

**CATHOLIC CHARITIES OF THE ARCHDIOCESE
OF ST. PAUL AND MINNEAPOLIS**

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2015 AND 2014

**CATHOLIC CHARITIES OF THE ARCHDIOCESE
OF ST. PAUL AND MINNEAPOLIS
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Catholic Charities of the Archdiocese
of St. Paul and Minneapolis
Minneapolis, Minnesota

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Catholic Charities of the Archdiocese of St. Paul and Minneapolis (Catholic Charities), which comprise the consolidated balance sheets as of June 30, 2015 and 2014, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Catholic Charities' preparation and fair presentation of the consolidated 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 Catholic Charities' 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 consolidated 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
Catholic Charities of the Archdiocese
of St. Paul and Minneapolis

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated balance sheets of Catholic Charities as of June 30 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
October 20, 2015

**CATHOLIC CHARITIES OF THE ARCHDIOCESE
OF ST. PAUL AND MINNEAPOLIS
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2015 AND 2014**

ASSETS	2015	2014
Cash and Cash Equivalents	\$ 6,348,791	\$ 6,313,445
Accounts and Contracts Receivable, Net	3,832,956	3,257,734
Pledges Receivable	5,819,138	2,140,761
Prepaid Expenses and Other Assets	998,176	1,087,377
Assets Held by Catholic Community Foundation	7,127,782	8,171,616
Investments	35,241,857	37,601,493
Interest in Split Interest Agreements	3,810,627	4,046,477
Land, Building and Equipment - Net	20,595,676	17,028,576
Land and Buildings Held for Sale	42,697	214,132
	\$ 83,817,700	\$ 79,861,611
Total Assets	\$ 83,817,700	\$ 79,861,611
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 1,404,382	\$ 1,183,502
Accrued Payroll, Benefits, Taxes, and Withholdings	2,802,522	2,932,389
Other Accrued Liabilities	496,304	356,451
Deferred Revenue	60,241	83,900
Accrued Pension Liability	2,586,178	3,861,464
Charitable Annuities Payable	626,114	788,912
Obligations of Split-Interest Agreements	1,882,960	2,719,150
Asset Retirement Obligation	136,715	128,089
Capital Lease Obligation	-	76,848
Notes, Mortgages and Bonds Payable	5,599,586	6,184,760
Total Liabilities	15,595,002	18,315,465
NET ASSETS		
Unrestricted	47,684,672	46,405,117
Temporarily Restricted	14,772,094	9,495,402
Permanently Restricted - Endowments	5,138,991	5,100,525
Permanently Restricted - Other	626,941	545,102
Total Net Assets	68,222,698	61,546,146
Total Liabilities and Net Assets	\$ 83,817,700	\$ 79,861,611

See accompanying Notes to Consolidated Financial Statements.

**CATHOLIC CHARITIES OF THE ARCHDIOCESE
OF ST. PAUL AND MINNEAPOLIS
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2015 AND 2014**

	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT								
Revenue:								
Government Fees and Grants	\$ 20,830,375	\$ -	\$ -	\$ 20,830,375	\$ 19,958,989	\$ -	\$ -	\$ 19,958,989
Program Service Fees	7,860,705	-	-	7,860,705	7,408,842	-	-	7,408,842
Other Revenues	391,825	-	-	391,825	380,699	-	-	380,699
Total Revenue	29,082,905	-	-	29,082,905	27,748,530	-	-	27,748,530
Support:								
Contributions and Private Grants, Net	14,320,244	6,484,369	3,425	20,808,038	13,757,160	1,859,768	5,570	15,622,498
United Way	858,330	790,795	-	1,649,125	901,447	939,220	-	1,840,667
Total Support	15,178,574	7,275,164	3,425	22,457,163	14,658,607	2,798,988	5,570	17,463,165
Net Assets Released from Restrictions (Note 13)	2,001,903	(2,001,903)	-	-	3,108,785	(3,108,785)	-	-
Total Revenue and Support	46,263,382	5,273,261	3,425	51,540,068	45,515,922	(309,797)	5,570	45,211,695
EXPENSES								
Program Service	37,325,003	-	-	37,325,003	35,991,862	-	-	35,991,862
Management and General	6,765,597	-	-	6,765,597	6,925,030	-	-	6,925,030
Fundraising	2,694,046	-	-	2,694,046	2,343,233	-	-	2,343,233
Total Expenses	46,784,646	-	-	46,784,646	45,260,125	-	-	45,260,125
CHANGES NET ASSETS FROM OPERATIONS	(521,264)	5,273,261	3,425	4,755,422	255,797	(309,797)	5,570	(48,430)
NONOPERATING ACTIVITY								
Net Pension Gains and Losses:								
Net Periodic Pension (Cost) Benefit	(38,634)	-	-	(38,634)	59,033	-	-	59,033
Other Changes in Plan Assets and Benefit Obligations	1,313,920	-	-	1,313,920	(692,289)	-	-	(692,289)
Total Net Pension Gains and Losses	1,275,286	-	-	1,275,286	(633,256)	-	-	(633,256)
Changes in Split Interest Agreements and Annuities	129,247	14,528	118,485	262,260	(341,077)	488,353	(51,460)	95,816
Gain(Loss) on Fixed Assets	191,751	-	-	191,751	(283,075)	-	-	(283,075)
Investment Gain(Loss)	204,535	(11,097)	(1,605)	191,833	4,754,080	892,407	49,397	5,695,884
Total Nonoperating Activity	1,800,819	3,431	116,880	1,921,130	3,496,672	1,380,760	(2,063)	4,875,369
CHANGE IN NET ASSETS	1,279,555	5,276,692	120,305	6,676,552	3,752,469	1,070,963	3,507	4,826,939
Net Assets - Beginning of Year	46,405,117	9,495,402	5,645,627	61,546,146	42,652,648	8,424,439	5,642,120	56,719,207
NET ASSETS - END OF YEAR	\$ 47,684,672	\$ 14,772,094	\$ 5,765,932	\$ 68,222,698	\$ 46,405,117	\$ 9,495,402	\$ 5,645,627	\$ 61,546,146

See accompanying Notes to Consolidated Financial Statements.

