

**DIOCESE OF WINONA-  
ROCHESTER**

**FINANCIAL STATEMENTS WITH  
INDEPENDENT AUDITORS' REPORT**

**JUNE 30, 2022**

# DIOCESE OF WINONA-ROCHESTER

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## **INDEPENDENT AUDITORS' REPORT**

To the Finance Council  
Diocese of Winona-Rochester  
Winona, Minnesota

### ***Opinion***

We have audited the financial statements of Diocese of Winona-Rochester (a nonprofit organization) which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Diocese of Winona-Rochester as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Diocese of Winona-Rochester and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Responsibilities of Management 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; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Diocese of Winona-Rochester's ability to continue as a going concern for one year after the date that the financial statements are issued.

## ***Auditors' Responsibility for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Diocese of Winona-Rochester's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Diocese of Winona-Rochester's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Statement of Activities by Department on page 19 is presented for purpose of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The budget information included in the financial statements on pages 5 and 19, which are of a nonaccounting nature, have not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

*Hawkins Ash CPAs, LLP*

La Crosse, Wisconsin  
October 18, 2022

**DIOCESE OF WINONA-ROCHESTER**

**FINANCIAL STATEMENTS**

**DIOCESE OF WINONA-ROCHESTER**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2022**

ASSETS

Cash and cash equivalents	\$ 11,202,222
Accounts receivable	590,211
Loan receivable	593,954
Prepaid expenses	225,642
Restricted cash and cash equivalents	192,993
Investments	4,478,040
Beneficial interest in trusts	28,460
Property and equipment, net	<u>609,561</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 17,921,083</u></b>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	
Vendors and others	\$ 88,168
Charitable organizations	188,381
Funds held for others	41,387
Accrued expenses	<u>7,527,450</u>
TOTAL LIABILITIES	<u>7,845,386</u>

NET ASSETS

Without donor restrictions	2,978,797
With donor restrictions	<u>7,096,900</u>
TOTAL NET ASSETS	<u>10,075,697</u>

<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 17,921,083</u></b>
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The accompanying notes are an integral part of these statements.

**DIOCESE OF WINONA-ROCHESTER**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2022**

	<u>WITHOUT DONOR RESTRICTIONS</u>	<u>WITH DONOR RESTRICTIONS</u>	<u>TOTAL</u>	<u>BUDGET</u>
<b>REVENUE, GAINS, AND OTHER SUPPORT</b>				
Diocesan tax	\$ 1,567,567	\$ -	\$ 1,567,567	\$ 1,568,000
Contributions and bequests	380,924	3,936,330	4,317,254	375,237
Interest and dividends, net of fees	52,892	20,460	73,352	10,000
Net realized and unrealized (loss) on investments	(523,296)	(346,693)	(869,989)	489,991
Departmental, including CMA case statement disbursements of \$1,455,900	2,384,664	-	2,384,664	2,556,527
General diocesan, including CMA case statement disbursements of \$533,661	587,248	-	587,248	560,692
Self insurance	2,299,568	-	2,299,568	2,285,000
Other	927,356	-	927,356	7,979
Net assets released from restrictions	731,109	(731,109)	-	-
<b>TOTAL REVENUE, GAINS, AND OTHER SUPPORT</b>	<u>8,408,032</u>	<u>2,878,988</u>	<u>11,287,020</u>	<u>7,853,426</u>
<b>EXPENSES</b>				
Program	6,119,326	-	6,119,326	
Management and general	880,654	-	880,654	
Fundraising	210,477	-	210,477	
<b>TOTAL EXPENSES</b>	<u>7,210,457</u>	<u>-</u>	<u>7,210,457</u>	<u>9,880,426</u>
<b>CHANGE IN NET ASSETS</b>	1,197,575	2,878,988	4,076,563	<b><u>\$ (2,027,000)</u></b>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>1,781,222</u>	<u>4,217,912</u>	<u>5,999,134</u>	
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 2,978,797</u>	<u>\$ 7,096,900</u>	<u>\$ 10,075,697</u>	

The accompanying notes are an integral part of these statements.

