

**Audited
Financial Statements**

St. John's Seminary

June 30, 2009

St. John's Seminary

Audited Financial Statements

June 30, 2009

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INDEPENDENT AUDITORS' REPORT

To the Trustees
St. John's Seminary

We have audited the accompanying statements of financial position of St. John's Seminary (a nonprofit organization) as of June 30, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Seminary's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of St. John's Seminary at June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

G. T. Reilly & Company

G. T. Reilly & Company

Milton, Massachusetts
December 11, 2009

St. John's Seminary

Statements of Financial Position

June 30

	<u>2009</u>	<u>2008</u> (As Restated - Note 12)
<u>Assets</u>		
Cash and cash equivalents (Note 2)	\$ 6,139,820	\$ 5,016,688
Tuition receivable (Note 2)	344,506	146,305
Pledges receivable (Note 2)	1,405,000	23,612
Interest and dividends receivable	278,699	367,812
Prepaid expenses and other assets	19,058	22,625
Amount due from related organization on joint sale of property (Notes 3 & 12)	4,855,626	44,536,478
Notes receivable, related organization (Note 4)	41,412,281	5,634,713
Investments, at fair value (Note 5)	30,574,497	36,248,276
Interest in the net assets of the Foundation (Note 7)	1,741,426	1,954,430
Land, buildings and equipment, net (Note 8)	<u>16,207,116</u>	<u>15,431,947</u>
 TOTAL ASSETS	 <u>\$ 102,978,029</u>	 <u>\$ 109,382,886</u>
 <u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable and accrued expenses	<u>\$ 182,167</u>	<u>\$ 703,571</u>
 Net Assets (Note 10):		
Unrestricted	82,690,808	85,838,218
Temporarily restricted	8,186,174	12,376,636
Permanently restricted	11,918,880	10,464,461
	<u>102,795,862</u>	<u>108,679,315</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 102,978,029</u>	 <u>\$ 109,382,886</u>

St. John's Seminary

Statement of Activities

For the Year Ended June 30, 2009

(With summarized comparative information for the year ended June 30, 2008)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2009 Total	2008 Total
REVENUES, GAINS & SUPPORT					
Tuition, fees, room and board	\$ 1,964,306	\$ -	\$ -	\$ 1,964,306	\$ 1,637,016
Less: financial aid	(740,200)	-	-	(740,200)	(798,348)
Net tuition, fees, room and board	1,224,106	-	-	1,224,106	838,668
Parish collections - Pentecost	247,320	-	-	247,320	348,105
Contributions and bequests	106,475	43,930	1,457,329	1,607,734	486,023
Matching gifts (Note 7)	171,895	122,673	-	294,568	298,621
Contributed services & facilities (Note 9)	806,379	-	-	806,379	679,706
Investment income	773,321	545,740	348	1,319,409	1,672,205
Other revenues	75,878	-	-	75,878	97,900
Rental income (Note 13)	-	-	-	-	633,724
Change in interest in net assets of the Foundation (Note 7)	-	(194,934)	(3,258)	(198,192)	(136,418)
Net assets released through satisfaction of restrictions (Note 10)	2,701,390	(2,701,390)	-	-	-
TOTAL REVENUES, GAINS & SUPPORT	6,106,764	(2,183,981)	1,454,419	5,377,202	4,918,534
EXPENSES					
School of Theology	4,213,777	-	-	4,213,777	4,844,075
School of Masters in Ministry	457,285	-	-	457,285	257,408
Management and general	665,340	-	-	665,340	637,275
Fundraising	22,757	-	-	22,757	24,278
TOTAL EXPENSES	5,359,159	-	-	5,359,159	5,763,036
OPERATING INCOME (LOSS)	747,605	(2,183,981)	1,454,419	18,043	(844,502)
NONOPERATING INCOME (LOSS)					
Net realized and unrealized losses on investments	(3,391,676)	(2,006,481)	-	(5,398,157)	(4,065,772)
Interest income on amounts due from related organization (Notes 3 & 12)	127,493	-	-	127,493	275,940
Interest reduction, related organization note (Note 4)	(630,832)	-	-	(630,832)	(435,645)
Gain on sale of land and buildings (net of closing costs) (Note 3)	-	-	-	-	38,296,534
NONOPERATING INCOME (LOSS)	(3,895,015)	(2,006,481)	-	(5,901,496)	34,071,057
CHANGE IN NET ASSETS	(3,147,410)	(4,190,462)	1,454,419	(5,883,453)	33,226,555
NET ASSETS AT BEGINNING OF YEAR	85,838,218	12,376,636	10,464,461	108,679,315	75,452,760
NET ASSETS AT END OF YEAR	\$ 82,690,808	\$ 8,186,174	\$ 11,918,880	\$ 102,795,862	\$ 108,679,315

