

**THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
SAINT PAUL, MINNESOTA**

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2013 AND 2012

**THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of The Archdiocese of Saint Paul and Minneapolis (Chancery Corporation), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors
The Archdiocese of Saint Paul and Minneapolis

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Archdiocese of Saint Paul and Minneapolis as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

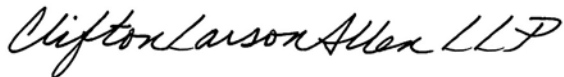
Emphasis-of-Matters

Related Parties

The nature of the Chancery Corporation and its relationship to other organizations located within the geographic area known as The Archdiocese of Saint Paul and Minneapolis is further described in Note 1.

Litigation

The Chancery Corporation is involved in various lawsuits which are further described in Note 12.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
December 20, 2013

THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012

ASSETS	2013	2012
Cash	\$ 9,510,724	\$ 6,666,786
Contributions Receivable, Net of Allowances of \$227,097 and \$327,228, Respectively	1,824,513	1,390,480
Accounts Receivable, Net of Allowances of \$4,950,999 and \$5,499,402, Respectively	6,918,664	7,234,584
Loans and Notes Receivable, Net of Allowances of \$3,773,672 and \$5,123,528, Respectively	1,387,600	2,283,826
Litigation Insurance Claims Receivable	700,000	-
Investments	17,380,741	17,264,667
Beneficial Interest in Perpetual Trusts	1,363,754	1,254,190
General Insurance Program Assets	9,531,198	9,150,469
Prepaid Expenses and Other Assets	163,003	419,061
Land, Property and Equipment, Net	10,521,188	10,304,976
Total Assets	\$ 59,301,385	\$ 55,969,039
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 3,059,393	\$ 2,563,430
Litigation Claims Payable	5,300,000	650,000
General Insurance Program Claims Payable and Other Liabilities	4,567,492	4,537,132
Amounts Held for Others Under Agency Transactions	1,575,656	1,611,349
Parish Demand Deposits	3,177,535	3,670,963
Deferred Revenue	131,714	2,635
Total Liabilities	17,811,790	13,035,509
Net Assets:		
Unrestricted:		
General Insurance Program	17,782,881	15,354,928
Board Designated	5,181,047	5,571,552
Undesignated	13,813,768	17,894,398
Total Unrestricted	36,777,696	38,820,878
Temporarily Restricted	2,828,253	2,338,570
Permanently Restricted	1,883,646	1,774,082
Total Net Assets	41,489,595	42,933,530
Total Liabilities and Net Assets	\$ 59,301,385	\$ 55,969,039

See accompanying Notes to Financial Statements.

THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2013 AND 2012

	June 30, 2013				June 30, 2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUE								
Contributions	\$ 1,233,888	\$ 2,548,195	\$ -	\$ 3,782,083	\$ 1,770,065	\$ 2,305,676	\$ -	\$ 4,075,741
Catholic Services Appeal, Net of Parish Rebates of \$2,009,212 and \$2,357,600, Respectively	8,109,237	-	-	8,109,237	7,586,403	-	-	7,586,403
Parish Assessments	14,093,473	-	-	14,093,473	13,528,072	-	-	13,528,072
Fees and Program Revenues	7,733,609	-	-	7,733,609	5,182,218	-	-	5,182,218
Investment Income, Net	184,357	165,878	-	350,235	961,875	(3,502)	-	958,373
Change in Value of Perpetual Trust	-	-	109,564	109,564	-	-	(108,116)	(108,116)
Other Income	1,315,875	-	-	1,315,875	956,748	-	-	956,748
Total Operating Revenue	32,670,439	2,714,073	109,564	35,494,076	29,985,381	2,302,174	(108,116)	32,179,439
Net Assets Released from Restrictions	2,224,390	(2,224,390)	-	-	1,977,957	(1,977,957)	-	-
Net Operating Revenue	34,894,829	489,683	109,564	35,494,076	31,963,338	324,217	(108,116)	32,179,439
OPERATING EXPENSE								
Program Services:								
Clergy Services	8,363,611	-	-	8,363,611	8,067,019	-	-	8,067,019
Community Services	2,437,926	-	-	2,437,926	3,615,844	-	-	3,615,844
Catholic Education	6,546,707	-	-	6,546,707	6,187,198	-	-	6,187,198
Parish Services	2,237,501	-	-	2,237,501	2,042,821	-	-	2,042,821
Central Services	6,352,029	-	-	6,352,029	5,892,966	-	-	5,892,966
Marriage, Family and Life	1,249,532	-	-	1,249,532	1,607,538	-	-	1,607,538
Communications and Community Relations	3,607,855	-	-	3,607,855	731,541	-	-	731,541
Total Program Services	30,795,161	-	-	30,795,161	28,144,927	-	-	28,144,927
Support Services:								
Litigation Reserve Expense	3,950,000	-	-	3,950,000	(1,050,000)	-	-	(1,050,000)
General and Administrative	3,039,873	-	-	3,039,873	2,335,637	-	-	2,335,637
Development and Stewardship	1,580,930	-	-	1,580,930	1,241,460	-	-	1,241,460
Total Support Services	8,570,803	-	-	8,570,803	2,527,097	-	-	2,527,097
Total Operating Expense	39,365,964	-	-	39,365,964	30,672,024	-	-	30,672,024
Chands in Net Assets from Operating Activites	(4,471,135)	489,683	109,564	(3,871,888)	1,291,314	324,217	(108,116)	1,507,415
NON-OPERATING ACTIVITY								
General Insurance Revenues	8,272,436	-	-	8,272,436	8,180,599	-	-	8,180,599
General Insurance Expenses	(5,844,483)	-	-	(5,844,483)	(6,591,728)	-	-	(6,591,728)
Changes in Net Assets from Non-Operating Activites	2,427,953	-	-	2,427,953	1,588,871	-	-	1,588,871
CHANGES IN NET ASSETS	(2,043,182)	489,683	109,564	(1,443,935)	2,880,185	324,217	(108,116)	3,096,286
Net Assets - Beginning of Year	38,820,878	2,338,570	1,774,082	42,933,530	35,940,693	2,014,353	1,882,198	39,837,244
NET ASSETS - END 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

See accompanying Notes to Financial Statements.

THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (1,443,935)	\$ 3,096,286
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	1,038,208	876,482
Change in Provision for Doubtful Loans and Accounts	(553,262)	(194,605)
Net Appreciation on Investments and Reinvested Earnings	(334,448)	(590,856)
Interest Income Accrued in Loans and Notes Receivable	(149,125)	(236,269)
Change in Assets and Liabilities:		
Contributions Receivable	(333,902)	(48,560)
Accounts Receivable	864,323	(275,671)
Litigation Insurance Claims Receivable	(700,000)	-
General Insurance Program Assets	(380,729)	(4,303,488)
Prepaid Expenses	256,058	(208,524)
Accounts Payable and Accrued Liabilities	495,963	(1,163,760)
Litigation Claims Payable	4,650,000	(1,050,000)
General Insurance Program Claims Payable and Other Liabilities	30,360	(125,321)
Amounts Held for Others Under Agency Transactions	(35,693)	(680,613)
Deferred Revenue	129,079	(28,055)
Net Cash Provided (Used) by Operating Activities	3,532,897	(4,932,954)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Repayment of Loans and Notes Receivable	977,329	6,097,563
Disbursements for Loans and Notes Receivable	(27,250)	(352,853)
Proceeds from Sale of Investments	108,810	155,074
Purchase of Property and Equipment	(1,254,420)	(1,619,249)
Net Cash Provided (Used) by Investing Activities	(195,531)	4,280,535
 CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of Note Payable	-	(5,740,000)
Change in Restricted Cash	-	167,835
Net Deposits (Withdrawals) in Parish Demand Deposits	(493,428)	133,362
Net Cash Used by Financing Activities	(493,428)	(5,438,803)
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,843,938	(6,091,222)
 Cash and Cash Equivalents - Beginning of Year	6,666,786	12,758,008
 CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 9,510,724	\$ 6,666,786
 SUPPLEMENTAL CASH FLOW INFORMATION		
Cash Paid during the Year for Interest	\$ -	\$ 5,983

See accompanying Notes to Financial Statements.

THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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 Vatican in 1850 (originally Minnesota and the Dakotas), and elevated to archdiocese 38 years later. Now comprising a 12 county area, there are 188 parishes and 91 Catholic schools (including elementary and high schools) within the Archdiocese. The Archdiocese is home to over 825,000 Catholics and thousands of lay personnel and volunteers that serve in the parishes and in many other ministries. The mission of The Archdiocese of St. Paul and Minneapolis is to promote the spiritual, educational and other interests of the Catholic Church, including charitable, benevolent and missionary work.

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 (the Chancery Corporation). The mission of the Chancery Corporation is to promote the spiritual, educational and other interests of the Catholic Church, including charitable, benevolent, eleemosynary and missionary work within the Archdiocese and the Chancery Corporation manages the temporal affairs of the Roman Catholic Church in fulfilling that mission. 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. Certain members of the Chancery Corporation are on the board of trustees of some of such other Catholic entities.

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.

THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Programs and Other Activities

The Chancery Corporation accomplishes its mission through the following departments, offices and programs:

Clergy Services

The mission of the Clergy Services office is to provide the personal and ministerial resources designed to support the persons of the priest and deacon and enhance the fruitfulness of their ministries. The office fulfills this mission through the Center for Clergy Formation which provides an integrated approach to priestly and diaconal formation, clergy education, hospital and prison chaplaincies, the Byrne Residence for retired priests, and supervision of various specialized ministries.

Community Services

The agencies involved with Community Services help men, women, and children most in need within the local communities, including the poor, hungry, homeless, and those with special needs.

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 91 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 the Catholic school system and continue to serve families in the tradition of excellence Catholic schools have cultivated for more than 160 years.

Parish Services

The mission of the Office of Parish Services, established in 2007 under the name Parish Services Team, is to foster the spirit of *communio* among parishes, ordained and lay ministers, and the faithful of the Archdiocese. The office encourages a community of sharing and collaboration in parishes and helps parishes learn from one another. It also provides an outreach ministry to members of the Archdiocesan community, including minority groups, specialized ministries, and coalitions. The Office of Parish Services facilitates and/or provides subsidies to the Latino, Indian and Deaf Ministries of the Archdiocese, the Venezuelan mission and Archdiocesan Council of Catholic Women.

THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Programs and Other Activities (Continued)

Central Services

The Department of Central Services provides support and services to the Chancery Corporation staff and the parishes. The Department includes Central Printing Services, Parish Accounting Standards, Parish Accounting Service Center, Records and Archives, Computer Services, Metropolitan Tribunal, Human Resources, Special Services, Maintenance, other collections and diocesan dues.

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 by providing assistance to the laity and parishes through programs and advocacy efforts supporting marriage and family life, including: Marriage Enrichment, Marriage Preparation, Family and Laity Outreach, Youth and Young Adults, 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 in support of the mission.

General Insurance Program

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 liability, 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.

THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Programs and Other Activities (Continued)

Communications and Community Relations

The mission of the Office of Communications is to ensure effective ongoing two-way communications between the Archdiocese of Saint Paul and Minneapolis and the many publics it serves. The office also is charged with communicating the spiritual messages and theological teachings of the Church as articulated through the Archbishop and his auxiliary bishops. In 2013, the Office of Communications in partnership with other departments and volunteer leaders launched the Rediscover Initiative. Rediscover is an ongoing pre-evangelization, evangelization, and catechesis initiative that supports outreach to all Catholics and provides formation opportunities to deepen their faith by complementing the good outreach and formation work already being done by parishes, Catholic schools and ministry organizations throughout the Archdiocese. The staff of communication and community relations professionals communicates through and oversees *The Catholic Spirit*, the official Archdiocesan bi-weekly newspaper, other diocesan newspapers, and nearly 20 web sites, blogs and social media sites. *The Catholic Spirit* and other diocesan publications became programs of the Chancery Corporation effective on July 1, 2013.

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.

At June 30, 2013 and 2012, contributions receivable consisted of net Catholic Services Appeal pledges. The Catholic Services Appeal (CSA) is an annual pledge drive from individuals. Pledges are initially recorded at their estimated fair value. Revenue is recognized when a pledge is received, net of a rebate allocated to parishes. The Chancery Corporation provides rebates to parishes based on the level of contributions raised from their respective parishioners.

THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable are due from parishes and other related entities and are non-interest bearing, unsecured and due currently. Approximately 63% and 45% of the outstanding receivables from parishes and other related entities is attributable to thirteen and ten parishes at June 30, 2013 and 2012, 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 64% and 70% of total accounts receivable is due from parish assessments at June 30, 2013 and 2012, respectively.

Loans and Notes Receivable

Loans receivable are due from parishes and other related 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.

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.

THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 are held by a related foundation (the Foundation) 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 by the Foundation are reported at fair value/estimated fair value as reported to the Chancery Corporation by the Foundation, using a net asset value approach. The Chancery Corporation's remaining interest in perpetual trust assets held by 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). 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.

THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 the Applicable Federal Rate (AFR) 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.

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.

During fiscal 2013 and 2012, the Chancery Corporation received distributions of \$845,721 and \$890,626, respectively from the Foundation which a majority of these distributions were restricted for specific ministries. There was no contribution receivable from related entities as of June 30, 2013 and 2012. These contributions support various programs of the Chancery Corporation and have been recorded within the temporarily restricted net asset category.

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 2013 or 2012.

THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 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.

THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

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

Subsequent Events

The Chancery Corporation has evaluated subsequent events through December 20, 2013, 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:

	2013	2012
Loans and Interest from Parishes	\$ 4,803,444	\$ 6,925,544
Faithful Shepherd Catholic School	-	30,551
Other Loans Receivable	147,973	147,973
Notes Receivable	209,855	303,286
	5,161,272	7,407,354
Less: Allowance for Doubtful Loans	(3,773,672)	(5,123,528)
Total Loans, Net	\$ 1,387,600	\$ 2,283,826

Approximately 81% and 79% of the total principal and interest outstanding balance was due from three related organizations for both years ended June 30, 2013 and 2012, respectively.

NOTE 3 INVESTMENTS

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

	2013	2012
Mutual Funds - Fixed Income	\$ 14,678,199	\$ 14,824,752
Mutual Funds - Large Cap	61,723	50,617
Money Market Mutual Funds	11,279	11,279
Bank Certificates of Deposit	-	1,236
Investments held by the Foundation	2,629,540	2,376,783
Total	\$ 17,380,741	\$ 17,264,667

At June 30, 2013 and 2012, investments totaling \$4,118,612 and \$6,718,612, respectively, were pledged as collateral for a letter of credit (Note 7).

THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 3 INVESTMENTS (CONTINUED)

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

	<u>2013</u>	<u>2012</u>
Interest Income and Dividends	\$ 407,020	\$ 642,703
Unrealized and Realized Gains (Losses)	(56,785)	315,670
Investment Income, Net	<u>\$ 350,235</u>	<u>\$ 958,373</u>

The Chancery Corporation is the beneficiary of certain General Seminary Endowment funds held by the Foundation which are restricted solely for the purpose of seminary education. Additionally, the Chancery Corporation owns and invests funds that are managed by the Foundation which are restricted for the benefit of the Catholic Services Appeal program and Catholic education. The Foundation retains variance power over a majority of these funds and can redirect the distribution of these assets at the discretion of its board.

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

	<u>2013</u>	<u>2012</u>
General Seminary Endowment	\$ 901,360	\$ 827,122
Catholic Services Appeal	475,928	436,438
Scholarships and Other	1,252,252	1,113,223
Total	<u>\$ 2,629,540</u>	<u>\$ 2,376,783</u>

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

	<u>2013</u>	<u>2012</u>
Cash and Cash Equivalent	4 %	2 %
Corporate Bonds	29	21
Corporate Stocks	62	69
Real Estate Investment Trust	5	8
Total	<u>100 %</u>	<u>100 %</u>

THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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 the Chancery Corporation is not the trustee. 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.