**DIOCESE OF WINONA-ROCHESTER**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2022**

	<u>PROGRAM</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Labor and benefits	\$ 1,987,625	\$ 426,299	\$ -	\$ 2,413,924
Professional expenses	466,406	375,537	145,242	987,185
Office expenses	153,361	49,063	1,477	203,901
Program material expenses	138,439	898	61,352	200,689
Local travel expenses	50,970	3,691	-	54,661
Professional conference expenses	17,880	3,287	-	21,167
Diocesan meeting expenses	456,796	96	-	456,892
Insurance premiums	1,446,605	-	-	1,446,605
Care of Priests	4,654	-	-	4,654
Liturgical expenses	83,867	-	-	83,867
Membership assessments	161,400	-	-	161,400
Mission support	311,913	-	-	311,913
Property and liability insurance	60,719	-	-	60,719
Seminarian education	545,568	-	-	545,568
Depreciation	50,464	5,214	-	55,678
Miscellaneous	182,659	16,569	2,406	201,634
<b>TOTAL EXPENSES</b>	<b><u>\$ 6,119,326</u></b>	<b><u>\$ 880,654</u></b>	<b><u>\$ 210,477</u></b>	<b><u>\$ 7,210,457</u></b>

The accompanying notes are an integral part of these statements.



**DIOCESE OF WINONA-ROCHESTER**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2022**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in net assets	\$ 4,076,563
Adjustments to reconcile change in net assets to net cash (used in) operating activities	
Depreciation	55,678
Net realized and unrealized loss on investments	869,989
(Gain) on sale of property and equipment	(909,103)
Changes in assets and liabilities	
(Increase) decrease in assets	
Accounts receivable	(290,120)
Prepaid expenses	43,475
(Decrease) increase in liabilities	
Accounts payable	(593,051)
Charitable organizations (collections and transmittals)	73,514
Funds held for others	28,441
Accrued expenses	(11,057,616)
NET CASH (USED IN) OPERATING ACTIVITIES	<u>(7,702,230)</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchases of property and equipment	(55,246)
Proceeds from the sale of property and equipment	1,758,317
Purchases of investments	(165,616)
Proceeds from sale of investments	115,598
Payments on loan receivables	98,220
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>1,751,273</u>
 NET (DECREASE) IN CASH AND CASH EQUIVALENTS	 (5,950,957)
 CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	 <u>17,346,172</u>
 <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	 <b><u>\$ 11,395,215</u></b>
 <u>RECONCILIATION OF CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND</u> <u>AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS TO THE STATEMENT</u> <u>OF FINANCIAL POSITION</u>	
Cash and cash equivalents	\$ 11,202,222
Restricted cash and cash equivalents	192,993
<b>TOTAL CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND</b> <b>CASH EQUIVALENTS SHOWN IN THE STATEMENT OF CASH FLOWS</b>	 <b><u>\$ 11,395,215</u></b>
 <u>SUPPLEMENTAL CASH FLOWS DISCLOSURE</u>	
<b>Cash paid for reorganization items</b>	 <b><u>\$ 11,531,274</u></b>

The accompanying notes are an integral part of these statements.

**DIOCESE OF WINONA-ROCHESTER**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2022**

**NOTE 1 - Petition for Relief Under Chapter 11 and Acceptance of Plan of Reorganization**

On November 30, 2018, the Diocese of Winona-Rochester (the "Diocese") filed a petition for relief under Chapter 11 of the United States bankruptcy laws in the United States Bankruptcy Court (the "Court") for the District of Minnesota. On October 11, 2021, a Chapter 11 Plan of Reorganization was filed with the Court. The Plan was confirmed on October 29, 2021 and a settlement trust was established. Under the Plan, the Diocese and Settling Insurers each will make substantial contributions to the Trust for the purpose of distributing the Trust Assets in accordance with this plan and the Trust Distribution Plan. Under the Plan, the Diocese was required to transfer \$13,560,000 less professional claims, mediation and administrative fees and counseling expenses for Tort Claimants already paid. This payment was made on November 3, 2021. The Diocese was also required pay \$ 7,746,000 as soon as practical after the sale or other monetization of certain assets of the Diocese less expenses already incurred and paid prior to October 2022. These amounts are recorded as settlement liabilities in the statement of financial position. All previous liabilities subject to compromise have been paid in full. There have been no liabilities, compromised by the confirmed plan of reorganization nor has there been any gains from the relief of indebtedness. The bankruptcy case was closed on September 14, 2022, and the final payment of \$6,858,299 (net of allowed costs) was made on September 15, 2022.