**CATHOLIC CHARITIES OF THE ARCHDIOCESE
OF ST. PAUL AND MINNEAPOLIS
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2015 AND 2014**

	2015			2014				
	Program	Management and General	Fundraising	Total	Program	Management and General	Fundraising	Total
EMPLOYEE COMPENSATION								
Salaries	\$17,492,011	\$ 3,869,205	\$ 1,431,784	\$22,793,000	\$ 16,530,487	\$3,900,787	\$ 1,232,025	\$21,663,299
Employee Benefits	3,135,223	555,387	241,723	3,932,333	3,244,002	539,137	253,035	4,036,174
Payroll Taxes	1,189,223	210,664	91,688	1,491,575	1,192,252	162,853	60,123	1,415,228
Total Employee Compensation	<u>21,816,457</u>	<u>4,635,256</u>	<u>1,765,195</u>	<u>28,216,908</u>	<u>20,966,741</u>	<u>4,602,777</u>	<u>1,545,183</u>	<u>27,114,701</u>
OTHER EXPENSES								
Employee Related	272,083	175,041	53,283	500,407	258,764	207,365	54,629	520,758
Professional Services	494,537	560,340	144,184	1,199,061	657,433	460,885	97,268	1,215,586
Outside Services	363,990	743	-	364,733	370,245	6,293	217	376,755
Travel and Entertainment	22,092	10,876	70,238	103,206	35,944	7,370	14,078	57,392
Occupancy	3,114,845	266,443	75,441	3,456,729	3,276,694	201,809	44,705	3,523,208
Office Expense	2,831,728	586,884	534,468	3,953,080	2,159,243	604,443	541,428	3,305,114
Program Expense	6,865,342	47,777	25,313	6,938,432	6,612,429	167,731	18,397	6,798,557
Interest	49,010	33,376	-	82,386	54,958	60,632	-	115,590
Miscellaneous	147,361	65,195	25,924	238,480	76,623	57,633	27,328	161,584
Total Other Expenses	<u>14,160,988</u>	<u>1,746,675</u>	<u>928,851</u>	<u>16,836,514</u>	<u>13,502,333</u>	<u>1,774,161</u>	<u>798,050</u>	<u>16,074,544</u>
Total Expenses before Depreciation and Amortization	35,977,445	6,381,931	2,694,046	45,053,422	34,469,074	6,376,938	2,343,233	43,189,245
Depreciation and Amortization of Property, Plant, and Equipment	<u>1,347,558</u>	<u>383,666</u>	<u>-</u>	<u>1,731,224</u>	<u>1,522,788</u>	<u>548,092</u>	<u>-</u>	<u>2,070,880</u>
Total Expenses	<u><u>\$37,325,003</u></u>	<u><u>\$ 6,765,597</u></u>	<u><u>\$ 2,694,046</u></u>	<u><u>\$46,784,646</u></u>	<u><u>\$ 35,991,862</u></u>	<u><u>\$6,925,030</u></u>	<u><u>\$ 2,343,233</u></u>	<u><u>\$ 45,260,125</u></u>

See accompanying Notes to Consolidated Financial Statements.

**CATHOLIC CHARITIES OF THE ARCHDIOCESE
OF ST. PAUL AND MINNEAPOLIS
CONSOLIDATED STATEMENTS OF CASH FLOWS
JUNE 30, 2015 AND 2014**

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 6,676,552	\$ 4,826,939
Adjustments to Reconcile Change in Net Asset to Net Cash		
Provided by Operating Activities:		
Realized Gain on Sale of Investments	(1,913,126)	(1,520,062)
Unrealized (Gain)/Loss on Investments	2,198,264	(3,540,905)
Depreciation and Amortization	1,731,224	2,070,880
(Gain)/Loss on Disposal of Land, Building and Equipment	(191,751)	284,403
Change in Interest in Split Interest Agreements	(118,234)	25,703
Change in CSV of Life Insurance	(3,866)	(3,716)
Forgiveness of Long-term Debt	(136,928)	(136,928)
Amortization of Loan Discount	13,569	13,016
(Increase) Decrease in Assets:		
Accounts and Contracts Receivable	(575,222)	(675,662)
Pledges Receivable	(3,678,377)	(418,265)
Prepaid Expenses and Other Assets	79,396	(35,758)
Increase (Decrease) in Liabilities:		
Accounts Payable	220,880	66,480
Accrued Payroll, Benefits, Taxes, and Withholdings	(129,867)	203,917
Other Accrued Liabilities	139,853	133,927
Deferred Revenue	(23,659)	4,271
Net Pension Liability / Asset	(1,275,286)	633,256
Asset Retirement Obligation	8,626	5,973
Net Cash Provided by Operating Activities	3,022,048	1,937,469
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(4,448,922)	(3,710,895)
Proceeds from Sale and Maturity of Investments	7,571,120	6,240,510
Purchase of Land, Building and Equipment	(5,333,724)	(943,696)
Proceeds from Sale of Land, Building, and Equipment	408,391	67,047
Net Cash Provided (Used) by Investing Activities	(1,803,135)	1,652,966
CASH FLOWS FROM FINANCING ACTIVITIES		
Distributions under Charitable Annuities and Split Interest Agreements	(644,904)	(331,209)
Additional Contributions to Charitable Annuities	-	58,058
Payments on Long-Term Debt	(578,564)	(578,565)
Payments on Capital Lease Obligation	(76,848)	(227,338)
Proceeds from Issuance of Long-Term Debt	116,749	182,447
Net Cash Used by Financing Activities	(1,183,567)	(896,607)
NET INCREASE IN CASH AND CASH EQUIVALENTS	35,346	2,693,828
Cash and Cash Equivalents - Beginning of Year	6,313,445	3,619,617
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 6,348,791	\$ 6,313,445
SUPPLEMENTARY CASH FLOW INFORMATION		
Cash Paid for Interest	\$ 60,190	\$ 94,398
Noncash rent payments	\$ -	\$ 3,250
Noncash CIP purchase	\$ 136,436	\$ -

**CATHOLIC CHARITIES OF THE ARCHDIOCESE
OF ST. PAUL AND MINNEAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Catholic Charities of the Archdiocese of St Paul and Minneapolis (Catholic Charities or the Organization) is a Section 501(c)(3) nonprofit social services organization dedicated to helping those most in need. We are a leader at solving poverty, creating opportunity and advocating for justice in the community.

Catholic Charities served thousands of men, women, children and families at our direct service programs throughout the Greater Minneapolis-St. Paul metro region. This work is supported by hundreds of talented staff and thousands of dedicated volunteers and donors. Catholic Charities is the largest comprehensive private provider of social services in the Greater Minneapolis-St. Paul metropolitan area.

Catholic Charities programs provide life-saving and life-changing services to five (5) key customer groups, including:

- **People Experiencing Homelessness.** At places like the Dorothy Day Center, Higher Ground, and the Opportunity Center, we provide meals, shelter and opportunities to find jobs, secure a stable home and medical assistance for those who need it.
- **Children in Need.** At places like St. Joseph's Home for Children and Northside Child Development Center, we serve children and their families with early childhood education, comfort in times of crisis and mental health counseling for bright, strong futures.
- **New Americans.** Catholic Charities helps refugees and immigrants work towards independence by connecting families and finding housing, school, and job opportunities.
- **Older Adults.** We serve elders and those with disabilities, helping them live independently in their own homes and connecting homeless elders to safe, permanent housing.
- **The Greater Minneapolis-St. Paul Region.** By meeting the needs of those most vulnerable, we help improve the quality of life for the entire region. To fully achieve our vision of a community where there is "poverty for no one and opportunity for everyone," we augment direct services with public engagement and advocacy around effective anti-poverty and economic growth strategies promoting the vitality of the Greater Minneapolis-St. Paul community.

