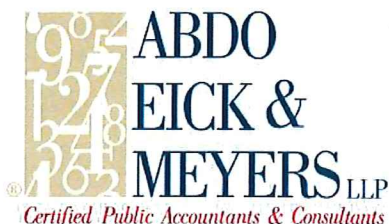


ST. PAUL'S OUTREACH
FINANCIAL STATEMENTS
FOR THE 11-MONTH PERIOD ENDED
MAY 31, 2017

ST. PAUL'S OUTREACH
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
St. Paul's Outreach
St. Paul, Minnesota

We have audited the accompanying financial statements of St. Paul's Outreach (a Minnesota nonprofit corporation), which are comprised of the statement of financial position as of May 31, 2017, and the related statement of activities, functional expenses and cash flows for the 11-month period 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 of 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 auditor's 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of St. Paul's Outreach as of May 31, 2017, and changes in its net assets and its cash flows for the 11-month period then ended in accordance with accounting principles generally accepted in the United States of America.

ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
October 11, 2017

FINANCIAL STATEMENTS

ST. PAUL'S OUTREACH
STATEMENT OF FINANCIAL POSITION
MAY 31, 2017

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 680,142
Restricted cash	9,865
Investments	248,727
Accounts receivable, net of allowance for doubtful accounts of \$1,511	68,085
Pledges receivable, short-term	496,557
Prepaid expenses	20,549

TOTAL CURRENT ASSETS	1,523,925
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PROPERTY AND EQUIPMENT

Grand Ave house	218,117
Ashland house	557,389
Ohio house	853,461
New Jersey house	605,151
Ohio house - 12th Ave.	932,007
Office equipment	40,609

TOTAL PROPERTY AND EQUIPMENT, COST	3,206,734
ACCUMULATED DEPRECIATION	(481,621)

TOTAL PROPERTY AND EQUIPMENT, NET	2,725,113
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NONCURRENT ASSETS

Security deposits	67,011
Pledges receivable, long-term, net of allowance for uncollectible pledges of \$66,724	235,169

TOTAL NONCURRENT ASSETS	302,180
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TOTAL ASSETS	\$ 4,551,218
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See Independent Auditor's Report and Notes to the Financial Statements.

ST. PAUL'S OUTREACH
STATEMENT OF FINANCIAL POSITION - CONTINUED
MAY 31, 2017

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 98,920
Current portion of long-term debt	50,630
Accrued salary and vacation	109,127
Security deposits	165,249
Unearned revenue	<u>18,652</u>

TOTAL CURRENT LIABILITIES	<u>442,578</u>
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LONG-TERM LIABILITIES

Mortgage loans payable, net	<u>1,071,573</u>
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TOTAL LIABILITIES	<u>1,514,151</u>
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NET ASSETS

Unrestricted	2,827,121
Temporarily restricted	<u>209,946</u>

TOTAL NET ASSETS	<u>3,037,067</u>
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TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 4,551,218</u></u>
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See Independent Auditor's Report and Notes to the Financial Statements.

ST. PAUL'S OUTREACH
STATEMENT OF ACTIVITIES
FOR THE 11-MONTH PERIOD ENDED MAY 31, 2017

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
SUPPORT			
Contributions	\$ 2,172,160	\$ 4,393	\$ 2,176,553
Contributed services (missionaries)	860,300	-	860,300
In-kind contributions	81,900	-	81,900
Missionary partner development	2,445,106	-	2,445,106
TOTAL SUPPORT	5,559,466	4,393	5,563,859
REVENUE			
Household income	1,239,203	-	1,239,203
Retreats	175,161	-	175,161
Events	8,953	-	8,953
Subcontract income	120,939	-	120,939
Operations-other	565,524	-	565,524
Investment income	21,654	-	21,654
TOTAL REVENUE	2,131,434	-	2,131,434
TOTAL SUPPORT AND REVENUE	7,690,900	4,393	7,695,293
NET ASSETS RELEASED FROM RESTRICTIONS			
Satisfaction of program restrictions	30,633	(30,633)	-
TOTAL SUPPORT AND REVENUE	7,721,533	(26,240)	7,695,293
EXPENSES			
PROGRAM SERVICES	6,098,541	-	6,098,541
SUPPORTING SERVICES			
Management and general	574,478	-	574,478
Fundraising	1,006,665	-	1,006,665
TOTAL EXPENSES	7,679,684	-	7,679,684
CHANGE IN NET ASSETS	41,849	(26,240)	15,609
NET ASSETS, BEGINNING OF YEAR	2,785,272	236,186	3,021,458
NET ASSETS, END OF YEAR	\$ 2,827,121	\$ 209,946	\$ 3,037,067