**NOTE 2 - Nature of Organization and Significant Accounting Policies**

**Nature of Organization** - The Diocese is a religious corporation formed under the laws of the State of Minnesota. The purpose of the Diocese is to promote the spiritual, educational and other interests of the Catholic Church within the Diocese and to manage the temporal affairs of the Roman Catholic Church in fulfilling that mission. The Diocese through administrative offices serves other Diocesan entities within the territorial limits of the Diocese of Winona-Rochester. The territorial limits are comprised of the following counties in the State of Minnesota: Winona, Wabasha, Olmsted, Dodge, Steele, Waseca, Blue Earth, Watonwan, Cottonwood, Murray, Pipestone, Rock, Nobles, Jackson, Faribault, Martin, Freeborn, Mower, Fillmore and Houston. The Diocese is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

**Basis of Accounting** -The financial statements of the Diocese have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

The accompanying financial statements include the administrative offices of the Diocese of Winona-Rochester as shown in the supplementary information to the financial statements conducted at the Diocesan Pastoral Center. Other Diocesan entities within its territorial limits are separately incorporated and are not included in the financial statements. All interdepartmental transactions have been eliminated.

**Basis of Presentation** - The accompanying financial statements are prepared in accordance with the accounting principles generally accepted in the United States of America (U.S. GAAP) as codified by the Financial Accounting Standards Board.

The Diocese is required to report information regarding its net assets and its activities based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- *Net Assets Without Donor Restrictions* - Net assets available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve, scholarship funds, capital improvement funds, and certain retirement funds.

**DIOCESE OF WINONA-ROCHESTER**  
NOTES TO THE FINANCIAL STATEMENTS - Continued  
JUNE 30, 2022

**NOTE 2 - Nature of Organization and Significant Accounting Policies - Continued**

- *Net Assets With Donor Restrictions* - Net assets subject to donor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

**Accounting Pronouncements Adopted** - As of July 1, 2021, the Organization adopted the provision of FASB issued Accounting Standards Update 2020-07, Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958). Under the new guidance, gifts-in-kind are required to be presented as a separate line item on the statements of activities and additional disclosures will be required. The presentation and disclosures for contributed nonfinancial assets have been enhanced in accordance with the standard.

**Recent Accounting Pronouncements** - In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326)*, effective for annual reporting periods beginning after December 15, 2020. ASU 2019-10 subsequently deferred the effective date for ASU 2016-13 until annual reporting periods beginning after December 15, 2022. This ASU changes the impairment model for most financial assets and certain other instruments. For trade and other receivables, held-to-maturity debt securities, loans, and other instruments, entities will be required to use a new forward-looking “expected loss” model that generally will result in the earlier recognition of allowance for losses. In addition, entities will have to disclose significantly more information, including information they use to track credit quality by year of origination for most financing receivables. The Diocese is currently assessing the impact on its financial statements.

**Cash and Cash Equivalents** - The Diocese’s cash and cash equivalents consists of cash on deposit with banks and a money market account. For purposes of the statement of cash flows, the Diocese considers all unrestricted, highly liquid investments with an initial maturity of three months or less to be cash equivalents.

**Restricted Cash** - Certain donor-restricted assets that meet the definition of cash and cash equivalents that have donor-imposed restrictions limiting their use to long-term purposes are classified as restricted cash, as well as worker’s compensation deposits, in the statement of financial position.

**Accounts Receivable** - Receivables are stated at the amount management expects to collect from outstanding balances. Management provides for uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge of the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance have not been material to the financial statements. Allowance for doubtful accounts at June 30, 2022 was \$-0-. Bad debt recovery for the year ended June 30, 2022 was \$-0-.

**Loans Receivable** - During 2015, the Diocese purchased a loan portfolio from the Diocese of Winona-Rochester Deposit and Loan Fund. All loans have been repaid with the exception of the one loan to a Diocesan parish. The loan is stated at the amount of unpaid principal. The loan is collateralized by the assets of the parish. Interest on the loan is recognized over the term of the loan and is calculated using the simple interest method on principal amounts outstanding. The interest rate, which is subject to change by approval of the Finance Council, was 3.40 percent as of June 30, 2022. The balance as of June 30, 2022, was \$593,954.

**DIocese OF WINONA-ROCHESTER**  
NOTES TO THE FINANCIAL STATEMENTS - Continued  
JUNE 30, 2022

**NOTE 2 - Nature of Organization and Significant Accounting Policies - Continued**

**Investments** - Investments are reported at cost, if purchased, or at fair value, if donated. Thereafter, investments are reported at their fair values in the statement of financial position.

The aggregate of (a) the unrealized appreciation (depreciation) in the fair value of investments during the year (b) the realized gains (losses) on sales of investments during the year (c) dividend income (d) interest income, and (e) investment fees are reflected in investment return on the statement of activities.