**CATHOLIC CHARITIES OF THE ARCHDIOCESE
OF ST. PAUL AND MINNEAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Nature of Organization (Continued)

Following is a sample of the supports, services, and social justice advocacy Catholic Charities provides to achieve our mission:

Housing Stability Services:

- Daytime Resource Centers
- Emergency Shelter
- Transitional Housing
- Permanent Supportive Housing
- Youth Shelter, Housing and Services

Children and Family Services:

- St. Joseph's Home for Children Mental Health and Emergency Shelter Programs
- Adoption Services
- Day Treatment
- School-Based Counseling
- Northside Child Development Center
- Pregnant to Parenting Services

New American Services:

- Immigration Legal Services
- Resettlement
- Hispanic Outreach
- Victims of Trafficking Services
- Refugee Cash Assistance

Older Adult Services:

- Senior and Adult with Disabilities Care Management
- Homeless Elder Services

Health and Wellbeing Services:

- Health Supported Housing
- Counseling Services
- Prenatal Clinic Services

Social Justice Advocacy:

- Sowers of Justice Grassroots Network
- Public Policy Leadership and Advocacy
- Social Justice Research and Policy Analysis

**CATHOLIC CHARITIES OF THE ARCHDIOCESE
OF ST. PAUL AND MINNEAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Principles of Consolidation

The consolidated financial statements of the Organization include the accounts of the Organization and its consolidated subsidiaries CCSPM-I, LLC and Dorothy Day, LLC, Minnesota limited liability companies. All significant intercompany accounts and balances have been eliminated in consolidation.

Basis of Presentation

Net assets and revenues, support and expenses are classified based on the existence or absence of donor-imposed restrictions. Net assets of the Organization and changes therein are classified into the following three categories:

Unrestricted – Resources over which the board of directors has discretionary control.

Temporarily Restricted – Those resources subject to donor imposed restrictions that will be satisfied by actions of the Organization or passage of time.

Permanently Restricted – Those resources subject to a donor imposed restriction that they be maintained permanently by the Organization. The donors of these resources permit the Organization to use all or part of the income earned, including capital appreciation, or related investments for unrestricted or temporarily restricted purposes.

Catholic Charities has elected to present temporarily restricted contributions, which are fulfilled in the same period, within the unrestricted net asset class.

Cash and Cash Equivalents

Catholic Charities considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. At times such deposits may be in excess of FDIC insurance limits. At times a portion of the investment portfolio may be invested in cash equivalents and has been reflected as investments.

Account and Contracts Receivables

Catholic Charities policy is to recognize accounts receivable based on services provided during the fiscal year. Catholic Charities provides an allowance for uncollectible accounts based on the reserve method using management's judgment and Catholic Charities' approved policy. Payment for services is required within 30 days of receipt of invoice. Accounts past due more than 30 days are individually analyzed for collectability. In addition, an allowance is estimated for other accounts based on the Organization's policy as well as historical experience of the Organization. Catholic Charities' policy is based on determined percentages of outstanding receivables by age of the balance and specific identification. When all collection efforts have been exhausted, the receivable is written off against the related reserve. At June 30, 2015 and 2014, the allowance for uncollectible accounts was \$216,361 and \$67,704, respectively.

**CATHOLIC CHARITIES OF THE ARCHDIOCESE
OF ST. PAUL AND MINNEAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pledges Receivable

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Pledges that are expected to be collected within one year are recorded at their net realizable value. Pledges that are expected to be collected in future years are recorded at the present value of the amount expected to be collected. The discounts on those amounts are computed using an imputed interest rate applicable to the year in which the pledge is received. Conditional pledges, including pending bequests, are not included as support until such time as the conditions are substantially met. Management estimates that all pledges receivable are fully collectible and no allowance for doubtful pledges has been recognized.

Assets Held By Catholic Community Foundation

Assets are valued at fair value, in accordance with current accounting standards on transfers of assets to a not-for-profit organization or charitable trust that raises or holds contributions for others. Realized and unrealized gains and losses are recognized in the consolidated statements of activities.

Investments

The net changes in fair value on held investments and the realized gains and losses on investments sold are reflected in the consolidated statement of activities as a component of investment income.

Catholic Charities invests in a variety of investment vehicles. In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investments, changes in the values of the investments will occur in the near term and such changes could materially affect the amounts reported.

Land, Building, and Equipment

Expenditures for property, plant, and equipment (and donated property at fair value) in excess of \$5,000 are capitalized. Expenditures for building, building improvement, leasehold improvement and land improvement in excess of \$7,500 are capitalized. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, from 3 to 40 years. Property under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the asset. Such amortization is included in depreciation and amortization in the consolidated financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

**CATHOLIC CHARITIES OF THE ARCHDIOCESE
OF ST. PAUL AND MINNEAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Land, Building, and Equipment (Continued)

The Organization reviews its property and equipment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to the expected value to be used in operations over the remaining useful life of the asset. If the asset is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Asset Retirement Obligation

Accounting guidance defines a conditional asset retirement obligation as a legal obligation to perform an asset retirement activity in which the timing and/or settlement are conditional on a future event that may or may not be within the control of the entity. The Organization estimated the cost of any potential obligation to remove asbestos. The Organization used a future value rate assumption of 3% and a present value risk-free rate of 5% to determine the potential liability. The Organization has recorded a liability of \$136,715 and \$128,089 at June 30, 2015 and 2014, respectively.

Charitable Annuities Payable and Obligations of Split-Interest Agreements

Catholic Charities has entered into irrevocable charitable annuity and trust obligations with certain donors. Under annuity contracts, the annuitants transfer assets to Catholic Charities, and Catholic Charities makes periodic, fixed payments to the annuitants for life. The value of the assets transferred to Catholic Charities along with the age of the annuitant determines the amount of the periodic payments to the annuitant.

Annuity and trust obligations are recorded using the present value of the estimated future obligations based on mortality rates derived from ordinary life annuity tables.

Interest in Split-Interest Agreements

Catholic Charities is a named beneficiary of several perpetual trusts, a charitable remainder trust, and a charitable lead trust where Catholic Charities is not the Trustee. Catholic Charities recognizes its interest in the charitable remainder and lead trusts at the net present value of future expected cash flows, with a discount rate specified by the Internal Revenue Service at the trust creation. Catholic Charities has valued its interest in the perpetual trusts based on their proportionate share of returns on the fair value of the assets held by the trustee.

Revenue Recognition

Government contracts are recorded as revenue when earned. Revenue is earned when eligible expenditures, as defined in each grant or contract, are made. Funds received but not yet earned are shown as deferred revenue. Expenditures under government contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, the Organization will record such disallowance at the time the final assessment is made.

**CATHOLIC CHARITIES OF THE ARCHDIOCESE
OF ST. PAUL AND MINNEAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Service group revenues include private and government fees received for services provided to individuals, as well as grants, gifts, and service contracts with government agencies. Fee revenue and revenue under service contracts are recognized as services are performed.

Basis of Allocating Costs

Costs are allocated among program and supporting services in as direct a manner as considered practicable. Allocations are generally made as follows:

- Salaries, employee benefits, and payroll taxes by the principal activities of each employee
- Rent, depreciation, and associated costs on the basis of floor space occupied

Functional expense percentages are calculated by dividing, individually, program services, management and general, and fundraising expenses by total expenses.

Advertising Expenses

Advertising expenditures are expensed as incurred. Advertising expense for the years ended June 30, 2015 and 2014 was \$146,225 and \$175,595, respectively.

Donated Property, Materials and Services

Donated property is recorded as a contribution at estimated fair value at date of receipt. Donated food and clothing and donated services are valued at their fair value and are presented as revenue and expense, when incurred. Donated services are recorded as contributions when the services (a) create or enhance non-financial assets or (b) require specialized skills that are provided by individuals possessing those skills, and would typically be purchased if not provided by donation. For the years ended June 30, 2015 and 2014, approximately 159,155 and 165,726 hours, respectively, of volunteer time were donated to the Organization and its programs. The volunteers' time has not been included in the Organization's consolidated financial statements since the services do not meet accounting standards criteria for recording.

Tax-Exempt Status

The Organization is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC). The Organization has been classified as an organization that is a public charity under the IRC and charitable contributions by the donors are tax deductible. CCSPM-I, LLC and Dorothy Day, LLC are disregarded entities for income tax purposes.

The Organization has no current obligation for unrelated business income tax.

**CATHOLIC CHARITIES OF THE ARCHDIOCESE
OF ST. PAUL AND MINNEAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain Risks and Uncertainties

Catholic Charities invests in a variety of investment vehicles. In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investments, changes in the values of investments will occur in the near term and such changes could materially affect the amounts reported.

Fair Value Measurements

Accounting standards define fair value, establish a framework for measuring fair value, establish a fair value hierarchy based on the quality of inputs used to measure fair value, and require expanded disclosures about fair value measurements. Catholic Charities accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement. Catholic Charities accounts for certain financial assets and liabilities at fair value under various accounting literature and industry guidance.

Accounting standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. Catholic Charities carries all non-publicly traded equity securities at the lower of cost or market unless the election under this accounting standard has been made. To date the Catholic Charities has elected to carry all non-publicly traded equity securities at fair value.

Fair Value Hierarchy

In accordance with accounting standards, Catholic Charities has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

**CATHOLIC CHARITIES OF THE ARCHDIOCESE
OF ST. PAUL AND MINNEAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Hierarchy (Continued)

Financial assets and liabilities recorded on the balance sheets are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that Catholic Charities has the ability to access (examples include active exchange-traded equity securities, listed derivatives, and most U.S. Government and agency securities).

Level 2 – Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:

- Quoted prices for similar assets or liabilities in active markets (for example, restricted stock);
- Quoted prices for identical or similar assets or liabilities in non-active markets (examples include corporate and municipal bonds, which trade infrequently);
- Pricing models whose inputs are observable for substantially the full term of the asset or liability (examples include most over-the-counter derivatives, including interest rate and currency swaps); and pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability (examples include certain residential and commercial mortgage related assets, including loans, securities, and derivatives).

Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability (examples include interests in the net assets of the Catholic Community Foundation, and assets held in trusts where Catholic Charities is not the trustee).

Reclassifications

Certain reclassifications have been made to amounts previously reported at June 30, 2014 to conform to the classifications used at June 30, 2015. The reclassifications did not affect the financial position or changes in net assets as previously reported.

**CATHOLIC CHARITIES OF THE ARCHDIOCESE
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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

The Organization has evaluated events and transactions for potential recognition or disclosure in these consolidated financial statements through October 20, 2015, the date the consolidated financial statements were available to be issued.

NOTE 2 PLEDGES RECEIVABLE

The present value of the estimated realizable value of gifts and grants receivable are recorded as assets and revenues in the consolidated financial statements. Unconditional promises to give as of June 30 are summarized as follows:

	2015	2014
Unconditional Pledges Receivable	\$ 5,842,997	\$ 2,196,784
Unamortized Discount	(23,859)	(56,023)
Total	<u>\$ 5,819,138</u>	<u>\$ 2,140,761</u>
Amounts Due in:		
Less Than One Year	\$ 3,080,331	\$ 1,446,784
One to Five Years	2,762,666	750,000
Total	<u>\$ 5,842,997</u>	<u>\$ 2,196,784</u>

Unconditional promises to give which are expected to be received over more than one year are recorded by the Organization at their present value using a discount rate equivalent to treasury yields of similar maturity at the date of contribution of approximately 4%. There were fifteen new long-term unconditional promises made during 2015.

Ten donors accounted for 95% and four donors accounted for 93% of gross pledges receivable at June 30, 2015 and 2014, respectively.

**CATHOLIC CHARITIES OF THE ARCHDIOCESE
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NOTE 3 DONATED GOODS AND SERVICES

The estimated value of donated materials and services included in the consolidated financial statements and the corresponding expenses for the years ended June 30 is as follows:

	<u>2015</u>	<u>2014</u>
Donated Food and Meals	\$ 2,009,796	\$ 2,289,315
Miscellaneous Donated Items	533,213	211,971
Donated Services:		
195 Hours @ \$150; 248 Hours @ \$122; 962 Hours @ \$47; 104 Hours @ \$45; 72 Hours @ \$35; 678 Hours @ \$32 and 70 hours @ \$15 in 2015. 20 Hours @ \$355; 268 Hours @ \$150; 361 Hours @ \$122 980 Hours @ \$45 and \$106,348 Misc in 2014.	134,126	241,738
Donated Goods and Services	<u>\$ 2,677,135</u>	<u>\$ 2,743,024</u>

All goods and services were considered program activities. The professional services were donated by doctors and lawyers.

NOTE 4 ASSETS HELD BY CATHOLIC COMMUNITY FOUNDATION

Amounts held by Catholic Community Foundation are invested in pooled accounts with a market allocation as of June 30 as follows:

	<u>2015</u>	<u>2014</u>
Cash and Cash Equivalents	4%	2%
Corporate Bonds	22%	27%
Corporate Stocks	67%	62%
Real Estate Investment Trust	7%	9%
Total	<u>100%</u>	<u>100%</u>

**CATHOLIC CHARITIES OF THE ARCHDIOCESE
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NOTE 5 INVESTMENTS

Investments are stated at fair value, which is based substantially on quoted market prices at June 30, 2015 and 2014, except for money market trust and short-term investment funds, partnerships and cash surrender value of life insurance. Money market trust and short-term investment funds are carried at deposit value. The value of the partnership investments are contributed assets and are recorded at fair value at the date of the gift and may be carried at fair value if those measures are readily available. Cash surrender value of life insurance is carried at contract value.