See Independent Auditor's Report and Notes to the Financial Statements.

ST. PAUL'S OUTREACH
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE 11-MONTH PERIOD ENDED MAY 31, 2017

		Supporting Services			
	Program Services	Management and General	Fundraising	Total Supporting Services	Total
Salaries and benefits	\$ 3,244,377	\$ 473,410	\$ 614,314	\$ 1,087,724	\$ 4,332,101
Contributed services	852,300	-	-	-	852,300
Retreats	259,624	372	183	555	260,179
Events	180,126	3,948	123,134	127,082	307,208
Professional services	16,122	20,627	54,138	74,765	90,887
Public relations	20,205	3,138	28,654	31,792	51,997
Staff expense	45,028	4,091	8,447	12,538	57,566
Auto and Travel	108,748	5,477	24,933	30,410	139,158
Households	1,184,344	4,472	3,151	7,623	1,191,967
Insurance	1,196	12,602	-	12,602	13,798
Office	66,160	44,329	98,440	142,769	208,929
Bad debt	29,182	596	-	596	29,778
Bank fees and miscellaneous	4,631	390	51,271	51,661	56,292
TOTAL EXPENSES BEFORE DEPRECIATION	6,012,043	573,452	1,006,665	1,580,117	7,592,160
Depreciation	86,498	1,026	-	1,026	87,524
TOTAL EXPENSES	<u>\$ 6,098,541</u>	<u>\$ 574,478</u>	<u>\$ 1,006,665</u>	<u>\$ 1,581,143</u>	<u>\$ 7,679,684</u>

See Independent Auditor's Report and Notes to the Financial Statements.

ST. PAUL'S OUTREACH
STATEMENT OF CASH FLOWS
FOR THE 11-MONTH PERIOD ENDED MAY 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 15,609
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation expense	87,524
Realized and unrealized gain on investments	(16,243)
(Increase) Decrease in operating assets	
Change in restricted cash	(4,392)
Accounts receivable	(50,590)
Pledges receivable	(327,051)
Prepaid expenses	8,637
Security deposits	(5,000)
Increase (decrease) in liabilities:	
Accounts payable	17,701
Accrued payroll	30,809
Security deposits	8,829
Unearned revenue	463

CASH USED BY OPERATING ACTIVITIES	(233,704)
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CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property and equipment	(26,517)
Purchase of investments	(25,000)
Sale of investments	234,799

CASH PROVIDED BY INVESTING ACTIVITIES	183,282
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CASH FLOWS FROM FINANCING ACTIVITIES

Principal payments on long-term debt	(50,572)
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NET DECREASE IN CASH AND CASH EQUIVALENTS	(100,994)
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CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	781,136
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CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 680,142
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CASH PAID DURING THE YEAR FOR:

Interest paid	\$ 44,390
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See Independent Auditor's Report and Notes to the Financial Statements.