Purchases and sales of securities are recorded on a trade-date basis. Gains and losses on sales of securities are based on average cost and are recorded in the statement of activities in the period in which the securities are sold. Dividends are recorded on the ex-dividend date.

**Donated Assets** - Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair values at the date of donation.

**Property and Equipment** - Land, buildings, vehicles, and equipment are recorded at purchased cost or fair value at the date of gift if donated. The Diocese has recorded depreciation on the buildings, furnishing, automobiles, and equipment using the straight-line method over the estimated useful lives of 3 to 40 years.

<u>Asset</u>	<u>Life</u>
Furniture, fixtures, and equipment	3 - 10 years
Vehicles	5 - 7 years
Land improvements	10 - 20 years
Buildings	40 years

**Valuation of Long-lived Assets** - U.S. GAAP requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management reviews all material assets annually for possible impairment. If such assets are considered to be impaired, the impairment recognized is measured as the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. No assets are considered to be impaired at June 30, 2022.

**Funds Held For Others** - Funds held for others represent cash collected on behalf of other Catholic organizations and programs by the Diocese which have not yet been disbursed.

**Self-Insurance** - The Diocese, both for itself and as the agent for parishes and other Catholic entities operating within the territorial limits of the Diocese (the "Members"), participates in a liability, property, casualty and worker's compensation self-insurance program. The Members pay an annual premium based on various criteria to cover their portion of the cost of this program. The Diocese contracts with Catholic Mutual as an insurance broker to purchase self-insurance coverage on behalf of itself and the other Members and to act as risk manager. The Diocese administers the insurance program by collecting the premiums from the Members and arranging for the payment of claims as they are incurred. The Diocese is self-insured for \$100,000 per claim with an annual aggregate exposure of \$400,000 for the year ended June 30, 2022.

**DIOCESE OF WINONA-ROCHESTER**  
NOTES TO THE FINANCIAL STATEMENTS - Continued  
JUNE 30, 2022

**NOTE 2 - Nature of Organization and Significant Accounting Policies - Continued**

**Diocesan Tax** - Each parish within the Diocese is assessed a tax. The tax is based on a percentage of parish support in prior years. Revenue is recorded in the period the tax is assessed.

**Catholic Ministries Appeal (CMA)** - Annually, the Catholic Foundation of Southeastern Minnesota conducts the Catholic Ministries Appeal on behalf of the Diocese of Winona-Rochester to support specific ministries and programs of the Diocese and other Catholic organizations. The Foundation distributes these funds to the Diocese to be allocated to these individual ministries according to the campaign case statement. These contributions are reflected in Departmental revenue and General diocesan revenue in the statement of activities. Catholic Ministries Appeal distributions to the Diocese totaled \$1,989,561 for the year ended June 30, 2022.

**Contributed Services** - Services of the clergy and religious orders have been recognized only to the extent of actual compensation paid. No computation is made for the difference between the compensation paid to these employees and the comparable compensation which would be paid to lay personnel.

**Revenue Recognition:** The Diocese records the following exchange transaction revenue in its statements of activities and changes in net assets:

*Program Fees:* The Diocese offers various programs, workshops and seminars for which program fees are charged. The performance obligation is the delivery of the program. Program fees are billed at the time of registration and recognized as earned. The unearned portion is included as deferred revenue.

**Contribution Recognition** - Contributions are recognized when received or unconditionally pledged. Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions depending on the existence and/or nature of any donor restrictions.

Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions.

When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

**Functional Allocation of Expenses** - The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program services and supporting activities benefited. Those expenses include occupancy and depreciation, which are allocated on a square footage basis, as well as salaries and wages, benefits, payroll taxes, professional services and certain office expenses, which are allocated based on estimates of time and usage. For the year ended June 30, 2022, management and general expenses included \$373,295 of expenses related to the litigation and bankruptcy discussed in Note 1.

**Use of Estimates** - Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could differ from those estimates.

**Tax Status** - The Diocese is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC). However, income from certain activities not directly related to the Diocese's tax-exempt purpose is subject to taxation as unrelated business income.

**DIOCESE OF WINONA-ROCHESTER**  
NOTES TO THE FINANCIAL STATEMENTS - Continued  
JUNE 30, 2022

**NOTE 2 - Nature of Organization and Significant Accounting Policies - Continued**

**Accounting for Uncertainty in Income Taxes** - U.S. GAAP requires management to evaluate tax positions taken by the Diocese and recognize a tax liability (or asset) if the Diocese has taken an uncertain position that more likely than not would not be sustained upon examination by a taxing authority. Management has analyzed the tax positions taken by the Diocese, and has concluded that as of June 30, 2022, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Diocese is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Diocese will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

**Subsequent Events** - The Diocese evaluated subsequent events through October 18, 2022, the date which the financial statements were available to be issued.

**NOTE 3 - Concentration of Cash and Credit Risk**

The Diocese may have deposits with a financial institution at times during the year that exceed the Federal Deposit Insurance Corporation (FDIC) insurance threshold of \$250,000. The amount of accounting loss that the Diocese would have incurred, had the financial institution not been able to return monies in excess of \$250,000, amounted to \$10,997,759 as of June 30, 2022.

**NOTE 4 - Liquidity and Availability**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following as of June 30, 2022:

Cash and cash equivalents	\$ 11,202,222
Accounts receivable	590,211
Operating investments	4,478,040
Loan receivable	<u>593,954</u>
Total financial assets available within one year	16,864,427
Less amounts not available for general expenditure within one year:	
Net assets with donor restrictions	7,096,900
Board designated net assets	<u>964,769</u>
<b>TOTAL FINANCIAL ASSETS AVAILABLE TO MANAGEMENT FOR GENERAL EXPENDITURE WITHIN ONE YEAR</b>	<b><u>\$ 8,802,758</u></b>

*Liquidity Management*

The Diocese manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The Diocese has a liquidity policy to maintain current financial assets less current liabilities at a minimum of 30 days operating expenses. In addition, the Diocese has a policy to target a year-end balance of reserves of net assets without donor restrictions and, undesignated net assets to meet 15 to 30 days of expected expenditures. To achieve these targets, the Diocese forecasts its future cash flows, monitors its liquidity quarterly, and monitors its reserves annually. During the year ended June 30, 2022, the level of liquidity and reserves was managed within the policy requirements.

**DIOCESE OF WINONA-ROCHESTER**  
NOTES TO THE FINANCIAL STATEMENTS - Continued  
JUNE 30, 2022

**NOTE 5 - Investments and Endowment Funds**

The following is a summary of investments at June 30, 2022:

Common/collective trust funds	\$ 4,376,061
Private equity investments	<u>101,979</u>
<b>TOTAL INVESTMENTS AND ENDOWMENT FUNDS</b>	<b><u>\$ 4,478,040</u></b>

**NOTE 6 - Beneficial Interests in Charitable Remainder Trusts**

The Diocese has been named a beneficiary of a split-interest agreement. Upon the death of the beneficiaries, the Diocese will receive 5 percent of the remainder of the trusts fair market value. The balance in the beneficial interest in the Charitable Remainder Trusts as of June 30, 2022 is \$28,460.

The Diocese was named a beneficiary of a split-interest agreement in land. The Diocese owned the property subject to a life estate. Upon the death of the beneficiary, the Diocese would receive their portion of the remainder of the trust's fair market value. During the year ended June 30, 2022, the Diocese sold their portion of this property. The balance of this remainder interest as of June 30, 2022 is \$-0-.

**NOTE 7 - Property and Equipment**

Property and equipment include all properties which are owned by the Diocese. A summary of property and equipment as of June 30, 2022, is as follows:

Land	\$ 207,857
Buildings and furnishings	1,519,465
Automobiles and equipment	516,736
Construction work in progress	<u>4,860</u>
	2,248,918
Less: Accumulated depreciation	<u>(1,639,357)</u>
<b>NET PROPERTY AND EQUIPMENT</b>	<b><u>\$ 609,561</u></b>

Values assigned to certain property, other than property acquired after 1979 which has been recorded at cost, were obtained from insurance appraisals performed during 1979. The amounts above represent 1979 depreciated replacement cost, plus subsequent additions less retirements at cost. This method is not in conformity with accounting principles generally accepted in the United States of America. The difference in the amount measured by depreciated replacement cost and methods required by generally accepted accounting principles as of June 30, 2022 is not material. Depreciation expense was \$55,678 for the year ended June 30, 2022.

**NOTE 8 - Fair Value Measurements**

The Diocese has determined the fair value of certain assets and liabilities in accordance with the provision of U.S. GAAP, which provides a framework for measuring fair value under generally accepted accounting principles.