St. John's Seminary

Statement of Activities

For the Year Ended June 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS & SUPPORT				
Tuition, fees, room and board	\$ 1,637,016	\$ -	\$ -	\$ 1,637,016
Less: financial aid	(798,348)	-	-	(798,348)
Net tuition, fees, room and board	838,668			838,668
Parish collections - Pentecost	348,105	-	-	348,105
Contributions and bequests	368,323	117,700	-	486,023
Matching gifts (Note 7)	298,621	-	-	298,621
Contributed services & facilities (Note 9)	679,706	-	-	679,706
Investment income	920,226	751,579	400	1,672,205
Other revenues	97,900	-	-	97,900
Rental income (Note 13)	633,724	-	-	633,724
Change in interest in net assets of the Foundation (Note 7)	-	(133,847)	(2,571)	(136,418)
Net assets released through satisfaction of restrictions (Note 10)	798,348	(866,044)	67,696	-
TOTAL REVENUES, GAINS & SUPPORT	4,983,621	(130,612)	65,525	4,918,534
EXPENSES				
School of Theology	4,844,075	-	-	4,844,075
School of Masters in Ministry	257,408	-	-	257,408
Management and general	637,275	-	-	637,275
Fundraising	24,278	-	-	24,278
TOTAL EXPENSES	5,763,036	-	-	5,763,036
OPERATING INCOME (LOSS)	(779,415)	(130,612)	65,525	(844,502)
NONOPERATING INCOME (LOSS)				
Net realized and unrealized losses on investments	(2,335,628)	(1,730,144)	-	(4,065,772)
Interest income on amounts due from related organization (Notes 3 & 12)	275,940	-	-	275,940
Interest reduction, related organization note (Note 4)	(435,645)	-	-	(435,645)
Gain on sale of land and buildings (net of closing costs) (Note 3)	38,296,534	-	-	38,296,534
NONOPERATING INCOME (LOSS)	35,801,201	(1,730,144)	-	34,071,057
CHANGE IN NET ASSETS	35,021,786	(1,860,756)	65,525	33,226,555
NET ASSETS AT BEGINNING OF YEAR	50,816,432	14,237,392	10,398,936	75,452,760
NET ASSETS AT END OF YEAR	\$ 85,838,218	\$ 12,376,636	\$ 10,464,461	\$ 108,679,315