Information on these trusts was as follows at June 30:

	2013	2012
Trusts held by the Foundation	\$ 405,726	\$ 374,102
Trust held by a Bank	958,028	880,088
Total	<u>\$ 1,363,754</u>	<u>\$ 1,254,190</u>

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, 2013:

	June 30, 2013			Fair Value Amount
	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	
Assets:				
Investments:				
Mutual Funds - Fixed Income	\$ 14,678,199	\$ -	\$ -	\$ 14,678,199
Mutual Funds - Large Cap	61,723	-	-	61,723
Investments Held by the Foundation	-	-	2,629,540	2,629,540
Beneficial Interest in Perpetual Trusts	-	-	1,363,754	1,363,754
Total	<u>\$ 14,739,922</u>	<u>\$ -</u>	<u>\$ 3,993,294</u>	<u>\$ 18,733,216</u>

THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 5 FAIR VALUE (CONTINUED)

The following table sets forth the balances of assets by level, within the fair value hierarchy, carried at fair value as of June 30, 2012:

	June 30, 2012			Fair Value Amount
	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	
Assets:				
Investments:				
Core Plus Bond Fund, LLC	\$ 14,824,752	\$ -	\$ -	\$ 14,824,752
Mutual Funds - Large Cap	51,853	-	-	51,853
Investments Held by the Foundation	-	-	2,376,783	2,376,783
Beneficial Interest in Perpetual Trusts	-	-	1,254,190	1,254,190
Total	<u>\$ 14,876,605</u>	<u>\$ -</u>	<u>\$ 3,630,973</u>	<u>\$ 18,507,578</u>

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

	Investment in Core Plus Bond Fund, LLC	Investments Held by the Foundation	Beneficial Interest in Perpetual Trusts
Beginning Balance, July 1, 2011	\$ 14,051,945	\$ 2,498,576	\$ 407,287
Realized Gains	-	91,918	32,298
Unrealized Losses	-	(165,210)	(78,245)
Investment Income	-	26,778	14,852
Commissions and Fees	-	(29,013)	(16,861)
Distributions	-	(46,266)	(60,160)
Transfers	(14,051,945)	-	955,019
Ending Balance, June 30, 2012	-	2,376,783	1,254,190
Realized Gains	-	99,231	39,243
Unrealized Gains	-	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	<u>\$ -</u>	<u>\$ 2,629,540</u>	<u>\$ 1,363,754</u>

THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 5 FAIR VALUE (CONTINUED)

The fair values of investments held or managed by the Foundation and perpetual trusts held by the Foundation 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 the Foundation or the trustee and are reported as Level 3 investments. A substantial portion of the underlying assets of the Foundation 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:

	<u>Life in Years</u>	<u>2013</u>	<u>2012</u>
Land		\$ 16,701	\$ 16,701
Building	20 - 400	21,221,599	20,919,300
Furniture, Equipment and Software	3 - 10	5,967,867	4,828,554
Vehicles	3 - 5	188,179	147,049
Construction in Process		-	226,756
		<u>27,394,346</u>	<u>26,138,360</u>
Less: Accumulated Depreciation		<u>(16,873,158)</u>	<u>(15,833,384)</u>
Net Land, Property and Equipment		<u>\$ 10,521,188</u>	<u>\$ 10,304,976</u>

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 one dollar per year. The lease agreement matures in May 2021 and has a renewal option for an additional 20 years. In addition, the Chancery Corporation leases land to three Catholic High Schools within the Archdiocese for \$1 per year. The Chancery Corporation has imputed a fair value rent subsidy of \$540,000 in both 2013 and 2012. 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 and maintenance, 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 ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 7 GENERAL INSURANCE PROGRAM

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

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash	\$ 7,420,722	\$ 7,573,988
Premiums Receivable, Net of Allowance of \$2,196,113 and \$2,477,197 in 2013 and 2012, Respectively	1,129,909	753,261
Catholic Umbrella Pool Deposits	907,661	823,220
Other Assets	<u>72,906</u>	<u>-</u>
Subtotal	9,531,198	9,150,469
Funds Provided to Chancery Corporation General Operating Funds	<u>12,819,175</u>	<u>10,741,591</u>
 Total Assets	 <u><u>\$ 22,350,373</u></u>	 <u><u>\$ 19,892,060</u></u>
LIABILITIES AND NET ASSETS		
Accounts Payable	\$ 82,727	\$ -
Insurance Claims Payable	<u>4,484,765</u>	<u>4,537,132</u>
Total Liabilities	4,567,492	4,537,132
 Unrestricted Net Assets of the Participants	 <u>17,782,881</u>	 <u>15,354,928</u>
 Total Liabilities and Net Assets	 <u><u>\$ 22,350,373</u></u>	 <u><u>\$ 19,892,060</u></u>
CHANGE IN NET ASSETS		
Total Premium and Other Revenue	\$ 8,272,436	\$ 8,180,599
Total Claims Expense and Operating Costs	<u>(5,844,483)</u>	<u>(6,591,728)</u>
Increase in General Insurance Program Net Assets	 <u><u>\$ 2,427,953</u></u>	 <u><u>\$ 1,588,871</u></u>

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.

THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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, 2013 and 2012 were as follows:

	2013	2012
Balance at Beginning of Year	\$ 4,537,132	\$ 4,662,453
Claims Incurred	2,317,088	2,476,335
Claims Paid	<u>(2,369,455)</u>	<u>(2,601,656)</u>
Balance at End of Year	<u>\$ 4,484,765</u>	<u>\$ 4,537,132</u>

The Chancery Corporation had a letter of credit for \$4,118,612 for the self-insured workers' compensation program for the years ended June 30, 2013 and 2012. The letter of credit is 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.

At June 30, 2013 and 2012, approximately 77% of the General Insurance Program's gross premiums receivable was due from six participants.

Total revenue recognized by the program during the years ended June 30, 2013 and 2012 were \$8,272,436 and \$8,180,599, respectively. This amount is shown within fees and program revenues on the statement of activities.

Total expenses paid to Catholic Mutual, a related party, which processed claims on a contractual basis during the years ended June 30, 2013 and 2012 for the program premiums were \$2,652,285 and \$5,140,974, 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:

	2013	2012
Catholic Services Appeal Rebates to Parishes	\$ 1,513,102	\$ 1,385,825
Charitable Collection Accounts and Funds Held for Others	62,554	225,524
Total	<u>\$ 1,575,656</u>	<u>\$ 1,611,349</u>

Catholic Services Appeal rebates to parishes are discussed in Note 1 with contributions receivable.

THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 9 NET ASSETS

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

	<u>2013</u>	<u>2012</u>
Clergy Services	\$ 1,823,655	\$ 1,658,756
Education	712,732	463,760
Parish Services and Outreach	12,485	16,482
Marriage, Family, and Life	207,145	199,572
Other	72,236	-
Total	<u>\$ 2,828,253</u>	<u>\$ 2,338,570</u>

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:

	<u>2013</u>	<u>2012</u>
Clergy Services	\$ 336,784	\$ 658,731
Education	1,238,502	1,281,901
Parish Services and Outreach	511,848	3,803
Marriage, Family, and Life	59,491	33,522
Other	77,765	-
Total	<u>\$ 2,224,390</u>	<u>\$ 1,977,957</u>

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

	<u>2013</u>	<u>2012</u>
Endowments	\$ 519,892	\$ 519,892
Perpetual Trusts	1,363,754	1,254,190
Total	<u>\$ 1,883,646</u>	<u>\$ 1,774,082</u>

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.

THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 10 ENDOWMENT FUNDS (CONTINUED)

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 by the Foundation. Those funds are managed according to the Foundation'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 by the Foundation 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 the Foundation 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.

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. The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 10 ENDOWMENT FUNDS (CONTINUED)

Spending Policy and How the Investment Objectives Relate to Spending Policy

As approved by the Chancery Corporation Corporate Board, the endowment assets invested by the Foundation are managed according to the Foundation's investment and spending policies. The Chancery Corporation receives distributions from these endowments each year based on the Foundation's spending policies. The Foundation 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. The Foundation's board-determined distribution percentages ranged from 4.25% to 5% in 2013 and 2012. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 4% annually.

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, 2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
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

	June 30, 2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-Restricted Endowment Funds	\$ -	\$ 634,533	\$ 519,892	\$ 1,154,425
Board-Designated Endowment Funds	3,621,822	-	-	3,621,822
Total Endowment Funds	\$ 3,621,822	\$ 634,533	\$ 519,892	\$ 4,776,247

THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 10 ENDOWMENT FUNDS (CONTINUED)

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

Changes in Endowment Net Assets:

	June 30, 2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
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	<u>\$ 3,596,923</u>	<u>\$ 709,390</u>	<u>\$ 519,892</u>	<u>\$ 4,826,205</u>

Changes in Endowment Net Assets (Continued):