A summary of investments by type is as follows:

	2015	2014
Equity Mutual Funds	\$ 17,494,883	\$ 20,017,036
Fixed Income Mutual Funds	10,985,652	12,746,750
Money Market Trust and Short-Term Investment Funds	2,258,498	2,275,223
Partnerships	4,425,091	2,488,616
Cash Surrender Value of Life Insurance	77,733	73,868
(1) Total	<u>\$ 35,241,857</u>	<u>\$ 37,601,493</u>

Investment income (losses) as of June 30 consists of the following:

	2015	2014
Partnership Income	\$ 5,831	\$ 7,395
Interest and Dividends	471,140	627,522
Net Realized Gains	1,913,126	1,520,062
Unrealized Gains(Losses)	(2,198,264)	3,540,905
Total Investment Gains	<u>\$ 191,833</u>	<u>\$ 5,695,884</u>

- (1) Included in these investments are Operating Reserves governed by the Board and available for use to cover operating shortfalls, temporary cash flow requirements or other unforeseen funding needs. As of June 30, 2015 and 2014, the balance of Operating Reserves was \$7,657,009 and \$7,605,440, respectively.

**CATHOLIC CHARITIES OF THE ARCHDIOCESE
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NOTE 5 INVESTMENTS (CONTINUED)

Return Objectives and Risk Parameters

Catholic Charities has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period or use as well as board-designated funds. The investment policy establishes an achievable return objective through diversification of asset classes. Under this policy, as approved by the board of directors, the long-term objective is to preserve purchasing power by producing a total return that at a minimum equals the Catholic Charities distribution policy plus the rate of inflation, on a net basis. Actual returns in any given year may vary from this amount.

NOTE 6 FAIR VALUE MEASUREMENTS

Catholic Charities uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how Catholic Charities measures fair value refer to Note 1 – Summary of Significant Accounting Policies.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

	2015			Total
	Level 1	Level 2	Level 3	
Assets Held by Catholic Community Foundation	\$ -	\$ -	\$ 7,127,782	\$ 7,127,782
Investments:				
Equity Mutual Funds	17,494,883	-	-	17,494,883
Fixed Income Mutual Funds	10,985,652	-	-	10,985,652
Partnerships	-	-	4,425,091	4,425,091
Interest in Split Interest Agreements	-	-	3,810,627	3,810,627
Total	<u>\$ 28,480,535</u>	<u>\$ -</u>	<u>\$ 15,363,500</u>	<u>\$43,844,035</u>
	2014			
	Level 1	Level 2	Level 3	Total
Assets Held by Catholic Community Foundation	\$ -	\$ -	\$ 8,171,616	\$ 8,171,616
Investments:				
Equity Mutual Funds	20,017,036	-	-	20,017,036
Fixed Income Mutual Funds	12,746,750	-	-	12,746,750
Partnerships	-	-	2,488,616	2,488,616
Interest in Split Interest Agreements	-	-	4,046,477	4,046,477
Total	<u>\$ 32,763,786</u>	<u>\$ -</u>	<u>\$ 14,706,709</u>	<u>\$47,470,495</u>

**CATHOLIC CHARITIES OF THE ARCHDIOCESE
OF ST. PAUL AND MINNEAPOLIS
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JUNE 30, 2015 AND 2014**

NOTE 6 FAIR VALUE MEASUREMENTS (CONTINUED)

Level 3 Assets

The following tables provide a summary of changes in fair value of the Organization's Level 3 financial assets for the years ended June 30:

<u>Level 3 Assets</u>	2015			
	Assets Held by Catholic Comm Foundation	Investments in Partnerships	Interest in Split Interest Agreements	Total
	Balances as of June 30, 2014	\$ 8,171,616	\$ 2,488,616	\$ 4,046,477
Purchases	122,662	1,775,000		1,897,662
Distributions	(994,582)		(179,972)	(1,174,554)
Realized Gain	377,772	-	-	377,772
Unrealized Gain (Loss)	(549,686)	161,475	(55,878)	(444,089)
Balances as of June 30, 2015	<u>\$ 7,127,782</u>	<u>\$ 4,425,091</u>	<u>\$ 3,810,627</u>	<u>\$15,363,500</u>

<u>Level 3 Assets</u>	2014			
	Assets Held by Catholic Comm Foundation	Investments in Partnerships	Interest in Split Interest Agreements	Total
	Balances as of June 30, 2013	\$ 7,317,303	\$ 2,311,878	\$ 3,952,845
Purchases	192,694	-	-	192,694
Distributions	(405,414)	-	(316,705)	(722,119)
Realized Gain	169,005	-	-	169,005
Unrealized Gain	898,028	176,738	410,337	1,485,103
Balances as of June 30, 2014	<u>\$ 8,171,616</u>	<u>\$ 2,488,616</u>	<u>\$ 4,046,477</u>	<u>\$14,706,709</u>

Assets Held by Catholic Community Foundation

Interest in Split Interest Agreements-beneficial interest in charitable trusts include values reflected for publicly-traded assets and values for non-publicly traded assets that may be based on estimates provided by external valuation service provider. A substantial portion of the underlying assets are measured at fair value using Level 1 inputs.

Investments in Partnerships

The fund's net asset value is calculated on the basis of pricing information obtained from various sources, the Fund, one or more broker/dealers as directed by the Fund and administrators of funds in which the Fund may have invested. These underlying hedge fund portfolios are priced by their independent administrators. Underlying hedge fund account statements are aggregated to determine the total value of all investments in the underlying hedge funds. Other assets of the Funds are then added to determine the gross assets of the Funds, which are then reduced by the liabilities of the Funds. This value is then divided by the shares outstanding to determine NAV, or by allocation percentage to determine partners' or participants' interest.

**CATHOLIC CHARITIES OF THE ARCHDIOCESE
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NOTE 6 FAIR VALUE MEASUREMENTS (CONTINUED)

Level 3 Assets (Continued)

Interest in Split Interest Agreements

Values reflected for publicly-traded assets and values for non-publicly traded assets that may be based on estimates provided by external valuation service provider and include investments based upon undivided interests in these portfolios held by either the respective charitable trust, or investment manager. A substantial portion of the underlying assets are measured at fair value using Level 1 and Level 2 inputs.

Net Asset Value

Fair Value Measurement of Investments that calculated Net Asset Value per Share (or its Equivalent) as of June 30:

Investment Category	Net Asset Value 6/30/2015	Net Asset Value 6/30/2014	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Prisma Capital Partners LP	\$ 3,222,317	\$ 1,325,889	\$ -	Quarterly	65 Days
Barlow Partners, Inc.	1,167,268	1,127,221	-	Annually	60 Days

NOTE 7 LAND, BUILDING, AND EQUIPMENT

Land, building, and equipment consist of the following as of June 30:

	2015		2014	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	\$ 5,447,768	\$ -	\$ 2,219,334	\$ -
Buildings and Improvements	36,533,837	24,616,756	36,445,149	23,538,519
Leasehold Improvements	1,356,454	1,343,458	1,338,446	1,334,825
Furniture, Fixtures and Vehicles	5,864,128	4,477,150	5,635,929	4,038,701
Construction in Progress	1,830,853	-	301,763	-
	<u>\$ 51,033,040</u>	<u>\$ 30,437,364</u>	<u>\$ 45,940,621</u>	<u>\$ 28,912,045</u>
Net Land, Buildings, and Equipment	<u>\$ 20,595,676</u>		<u>\$ 17,028,576</u>	

NOTE 8 LEASE COMMITMENTS

The Organization leases office space and office equipment under operating leases. For the years ended June 30, 2015 and 2014, total rental expense was \$463,087 and \$394,801 respectively.