St. John's Seminary

Statements of Cash Flows

For the Years Ended June 30

	<u>2009</u>	<u>2008</u> (As Restated - Note 12)
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (5,883,453)	\$ 33,226,555
Adjustments to reconcile change in net assets to net cash and cash equivalents from operating activities:		
Net realized and unrealized losses on investments	5,398,157	4,065,772
Depreciation	542,497	538,633
Interest reduction on note receivable, related organization (Note 4)	630,832	435,645
Gain on sale of land and buildings, net of property rental charge (Note 3)	-	(37,811,002)
Change in interest in net assets of the Foundation (Note 7)	75,519	136,418
Changes in operating assets and liabilities:		
Interest and dividends receivable	89,113	26,250
Prepaid expenses and other assets	3,567	(733)
Tuition receivable	(198,201)	(120,390)
Pledges receivable	(1,381,388)	(11,097)
Grants receivable	-	13,282
Accounts payable and accrued expenses	(521,404)	199,911
Deferred tuition revenue	-	(7,715)
NET CASH AND CASH EQUIVALENTS (USED IN) PROVIDED BY OPERATING ACTIVITIES	<u>(1,244,761)</u>	<u>691,529</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of land, buildings and equipment	(1,317,666)	(136,131)
Proceeds from the sale of land	-	117,707
Repayments on amounts due from related organization	3,272,452	-
Purchase of investments	(1,846,230)	(1,574,873)
Proceeds from the sale of investments	2,121,852	1,561,308
Transfer of assets from the Foundation (Note 7)	137,485	84,650
NET CASH AND CASH EQUIVALENTS PROVIDED BY INVESTING ACTIVITIES	<u>2,367,893</u>	<u>52,661</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,123,132	744,190
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>5,016,688</u>	<u>4,272,498</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 6,139,820</u>	<u>\$ 5,016,688</u>
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Seminary funds and accrued interest due from related organization on joint sale of property (Note 4)	<u>\$ -</u>	<u>\$ 44,536,478</u>

St. John's Seminary

Notes to Financial Statements

June 30, 2009

Note 1 - Principal Activity

St. John's Seminary (the "Seminary") is a Roman Catholic Archdiocese of Boston professional and graduate theological school dedicated primarily to the intellectual, cultural and spiritual preparation of seminarians for the priesthood. The Seminary's primary sources of funding are investment income, tuition and donations.

The Archbishop of Boston, by virtue of his office, serves as chairman of the Seminary and numerous other separately incorporated Catholic organizations that operate within the Archdiocese of Boston. While these organizations are considered to be related organizations of the Seminary, their financial activities are not presented as part of the accompanying financial statements.

Note 2 - Summary of Significant Accounting Policies

Financial Statement Presentation - The financial statements of the Seminary have been prepared on the accrual basis of accounting.

The Seminary reports three classes of net assets and the changes in those net assets in the statement of financial position and statement of activities, respectively. The three classes of net assets - unrestricted, temporarily restricted and permanently restricted - are based on the existence or absence of donor-imposed restrictions, either explicit or implicit. The three classifications are defined as follows:

Unrestricted Net Assets - Assets and contributions that are not restricted by the donor or for which restrictions have expired.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed restrictions that permit the Seminary to use or expend the donated assets as specified and are satisfied by either the passage of time or by actions of the Seminary.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that the Seminary maintain them permanently. Generally, the donors of these assets permit the Seminary to use, all or in part, the income earned on related investments for general or specific purposes.

The Seminary reports gifts of cash and other assets as restricted support if they are donor-restricted as to purpose or time. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Seminary reports gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained; the Seminary reports expirations of donor restrictions in the period the expenditure is made.

Under Statement of Financial Accounting Standards (SFAS) No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations" and Massachusetts General Laws, unrealized gains or losses from endowment fund investments are reported as increases or decreases in temporarily restricted net assets unless the donor explicitly states otherwise.

See Note 10 regarding restrictions on net assets.

Note 2 - Summary of Significant Accounting Policies (Cont.)

Reclassifications – Certain amounts previously reported within the accompanying statement of activities for the year ended June 30, 2008, primarily expense classifications, have been reclassified to conform with the current year's presentation. These reclassifications had no effect on total assets, the change in net assets, and total net assets as previously reported as of and for the year ended June 30, 2008.

Cash and Cash Equivalents – The Seminary considers investments with original maturities of three months or less at purchase to be cash equivalents.

Receivables – When considered necessary by management, tuition and pledge receivables are stated net of allowances for doubtful accounts. The allowances are established via a provision for bad debts charged to expense in the statement of activities. On a periodic basis, management evaluates its receivables and establishes or adjusts its allowances to amounts that it believes will be adequate to absorb possible losses on accounts that may become uncollectible based on evaluations of the collectibility of individual accounts, the Seminary's history of prior loss experience, and on the current economic conditions. Accounts are charged against the allowances when management believes that the collectibility of the specific account is unlikely. In 2009 and 2008, there were no allowances for doubtful accounts for tuition or pledge receivables as management did not deem it to be necessary. