power of endowment assets held in perpetuity, to provide a consistent and predictable funding stream to support the endowment purposes specified, as well as to provide additional growth through investment return.

Endowment Net Assets – Composition of Type of Fund

	June 30, 2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	$ -	$ 847,166	$ 519,892	$ 1,367,058
Board-Designated Endowment Funds	3,808,419	-	-	3,808,419
Total Endowment Funds	$ 3,808,419	$ 847,166	$ 519,892	$ 5,175,477

NOTE 10 ENDOWMENT FUNDS (CONTINUED)

Spending Policy and How the Investment Objectives Relate to Spending Policy (Continued)

Endowment Net Assets – Composition of Type of Fund (Continued)

	June 30, 2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	$ -	$ 709,390	$ 519,892	$ 1,229,282
Board-Designated Endowment Funds	3,596,923	-	-	3,596,923
Total Endowment Funds	$ 3,596,923	$ 709,390	$ 519,892	$ 4,826,205

Changes in Endowment Net Assets:

	June 30, 2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year	$ 3,596,923	$ 709,390	$ 519,892	$ 4,826,205
Investment Return:				
Investment Income, Net of Fees	49,013	4,211	-	53,224
Net Appreciation (Realized and Unrealized)	279,003	166,562	-	445,565
Total Investment Income	328,016	170,773	-	498,789
Appropriations of Funds	(116,520)	(32,997)	-	(149,517)
Endowment Net Assets, End of Year	$ 3,808,419	$ 847,166	$ 519,892	$ 5,175,477

	June 30, 2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year	$ 3,621,822	$ 634,533	$ 519,892	$ 4,776,247
Investment Return:				
Investment Income, Net of Fees	51,423	3,863	-	55,286
Net Appreciation (Realized and Unrealized)	49,908	102,791	-	152,699
Total Investment Income	101,331	106,654	-	207,985
Appropriations of Funds	(126,230)	(31,797)	-	(158,027)
Endowment Net Assets, End of Year	$ 3,596,923	$ 709,390	$ 519,892	$ 4,826,205

NOTE 11 PENSION AND MEDICAL BENEFIT PLANS

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

	2014	2013
Pension Plan for Lay Employees	$ 273,072	$ 273,072
Pension Plan for Priests	702,119	548,564
Archdiocesan Medical Benefit Plan	1,482,788	1,602,387
Total	$ 2,457,979	$ 2,424,023

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.

NOTE 11 PENSION AND MEDICAL BENEFIT PLANS (CONTINUED)

Deferred Compensation Plan

The Chancery Corporation has a deferred compensation agreement with an Archbishop who retired in fiscal 2008. The agreement requires monthly benefit payments for life plus health and medical insurance and allowances for other living expenses. The present value of the estimated future obligation under this agreement is estimated to be approximately $230,000 and $239,000 at June 30, 2014 and 2013, respectively, based on the expected annual cost of approximately $61,000.

NOTE 12 CONTINGENCIES AND COMMITMENTS

Loan Guarantees

At June 30, 2014 and 2013, the Chancery Corporation was contingently liable as guarantor for approximately $43,000,000 and $47,300,000, respectively, on 21 and 22 loans, respectively, and approximately $6,200,000 for one letter of credit for both years for Catholic institutions operating within the boundaries of the Archdiocese. Of this, the Chancery Corporations guaranteed approximately $6,600,000 lent by a related financial institution. These guarantees are typically given to enable Parishes and schools to finance property additions or refinance existing debt. The terms of the loans being guaranteed range from 1 to 30 years. One institution makes up 46% of the guaranteed loan balances. Included in this amount are Chancery Corporation guaranteed loans from a certain organization for seven institutions at June 30, 2014 for a maximum of $1,000,000 in total. Although generally not specifically limited, the maximum potential amount of future payments (undiscounted) the Chancery Corporation could be required to make under these guarantees would be the outstanding amount plus stated interest. Also included in this amount are guarantees in which the Chancery Corporation is liable under replenishment agreements. Those replenishment agreements have no stated length for covering the payment; therefore, the entire value of the loan is included. The Chancery Corporation would be required to perform under a guarantee only in the event of default, which is generally non-payment of installments when due. In certain cases the requirements of the guarantee call for the Chancery Corporation to continue making debt payments while others become due on demand. Management believes the fair value of such assets are in excess of any guaranteed amounts and that material payments will not be required under these guarantees.

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 $4,771,000 and $5,300,000 at June 30, 2014 and 2013, respectively.

NOTE 12 CONTINGENCIES AND COMMITMENTS (CONTINUED)

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 GOING CONCERN AND LITIGATION CONTINGENCIES

The Chancery Corporation is involved in several lawsuits relating to claims of sexual misconduct by certain members of the clergy. The Chancery Corporation and its leadership are currently engaged in litigation to resolve these claims.

As of June 30, 2013 litigation claims payable was $5,300,000 related to sexual abuse. 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. Losses from unknown future claims could also be substantial.

Subsequent to June 30, 2013, the number of claims increased and formal Notices of Claims tendered are substantial. Management believes that additional claims will be filed prior to the closing of the statute of limitations in May of 2016. At this time, it is 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 cannot be made. For that reason, management has not increased the litigation claims payable at June 30, 2014.

It is management's opinion that the above claims, Notices of Claims tendered and unknown future claims in aggregate will be material.

Due to the above there is substantial doubt regarding the Chancery Corporation's being able to continue as a going concern.