U.S. GAAP defines fair value as the exchange price that would be received for an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. U.S. GAAP requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. U.S. GAAP also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

**DIOCESE OF WINONA-ROCHESTER**  
NOTES TO THE FINANCIAL STATEMENTS - Continued  
JUNE 30, 2022

**NOTE 8 - Fair Value Measurements - Continued**

Level 1 inputs consist of quoted prices in active markets for identical assets that the reporting organization 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 related asset. Level 3 inputs are unobservable inputs related to the asset.

The asset's fair value measurement within the fair value hierarchy is based on the lowest of any input that is significant to the fair value measurement. The following is a description of the valuation methodologies used for assets measured at fair value:

*Common/Collective Trust Funds:* Valued at net asset value (NAV) of shares held by the Diocese at year end.

*Private Equity Investments:* Valued at the estimated fair value of the underlying assets and consist of the Diocese's investments in the Catholic Umbrella Pool and the National Catholic Risk Retention Group which are restricted. The Diocese must provide 180 day notice before they can be liquidated.

*Beneficial Interest in Trusts:* Valued at the estimated fair value of the underlying trust assets.

The methods described above may produce a fair value calculation that may be indicative of net realizable value or reflective of future fair values. Furthermore, while the Diocese believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Diocese's assets at fair value on a recurring basis as of June 30, 2022.

	JUNE 30, 2022	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Investment in marketable securities				
Common/collective trust funds	\$ 4,376,061	\$ -	\$ 4,376,061	\$ -
Private equity investments	101,979	-	-	101,979
Beneficial interest in trusts	28,460	-	-	28,460
<b>TOTAL</b>	<b>\$ 4,506,500</b>	<b>\$ -</b>	<b>\$ 4,376,061</b>	<b>\$ 130,439</b>

The following is a reconciliation of activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs):

**Private Equity Investments**

Fair value at beginning of year	\$ 171,913
Market value losses and adjustments	<u>(69,934)</u>
<b>FAIR VALUE AT END OF YEAR</b>	<b><u>\$ 101,979</u></b>

**Beneficial Interest in Trusts**

Fair value at beginning of year	\$ 488,561
Disposal of beneficial interest trust asset	<u>(460,101)</u>
<b>FAIR VALUE AT END OF YEAR</b>	<b><u>\$ 28,460</u></b>



**DIOCESE OF WINONA-ROCHESTER**  
**NOTES TO THE FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2022**

**NOTE 9 - Net Assets**

Included in net assets without donor restrictions are amounts designated by the board for the following purposes at June 30, 2022:

Capital improvements	\$ 409,931
Quasi endowment - Scholarship funds	187,428
Retirement funds	70,000
Operating reserve	125,000
Student loan and scholarship funds	172,410
<b>TOTAL DESIGNATED NET ASSETS</b>	<b><u>\$ 964,769</u></b>

The Diocese's Board of Directors has created an operating reserve which sets aside cash for operating expenses to be drawn upon in the event of financial distress or an immediate liquidity need.

Net assets with donor restrictions are restricted for the following purposes or periods at June 30, 2022:

Subject to expenditure for specified purpose:

Schulze Foundation	\$ 92,231
Handicapped Children Fund	9,774
Works of Justice Fund	50,069
Rice Bowl Poverty Program	45,272
Hullerman Fund	91,566
Priests' Retirement Fund	38,728
Continuing education of priests	128,234
Training of lay leaders/ministers	68,928
Catholic Education	25,264
Building Fund	100,000
TV Mass Fund	68,489
Settlement/payment of bankruptcy	<u>3,726,739</u>
	<u>4,445,294</u>

Subject to the passage of time:

Beneficial interest in gift annuity	<u>28,460</u>
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Endowments

Amount required to be held in perpetuity	
Seminarian education	1,610,676
McHugo fund (income to help the poor and needy)	<u>233,501</u>
	<u>1,844,177</u>

Earnings subject to appropriation and expenditure for specified purpose

Seminarian education	673,286
McHugo endowment income fund	<u>105,683</u>
	<u>778,969</u>

TOTAL ENDOWMENTS 2,623,146

**TOTAL NET ASSETS WITH DONOR RESTRICTIONS \$ 7,096,900**

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the year ended June 30, 2022:

Satisfaction of purpose restrictions:

Education of seminarians	\$ 271,008
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Subject to passage of time:

Poire land interest	460,101
	<u>\$ 731,109</u>

**DIocese OF WINONA-ROCHESTER**  
NOTES TO THE FINANCIAL STATEMENTS - Continued  
JUNE 30, 2022

**NOTE 10 - Endowments**

The Diocese's endowment fund consists of both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence of or absence of donor-imposed restrictions.