**CATHOLIC CHARITIES OF THE ARCHDIOCESE
OF ST. PAUL AND MINNEAPOLIS
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NOTE 8 LEASE COMMITMENTS (CONTINUED)

Future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2015 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2016	\$ 375,662
2017	293,364
2018	222,271
2019	74,732
2020	28,686
Total Minimum Lease Payments	<u>\$ 994,715</u>

NOTE 9 PENSION, 401(K), AND POSTRETIREMENT LIFE INSURANCE BENEFITS

401(k)

The Organization sponsors a 401(k) savings plan for its employees. Regular benefits eligible employees over the age of 21 may enroll immediately following their date of hire. If an employee is an eligible participant and has not enrolled on their own after one year of service, an employee may be automatically enrolled in the plan at a 2% deferral. Employees may defer up to 100% of compensation up to the IRS limit. Employer match contributions begin on the first payroll of a quarter after eligibility requirements are met. Match contribution eligibility occurs after one year of service provided that a required 1,000 hours are worked within that first 12 months of service. The Organization matches contributions equal to 50% of employees' contributions not to exceed 3% of total compensation. Highly Compensated Employees (HCEs) are restricted in the amount they may defer in the plan. The maximum amount an HCE may defer is 2% above the average deferral rate of the Non-Highly Compensated Employees. The Organization may also make an additional discretionary contribution. Matching and discretionary contributions to the plan were \$350,587 and \$623,296 during the years ended June 30, 2015 and 2014, respectively.

Defined Life Insurance Benefit

The Organization sponsors a defined benefit postretirement life insurance plan. Vested participants under the previous plan, terminated during the year ended June 30, 2001, retain the original accrued benefit of one-half of salary at retirement. Eligibility under the plan is limited to those employees who retire after age 60 with at least 15 years of service. The amount of life insurance benefit provided is \$20,000. The Organization makes premium payments to a life insurance provider. These life insurance policies fully insure any benefit payments to be made under the plan. At June 30, 2015 and 2014, the Organization has accrued \$587,149 and \$706,545 as future premium liabilities, respectively.

**CATHOLIC CHARITIES OF THE ARCHDIOCESE
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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**NOTE 9 PENSION, 401(K), AND POSTRETIREMENT LIFE INSURANCE BENEFITS
(CONTINUED)**

Defined Benefit Plan

On December 31, 2000, the Organization terminated its noncontributory defined benefit plan. Participation in the plan has been frozen with plan participants becoming fully vested in their accrued benefits as of the termination date. Participants with accrued benefits will receive annuities equal to the value of the accrued benefits.

Measurement Date	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Change in the Projected Benefit Obligation		
PBO at Beginning of Year	\$ 15,143,151	\$ 13,250,890
Service Cost	15,347	-
Interest Cost	613,609	590,359
Change due to Assumption Change(s)	373,359	-
Benefits Paid	(1,084,164)	(452,966)
Actuarial Loss (Gain)	(1,479,399)	1,754,868
Expense Changes	(15,347)	-
PBO at End of Year	<u>\$ 13,566,556</u>	<u>\$ 15,143,151</u>
Change in Plan Assets		
Fair Value of Plan Assets at Beginning of Year	\$ 11,294,923	\$ 10,022,682
Employer Contributions	-	-
Benefits Paid	(1,099,511)	(452,966)
Actual Return on Assets	784,966	1,725,207
Fair Value of Plan Assets at End of Year	<u>\$ 10,980,378</u>	<u>\$ 11,294,923</u>
Funded Status of the Accumulated Benefit Obligation		
Accumulated Benefit Obligation	\$ 13,566,556	\$ 15,156,387
Fair Value of Plan Assets	10,980,378	11,294,923
Under Funded Status	<u>\$ (2,586,178)</u>	<u>\$ (3,861,464)</u>
Components of the Net Periodic Pension Cost		
Service Cost	\$ 15,347	\$ -
Interest Cost	613,609	590,359
Expected Return of Plan Assets	(846,543)	(733,279)
Amortization of Prior Service Cost	-	-
Amortization of Net Actuarial Loss	139,000	83,887
Amount of (Gain)Loss Recognized due to Settlement	117,221	-
Net Periodic Pension Cost (Benefit)	<u>\$ 38,634</u>	<u>\$ (59,033)</u>
Other Changes in Plan Assets and Benefit Obligations Recognized in Unrestricted Net Assets		
Net Loss	\$ 1,174,920	\$ 776,176
Amortization of Net Gain	139,000	(83,887)
Total Recognized in Unrestricted Net Assets	<u>\$ 1,313,920</u>	<u>\$ 692,289</u>

**CATHOLIC CHARITIES OF THE ARCHDIOCESE
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**NOTE 9 PENSION, 401(K) AND POSTRETIREMENT LIFE INSURANCE BENEFITS
(CONTINUED)**

Defined Benefit Plan (Continued)

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Assumptions - Used to Determine Benefit Obligations at Measurement Date		
Discount Rate	3.50%	4.05%
Rate of Compensation Increase	N/A	N/A
Assumptions - Used to Determine Net Periodic Pension Cost		
Discount Rate	4.05%	4.54%
Expected Long-Term Return on Plan Assets	7.50%	7.50%
Rate of Compensation Increase	N/A	N/A

At June 30, 2015 and 2014, the discount rate was determined by matching the projected future benefit payments to the spot rates of the June 30, 2015 and 2014 Citigroup Pension Discount Curve (which is based on a theoretical bond portfolio of high grade corporate bonds) and then solving for the implied discount rate. The expected long-term rate of return on assets is based on a return of CPI +5%.

Estimated future benefit payments over the next 10 years, which reflect expected future service, are expected to be paid as follows:

Estimated Future Benefit Payments	<u>Year</u>	<u>Amount</u>
The following benefit payments are expected to be paid:	2016	\$ 1,493,000
	2017	895,000
	2018	805,000
	2019	946,000
	2020-2024	4,600,000

**CATHOLIC CHARITIES OF THE ARCHDIOCESE
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**NOTE 9 PENSION, 401(K) AND POSTRETIREMENT LIFE INSURANCE BENEFITS
(CONTINUED)**

Defined Benefit Plan (Continued)

During the year ended June 30, 2015, the Organizations pension plan consists of a segregated diversified portfolio of financial assets managed by a fiduciary which also administers the plan. Investment decisions are guided by an investment policy statement which strives to manage the plan assets in a prudent, conservative yet productive manner and states that goal to increase the value of plan assets which recognizing the need to preserve asset value in order to enhance the ability of the plan to meet its obligations to plan participants and their beneficiaries when due. During the year ended June 30, 2014 the Organization's pension plan assets consist of an interest in a Master Trust which held pension plan assets for Catholic Charities' Pension Plan, the Archdiocese of St. Paul and Minneapolis Pension Plan, and Catholic Cemetery Pension Plan. The plan assets were liquidated to cash during 2014 in order to be transferred to a new pension third party administrator in 2015.