ST. PAUL'S OUTREACH
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2017

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Nature of Activities

St. Paul's Outreach, Inc. (the Organization) is organized for religious reasons for the purpose of evangelizing college students and helping them to live as disciples of Jesus Christ in the fullness of the Catholic Church. The core values of the Organization are rooted in and faithful to the teaching of the Catholic Church. The Organization conducts its services both at its location in West St. Paul, MN and on college campuses. Its administrative and fund raising operations are based in West St. Paul. The programs and services of the Organization are supported through a variety of donation drives and charitable events throughout the year. The Organization is currently extended in Minnesota, Missouri, Massachusetts, Arizona, Florida, Kansas, New Jersey, Ohio, and Texas.

B. Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets of the Organization and related changes are classified and reported as follows:

Unrestricted net assets - Those resources over which the Board of Directors has discretionary control.

Temporarily restricted net assets - Those resources subject to donor imposed restrictions which will be satisfied by actions of the Organization or passage of time. Donor restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Permanently restricted net assets - Those resources subject to a donor-imposed restriction that they be maintained permanently by the Organization. The Organization has no permanently restricted net assets as of May 31, 2017.

C. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that may affect certain reported amounts and disclosures in the financial statements and accompanying notes. Actual results could differ from these estimates.

D. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

E. Accounts Receivable

The Organization grants credit on an unsecured basis, and utilizes the reserve method to account for bad debts. Accounts receivable are presented net of allowances for bad debts of \$1,511 for the eleven month period ended May 31, 2017. Bad debt expense was \$29,778 for the eleven month period ending May 31, 2017. Accounts receivable are charged off at the discretion of management after all efforts to collect have been exhausted. The Organization does not record interest on past due receivables.

F. Investments

The investments are generally recorded at fair value based upon quoted market prices, when available, or estimates of fair value. Investment income or loss and unrealized gains or losses are included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by the donor.

ST. PAUL'S OUTREACH
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2017

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

G. Pledges Receivable

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction is fulfilled or expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Pledges receivable are presented net of allowances for uncollectible pledges of \$66,724 at May 31, 2017.

H. Property, Equipment and Improvements

Property, equipment and improvements are presented at cost or donated (appraised) value less accumulated depreciation. Depreciation is computed on the straight-line basis over the following estimated useful lives: 30 years for Buildings, and 3-7 years for Office Equipment.

Maintenance and repairs of property and equipment are charged to operations, and major renewals are capitalized.

The total value of land included in capitalized assets was \$573,780 at May 31, 2017.

Depreciation expense for the eleven month period ended May 31, 2017 was \$87,524.

Donations of property and equipment are recorded as contributions at their estimated fair value on the date of donation. Donations are reported as unrestricted contributions unless the donor has restricted the asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor restrictions regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed into service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

I. Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and nature of any restrictions. Contributions, including unconditional promises to give, are recorded as made. Unconditional promises to give due in subsequent years are recorded at their net realizable value. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

J. Donated Services

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets, or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. The value of these services has been recorded in the financial statements at their fair values in the period received.

For the 11 month period ended May 31, 2017, the value of contributed services meeting the requirements for recognition in the financial statements was \$860,300. At SPO this represents the contribution of our mission staff in their work delivering our evangelistic programs of Reach, Call, Form and Send including our Household Program, Fan into Flame Retreats, and our multi-year Faith Formation Program.

ST. PAUL'S OUTREACH
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2017

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

K. Functional Expense Allocation

The majority of expenses can generally be directly identified with the program or supporting service to which they relate and are charged accordingly. Other expenses by function are allocated to components of these services based on allocation measures determined by management.

L. Vacation Pay

Current Organization practice is to compensate employees for unused vacation. Accordingly, the Organization has made an accrual for vacation compensation that employees have earned but have not taken.

M. Credit Risk

The Organization maintains cash balances with banks insured by the Federal Deposit Insurance Corporation (FDIC). These deposits may, from time to time, exceed the balances insured by the FDIC.

N. Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Minnesota Statute 290.05. Because the Organization is a public charity, contributions to it may be deductible for tax purposes.

Management believes that it is not reasonably possible for any tax position benefits to increase or decrease significantly over the next 12 months.

As of May 31, 2017, there were no income tax related accrued interest or penalties recognized in either the statement of financial position or the statement of activities.