**Interpretation of the Law** - The Finance Council of the Diocese has interpreted the 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 Diocese classifies as net assets with restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Diocese in a manner consistent with the standard of prudence prescribed by UPMIFA.

The Diocese 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 purpose of the Diocese and 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 the Diocese
7. The investment policies of the Diocese

**Investing and Spending Policy** - The Diocese 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 principal and purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Diocese must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Finance Council, the endowment assets are invested in a manner to preserve capital, provide growth in principal combined with a sufficient return on investment that will generate continued income, and invest in such a manner to satisfy anticipated liquidity requirements. The Diocese expects its endowment funds, over time, to provide an average rate of return of approximately 5 percent annually. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Diocese relies 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 Diocese targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Diocese distributes grant funds based on the total investment earnings earned for each endowment. Accordingly, over the long term, the Diocese expects the current spending policy to allow their endowments to grow. This is consistent with the Diocese's objective to maintain the principal and purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

**DIOCESE OF WINONA-ROCHESTER**  
NOTES TO THE FINANCIAL STATEMENTS - Continued  
JUNE 30, 2022

**NOTE 10 - Endowments - Continued**

*Endowment Net Asset Composition by Type of Fund as of June 30, 2022:*

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Board-designated endowment funds	\$ 187,428	\$ -	\$ 187,428
Donor-restricted endowment funds:			
Original donor-restricted gift and amounts required to be maintained in perpetuity by donors	-	1,844,177	1,844,177
Accumulated investment gains	-	778,969	778,969
<b>TOTAL</b>	<b><u>\$ 187,428</u></b>	<b><u>\$ 2,623,146</u></b>	<b><u>\$ 2,810,574</u></b>

**Funds with Deficiencies** - From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Diocese to retain as a fund of perpetual duration (underwater endowments). In accordance with U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions. The deficiencies may result from unfavorable market fluctuations that have occurred. The Diocese did not have any such deficiency as of June 30, 2022.

*Changes in Endowment Net Assets for the Year Ended June 30, 2022:*

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 187,428	\$ 2,966,139	\$ 3,153,567
Investment return, net	-	(326,233)	(326,233)
Appropriation of endowment assets pursuant to spending-rate policy	-	(16,760)	(16,760)
Endowment net assets, end of year	<b><u>\$ 187,428</u></b>	<b><u>\$ 2,623,146</u></b>	<b><u>\$ 2,810,574</u></b>

**NOTE 11 - Pension Plan for Priests Within the Diocese of Winona-Rochester**

The Diocese participates in a multiple employer defined benefit pension plan (the "Plan") for all priests ordained or incardinated into the Diocese who are employed by Participating Employers. The Plan is funded through assessments to the Participating Employers and contributions from donors. A participant who retires at the normal age of 68 shall receive, currently, a monthly pension benefit for life of \$2,100. The Plan also provides Medicare supplemental health and dental coverage for fully-retired priests for life. Plan assets consist primarily of investments in common/collective trust funds.

The Plan is voluntary on the part of the Participating Employers, and the continuance of the Plan and the payment of contributions hereunder are not to be regarded as a contractual obligation of the Participating Employers. The Participating Employers do not guarantee any of the benefits provided by the Plan. The Plan provides that the Participating Employers reserve the right to reduce or suspend, in whole or in part, at any time, the contributions specified in the Plan.

The Participating Employers use June 30 to determine the annual contributions to the Plan for accrued pension expense. As this is a multiple employer plan, valuation information is not available by employer.

The Plan is not required to comply with ERISA, as it is a church plan. Employer contributions to the Plan for 2022 were \$18,498.

**DIOCESE OF WINONA-ROCHESTER**  
NOTES TO THE FINANCIAL STATEMENTS - Continued  
JUNE 30, 2022

**NOTE 12 - Lay Retirement Plan**

The Diocese contributes 3 percent of the employee's base compensation plus up to an additional 3 percent as an employer match for those employees who are at least 21 years of age, and who work more than 20 hours per week. Participation is effective at date of hire for eligible employees. As of June 30, 2022, the Diocese contributed \$89,998 to this plan.