Asset allocations at June 30, by asset category, are as follows:

<u>Asset Category</u>	<u>Plan Assets</u>	
	<u>2015</u>	<u>2014</u>
U.S. Equity	50.00%	-
International Equity	15.40%	-
REIT	4.90%	-
Bond	20.80%	-
Annuity Contracts	-	8.00%
Insurance Company / General Account	8.90%	-
Cash	-	92.00%
Total	<u>100.00%</u>	<u>100.00%</u>

**CATHOLIC CHARITIES OF THE ARCHDIOCESE
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JUNE 30, 2015 AND 2014**

**NOTE 9 PENSION, 401(K) AND POSTRETIREMENT LIFE INSURANCE BENEFITS
(CONTINUED)**

Defined Benefit Plan (Continued)

The plan assets measured at fair value on a recurring basis were recorded using the fair value hierarchy at June 30, 2015 as follows:

Asset Category	Level 1	Level 2	Level 3	Total
U.S. Equity	\$ 5,492,119	\$ -	\$ -	\$ 5,492,119
Internation Equity	1,682,294	-	-	1,682,294
REIT	539,349	-	-	539,349
Bond	2,284,825	-	-	2,284,825
Insurance Company / General Account	-	-	981,791	981,791
Total	<u>\$ 9,998,587</u>	<u>\$ -</u>	<u>\$ 981,791</u>	<u>\$10,980,378</u>

At June 30, 2014 the plan assets were part of a Master Trust and therefore were all considered to be Level 3 assets.

Fair Value methodologies for Level 1 and Level 2 investments are consistent with the inputs described in Note 1 – Summary of Significant Accounting Policies. Fair Value of level 3 are based on investments and bonds held at the insurance company that are not publically traded.

The following table is a roll forward of the pension plan assets classified within Level 3 of the valuation hierarchy that had significant activity during 2015:

<u>Level 3 Assets</u>	Pooled Master Trust Assets	Insurance Company Assets	Total
Balances as of June 30, 2014	\$ 11,294,923	\$ -	\$11,294,923
Transfer to new third party administrator	(11,294,923)		(11,294,923)
Purchases/Transfer in from prior third party administrator	-	1,872,250	1,872,250
Disbursements	-	(887,025)	(887,025)
Realized and Unrealized Gain (Loss)	-	(3,434)	(3,434)
Balances as of June 30, 2015	<u>\$ -</u>	<u>\$ 981,791</u>	<u>\$ 981,791</u>

**CATHOLIC CHARITIES OF THE ARCHDIOCESE
OF ST. PAUL AND MINNEAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 10 NOTES, MORTGAGES, AND LINE OF CREDIT

The following schedule summarizes notes and mortgages payable at June 30:

<u>Description</u>	<u>Security</u>	<u>2015</u>	<u>2014</u>
Mortgages and Other:			
Mortgage and Notes Payable, annual payments of \$578,565 with various Due Dates from 2016 to 2032	Land, Buildings and Equipment	\$ 1,391,471	\$ 2,152,483
Various Non-Interest Bearing Mortgage Notes, Various Due Dates from 2016 to 2034	Land, Buildings and Equipment	4,450,264	4,287,996
Total Long-Term Debt		5,841,735	6,440,479
Less: Unamortized Discount (4.25%)		(242,149)	(255,719)
Net Long-Term Debt		<u>\$ 5,599,586</u>	<u>\$ 6,184,760</u>

Approximately \$9.3 million of net land, building and equipment is pledged as collateral in the mortgage agreements.

Maturities

A summary of aggregate annual future maturities of principal on notes payable as of June 30, 2015 is as follows:

<u>Year Ending June 30,</u>	<u>Scheduled Payment Amount</u>
2016	\$ 1,259,729
2017	436,523
2018	192,258
2019	192,258
2020	275,330
Thereafter	3,485,637
Total	<u>\$ 5,841,735</u>

There is a \$10,000,000 line of credit as of June 30, 2015 and 2014 with no outstanding balance. The interest is LIBOR plus 1.3% and expires on June 23, 2016. There was a \$25,000 letter of credit as of June 30, 2014 with no outstanding balance. The interest rate was .341% and expired during 2015.

**CATHOLIC CHARITIES OF THE ARCHDIOCESE
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NOTE 11 COMMITMENTS AND CONTINGENCIES

Litigation, Claims and Disputes

The Organization is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of current litigation, claims and disputes will not be material to the financial position of the Organization.

Visitation Place Limited Partnership

At June 30, 2015 and 2014, the Organization was contingently liable for debt of \$605,000 which was assigned to Visitation Place Limited Partnership (Visitation Place) upon its formation. The Organization owns 0.009% of the general partnership equity of Visitation Place and is the general partner.

Dorothy Day

As of June 30, 2015, Dorothy Day LLC was contingently liable for a property purchase agreement of \$3.45 million in which earnest money of \$50,000 has been paid.

NOTE 12 RELATED PARTY TRANSACTIONS

The Organization received an annual contribution from the Catholic Services Appeal Foundation. For the years ended June 30, 2015 and 2014, the Organization recorded revenue of \$918,339 and \$1,460,271, respectively.

Beginning in fiscal year 2004, the Organization's pension assets were pooled with the Archdiocese for investment management purposes only. Assets are accounted for separately. At the beginning of fiscal year 2015, the pension plan assets were transferred to a new provider.

As noted in Notes 1 and 4, assets of the Organization are also held by Catholic Community Foundation (CCF), a related party. The total assets held at CCF as of June 30, 2015 and 2014 was \$7,127,782 and \$8,171,616, respectively.

The Organization invoiced Health Partners for services rendered of \$959,617 and \$518,460 for the years ended June 30, 2015 and 2014, respectively. The Organization also paid health insurance premiums to Health Partners in the amount of \$3,639,056 and \$2,086,325 for the years ended June 30, 2015 and 2014, respectively.

**CATHOLIC CHARITIES OF THE ARCHDIOCESE
OF ST. PAUL AND MINNEAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 13 NET ASSETS

Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or time periods at June 30, 2015 and 2014:

	2015	2014
Children and Family Services	\$ 6,323,776	\$ 5,928,840
Housing Stability	278,403	450,101
Advocacy	488,350	488,350
Capital	6,918,758	1,204,622
Future Year Operations	762,807	1,423,489
Total Temporarily Restricted Net Assets	<u>\$ 14,772,094</u>	<u>\$ 9,495,402</u>

The net assets released from restrictions of \$2,001,903 and \$3,108,785 for the years ended June 30, 2015 and 2014, respectively, were from gifts restricted for a particular purpose and gifts restricted as to time (pledges receivable).