The Organization files informational returns in the U.S. federal jurisdiction, and in the Minnesota state jurisdiction. U.S. federal returns and Minnesota returns for the prior three fiscal years are closed. No returns are currently under examination in any tax jurisdiction.

O. Subsequent Events

Subsequent events were evaluated through October 11, 2017, which is the date the financial statements were available to be issued.

P. Accounting Changes

The Organization changed its year end from June 30 to May 31 to better align its reporting period with its program cycle. This change is effective for the current short period ended May 31, 2017.

Note 2: PLEDGES RECEIVABLE

The balance of pledges receivable is as follows:

	2017
Less than one year	\$ 496,557
One to five years	337,490
Total pledges receivable	834,047
Less discount to present value at 5%	(35,597)
Less reserve for uncollectible pledges	(66,724)
Net pledges receivable	<u>\$ 731,726</u>

ST. PAUL'S OUTREACH
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2017

Note 3: FAIR VALUE MEASUREMENTS

Fair value measurement accounting literature establishes a fair value hierarchy based on the priority of the inputs to the valuation methodologies used to measure fair value. 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 hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Investments recorded in the Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the Organization has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in inactive markets
- Inputs other than quoted prices that are observable for the asset or liability
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at May 31, 2017.

Level 2 Fair Value Measurements: The fair value of the CCF pooled fund is based on quoted net assets values of the underlying investments.

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value:

	Fair Value	Level 1	Level 2	Level 3
May 31, 2017				
CCF Pooled Fund	\$ 248,727	\$ -	\$ 248,727	\$ -
Total	<u>\$ 248,727</u>	<u>\$ -</u>	<u>\$ 248,727</u>	<u>\$ -</u>

Note 4: LINE OF CREDIT

At May 31, 2017, the Organization has an unsecured line of credit available from Premier Bank for \$250,000 maturing July 1, 2018. The credit line bears interest at 4.00%. At May 31, 2017, no amounts were outstanding under this agreement.

ST. PAUL'S OUTREACH
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2017

Note 5: LONG-TERM DEBT

Long-term debt consists of the following as of May 31, 2017:

Mortgage payable to Catholic United Financial bearing interest at 4.5% with monthly installments of \$2,508, matures June, 2028. Secured by a building	\$ 262,410
Mortgage payable to Premier Bank bearing interest at 4.00% with monthly installments of \$3,137, matures September, 2024. Secured by a building.	467,889
Mortgage payable to Premier Bank bearing interest at 4.00% with monthly installments of \$2,576, matures June, 2026. Secured by a building.	<u>410,100</u>
Total	1,140,399
Less amounts due within one year	50,630
Less prepaid loan costs, net of amortization of \$2,851	<u>18,196</u>
Long-term portion	<u><u>\$ 1,071,573</u></u>

Approximate scheduled future principal payments due under the agreements are as follows:

<u>For the year ended May 31,</u>	<u>Amount</u>
2018	\$ 50,630
2019	54,483
2020	56,736
2021	59,262
2022	61,810
Thereafter	<u>857,478</u>
Total	<u><u>\$ 1,140,399</u></u>

Note 6: RESTRICTED NET ASSETS

St. Paul's Outreach had the following temporarily restricted net assets at May 31, 2017:

U of M Grant	\$ 9,865
Ohio House Purchase	149,495
Lilly Grant	<u>50,586</u>
Total	<u><u>\$ 209,946</u></u>

ST. PAUL'S OUTREACH
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2017

Note 7: OPERATING LEASES

At May 31, 2017, the Organization was obligated under various operating leases for student housing and office space, beginning to expire July, 2016. Rent expense under these leases for the 11 month period ended May 31, 2017 was \$764,184.

The following is a schedule of future minimum lease payments under operating leases:

For the year ended May 31,	Amount
2018	\$ 175,049
2019	74,965
2020	34,169
2021	4,304
	<u>\$ 288,487</u>