**NOTE 13 - Service Agreements**

The Diocese has service agreements with Catholic Foundation of Southern Minnesota, Pension Plan for Priests of the Diocese of Winona, and Immaculate Heart of Mary Seminary, Inc. whereby, the various entities reimburse the Diocese for accounting services and use of buildings owned by the Diocese. Revenue received from these agreements as of June 30, 2022, is as follows:

Pension Plan for Priests of the Diocese of Winona	\$ 26,522
Immaculate Heart of Mary Seminary, Inc.	28,802
Catholic Foundation of Southern Minnesota	<u>58,624</u>
	<b><u>\$ 113,948</u></b>

The Diocese also contracts with Catholic Foundation of Southern Minnesota to conduct their annual Catholic Ministries Appeal. Expenses paid for these services as of June 30, 2022, were \$208,071.

**NOTE 14 - Risk and Uncertainties**

**Investments** - The Diocese's investments are exposed to various risks, such as interest rate, and market and credit risks. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the values of investments, it is reasonably possible that changes in risks in the near term could materially affect the amounts reported in the statements of financial position and the statements of activities.

**NOTE 15 - Conditional Promise to Give**

Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional are not included on the statement of activities.

During the year ended June 30, 2022, a donor entered into a Memorandum of Understanding (MOU) with the Diocese of Winona-Rochester to clarify expectations and obligations in light of the overwhelming generosity of the donor and the mutual desire to build a new Pastoral Center in Rochester, Minnesota for the Diocese of Winona-Rochester. The donor has offered a piece of land located in the city of Rochester, Minnesota and a large donation for the sole and limited purpose of building a new Pastoral Center for the Diocese of Winona-Rochester. These gifts have not been included as contributions in the statement of activities due to some conditions that the Diocese of Winona-Rochester has to meet as described in the MOU.

**DIOCESE OF WINONA-ROCHESTER**  
**SUPPLEMENTARY INFORMATION**

**DIOCESE OF WINONA-ROCHESTER**  
**STATEMENT OF ACTIVITIES BY DEPARTMENT**  
**YEAR ENDED JUNE 30, 2022**

	REVENUE	EXPENSES	CHANGE IN NET ASSETS	BUDGET
Bishop	\$ 186,435	\$ 180,693	\$ 5,742	\$ -
Bishop Emeritus	76,734	69,832	6,902	-
Vicar General	75,612	71,473	4,139	-
Chancellor	33,841	25,270	8,571	-
Vicar Judicial (Tribunal)	219,535	175,342	44,193	-
General Diocese	3,452,090	2,258,360	1,193,730	173,000
Chapter 11 Reorganization	3,726,739	365,165	3,361,574	(2,200,000)
Human Resources	179,964	175,943	4,021	-
Safe Environment	129,300	129,824	(524)	-
Mission Advancement - Annual Appeal	216,800	208,071	8,729	-
Finance	408,135	402,339	5,796	-
Parish Financial Services	104,973	81,652	23,321	-
Contracted Services	140,423	145,980	(5,557)	-
Planning	7,097	1,427	5,670	-
Moderator of Curia	23,079	19,152	3,927	-
Support Services	147,750	141,840	5,910	-
Cemeteries	52,628	39,567	13,061	-
Courier	69,924	42,380	27,544	-
Communications	251,692	260,802	(9,110)	-
Care of Priests	127,067	107,186	19,881	-
Priestly Life - Clergy Education	81,101	136,973	(55,872)	-
Seminarian/Theological Education	318,890	602,879	(283,989)	-
Vocations	300	62,125	(61,825)	-
Catholic Education/Formation - Schools	362,726	349,959	12,767	-
Media Center	4,121	2,627	1,494	-
Mankato Newman Center	153,945	153,945	-	-
Winona Newman Center	108,351	116,879	(8,528)	-
Catholic Education/Formation - Faith Formation	68,376	56,411	11,965	-
Apostolate - Ministry Formation	329,697	309,295	20,402	-
Apostolate - Permanent Diaconate	67,774	52,662	15,112	-
Divine Worship	48,199	44,026	4,173	-
Life	87,519	81,104	6,415	-
Youth and Young Adults	166,615	170,315	(3,700)	-
Apostolate - Hispanic Ministry	17,219	13,651	3,568	-
Apostolate - Hispanic Chaplaincy	56,790	55,065	1,725	-
<b>TOTAL DEPARTMENTAL</b>	<b>11,501,441</b>	<b>7,110,214</b>	<b>4,391,227</b>	<b>(2,027,000)</b>
Other Restricted Funds	(214,421)	100,243	(314,664)	-
<b>TOTAL DIOCESAN</b>	<b>\$ 11,287,020</b>	<b>\$ 7,210,457</b>	<b>\$ 4,076,563</b>	<b>\$ (2,027,000)</b>

\* Includes interdepartmental transfers