Permanently Restricted Net Assets

Permanently restricted net assets consist of the following as of June 30, 2015 and 2014:

	2015	2014
Children and Family Services	\$ 1,640,618	\$ 1,170,230
Housing Stability	139,930	139,930
Future Year Operations	3,985,384	4,335,467
Total Permanently Restricted Net Assets	<u>\$ 5,765,932</u>	<u>\$ 5,645,627</u>

NOTE 14 ENDOWMENT

Catholic Charities endowment consists of funds established for a variety of purposes. Its endowment includes only donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

**CATHOLIC CHARITIES OF THE ARCHDIOCESE
OF ST. PAUL AND MINNEAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 14 ENDOWMENT (CONTINUED)

Interpretation of Relevant Law

The Board of Directors of Catholic Charities 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 fund absent explicit donor stipulations to the contrary. As a result of this interpretation, Catholic Charities classifies as permanently restricted net assets the original value of the gifts to the permanent endowment and the value of subsequent gifts to the permanent endowment. The remaining portion of donor-restricted endowment funds, if any that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Catholic Charities. In accordance with UPMIFA, Catholic Charities considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of Catholic Charities
- (7) The investment policies of Catholic Charities

The following is a summary of donor-restricted endowment funds subject to Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) for the years ended June 30:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2015 Total
Donor-Restricted Endowment Investments, July 1, 2014	\$ -	\$ 453,050	\$ 5,100,525	\$ 5,553,575
Investment Income:				
Interest and Dividends	-	58,368	-	58,368
Net Realized and Unrealized Losses	-	(24,079)	-	(24,079)
Contributions	-	-	38,466	38,466
Appropriations of Endowment Assets for Expenditure	-	(122,580)	-	(122,580)
Donor-Restricted Endowment Investments, June 30, 2015	<u>\$ -</u>	<u>\$ 364,759</u>	<u>\$ 5,138,991</u>	<u>\$ 5,503,750</u>

**CATHOLIC CHARITIES OF THE ARCHDIOCESE
OF ST. PAUL AND MINNEAPOLIS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 14 ENDOWMENT (CONTINUED)

Interpretation of Relevant Law (Continued)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Total
Donor-Restricted Endowment Investments, July 1, 2013	\$ (22,233)	\$ -	\$ 5,063,895	\$ 5,041,662
Investment Income:				
Interest and Dividends	-	126,759	-	126,759
Net Realized and Unrealized Losses	-	452,555	-	452,555
Contributions	-	-	36,630	36,630
Other Changes:				
Transfers	22,233	(22,233)	-	-
Appropriations of Endowment Assets for Expenditure	-	(104,031)	-	(104,031)
Donor-Restricted Endowment Investments, June 30, 2014	<u>\$ -</u>	<u>\$ 453,050</u>	<u>\$ 5,100,525</u>	<u>\$ 5,553,575</u>

Fund with Deficiencies

From time to time, the fair value of assets associated with endowment funds may fall below the level that the donor requires the Catholic Charities to retain in perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$-0- as of June 30, 2015 and 2014.

Investment Objectives and Strategies

Catholic Charities has adopted an investment policy to provide guidelines for investing endowment assets. Under this policy, as approved by the Investment Committee of Catholic Charities, the endowment assets are invested in a manner that is intended to maintain the purchasing power of the current assets and all future contributions, maximize return within reasonable and prudent levels of risk, and maintain an appropriate asset allocation based on a total return policy that is compatible with a flexible spending policy. To achieve these objectives, Catholic Charities follows an asset diversification plan, sets performance benchmarks for investments managers, and has established various asset quality and limitations thresholds.

Spending Policy

In 2015, a new spending policy was approved. The new formula is 20% weight assigned to 10% of the 60 month average balance as of March 31st of the net assets in the Board Designated Fund plus 80% weight assigned to the previous year's total transfer from the Board Designated Fund to the Operations Fund. This replaces the Catholic Charities policy that allows for maximum annual distributions up to 5% of a 60 month rolling average of the endowment fund balance as measured on March 31st each year. At no time would the distributions reduce the value of the endowment below donor contributions.



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**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION**

Board of Directors
Catholic Charities of the Archdiocese
of St. Paul and Minneapolis
Minneapolis, Minnesota

We have audited the consolidated financial statements of Catholic Charities of the Archdiocese of St. Paul and Minneapolis (Catholic Charities) as of and for the years ended June 30, 2015 and 2014, and our report thereon dated October 20, 2015, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary schedule of program expenses, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
October 20, 2015

**CATHOLIC CHARITIES OF THE ARCHDIOCESE
OF ST. PAUL AND MINNEAPOLIS
SCHEDULE OF PROGRAM EXPENSES
YEAR ENDED JUNE 30, 2015
(UNAUDITED)**

	Children and Family	New American Services	Housing Stability	Aging	Client Support	Advocacy	Total
EMPLOYEE COMPENSATION							
Salaries	\$ 6,295,282	\$ 467,518	\$ 7,282,540	\$ 1,371,190	\$ 1,827,095	\$ 248,386	\$17,492,011
Employee Benefits	1,136,422	83,402	1,321,896	244,420	305,373	43,710	3,135,223
Payroll Taxes	431,057	31,635	501,409	92,711	115,831	16,580	1,189,223
Total Employee Compensation	<u>7,862,761</u>	<u>582,555</u>	<u>9,105,845</u>	<u>1,708,321</u>	<u>2,248,299</u>	<u>308,676</u>	<u>21,816,457</u>
OTHER EXPENSES							
Employee Related	56,579	36,166	120,556	25,517	24,205	9,060	272,083
Professional Services	65,042	26,101	64,507	385	267,002	71,500	494,537
Outside Services	-	-	363,990	-	-	-	363,990
Travel and Entertainment	3,808	1,372	8,117	1,339	6,325	1,131	22,092
Occupancy	464,297	20,091	2,495,145	23,386	70,334	41,592	3,114,845
Office Expense	751,187	39,342	1,264,896	115,022	620,978	40,303	2,831,728
Program Expense	439,723	439,672	3,895,667	21,024	2,064,295	4,961	6,865,342
Interest	9,284	543	36,209	899	2,075	-	49,010
Miscellaneous	12,293	-	130,391	-	4,677	-	147,361
Total Other Expenses	<u>1,802,213</u>	<u>563,287</u>	<u>8,379,478</u>	<u>187,572</u>	<u>3,059,891</u>	<u>168,547</u>	<u>14,160,988</u>
Total Expenses before Depreciation and Amortization	9,664,974	1,145,842	17,485,323	1,895,893	5,308,190	477,223	35,977,445
Depreciation and Amortization of Property, Plant, and Equipment	<u>357,692</u>	<u>5,052</u>	<u>958,194</u>	<u>8,492</u>	<u>9,165</u>	<u>8,963</u>	<u>1,347,558</u>
Total Program Expenses	<u><u>\$10,022,666</u></u>	<u><u>\$ 1,150,894</u></u>	<u><u>\$18,443,517</u></u>	<u><u>\$ 1,904,385</u></u>	<u><u>\$ 5,317,355</u></u>	<u><u>\$ 486,186</u></u>	<u><u>\$37,325,003</u></u>