	June 30, 2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Net Assets, Beginning of Year	\$ 3,622,503	\$ 696,893	\$ 519,892	\$ 4,839,288
Investment Return:				
Investment Income, Net of Fees	72,205	1,217	-	73,422
Net Appreciation (Realized and Unrealized)	33,924	(32,267)	-	1,657
Total Investment Income	106,129	(31,050)	-	75,079
Appropriations of Funds	(106,810)	(31,310)	-	(138,120)
Endowment Net Assets, End of Year	<u>\$ 3,621,822</u>	<u>\$ 634,533</u>	<u>\$ 519,892</u>	<u>\$ 4,776,247</u>

THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 11 PENSION AND MEDICAL BENEFIT PLANS

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

	2013	2012
Pension Plan for Lay Employees	\$ 273,072	\$ 216,896
Pension Plan for Priests	548,564	468,887
Archdiocesan Medical Benefit Plan	1,602,387	1,303,744
Total	\$ 2,424,023	\$ 1,989,527

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 employed 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 funding status and total contributions for the two plans are not publicly available. The risks of participating in these multiple-employer plans are shared with the other employers of the plan. 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 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 ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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 \$239,000 and \$250,000 at June 30, 2013 and 2012, respectively, based on the expected annual cost of approximately \$61,000.

NOTE 12 CONTINGENCIES AND COMMITMENTS

Loan Guarantees

At June 30, 2013, the Chancery Corporation was contingently liable as guarantor for approximately \$47,300,000 on 22 loans and approximately \$6,200,000 for one letter of credit for affiliated Catholic institutions operating within the boundaries of the Archdiocese. Of this, the Chancery Corporations guaranteed approximately \$6,800,000 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 47% of the guaranteed loan balances. Included in this amount are Chancery Corporation guaranteed loans from a certain organization for seven institutions at June 30, 2013 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 to 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 St. 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 \$5,300,000 and \$6,200,000 at June 30, 2013 and 2012, respectively.

THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 12 CONTINGENCIES AND COMMITMENTS (CONTINUED)

Litigation

The Chancery Corporation is involved in various lawsuits relating to claims of alleged sexual misconduct by certain individuals and is vigorously defending these matters and will continue to do so in a manner consistent with the norms established by the U.S. Conference of Catholic Bishops and with all due respect to the victims of childhood sexual abuse. When no amount within a particular range is a better estimate of an outcome than any other amount, accounting standards require that the minimum amount of the range shall be accrued. The Chancery Corporation has accrued a litigation claims payable of \$5,300,000 and \$650,000 at June 30, 2013 and 2012, respectively, as the minimum amount of a range for known claims related to these lawsuits as it has no practical means to determine the likelihood of outcome for amounts above that which would be more likely than any other outcome. No amounts have been accrued for unknown claims as losses cannot be reasonably determined. The amounts recorded are management's estimates and are not intended to be indicative of the actual legal outcomes of the individual cases. Losses from unknown claims could also be substantial.

The Chancery Corporation has or will tender the defense of these claims to its insurers. The Chancery Corporation has accrued a litigation insurance claims receivable of \$700,000 and \$-0- at June 30, 2013 and 2012, respectively, related to the claims accrual estimate described above. However, unknown claims can go back many years where insurance may not have been available or coverage limits were minimal. Also punitive damages and other claims may not be covered by insurance at all. Therefore, these unknown claims and related insurance receivables are not included in management's estimates at this time.

Net claims and litigation expense, exclusive of legal fees recognized in the statement of activities for the periods ended June 30, 2013 and 2012 were \$3,950,000 and (\$1,050,000), respectively.

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NOTE 12 CONTINGENCIES AND COMMITMENTS (CONTINUED)

Asbestos Containing Materials

The Chancery Corporation has several buildings that were built in a time when, as a standard construction practice, asbestos containing materials (ACMs) were often used in the construction of buildings. A survey of the buildings was done in 2007 by an environment consulting firm which identified the presence of asbestos in textured ceiling compound, sheetrock taping compound, ductwork, pipe wraps and vinyl floor tile. 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. Therefore, a present value calculation of the liability cannot be made and therefore the liability has not been recorded. In the future, once a need arises or a decision has been made to sell, demolish or extensively renovate (which would require the removal of the asbestos), sufficient information would then be available so that a calculation could be done and the liability recorded.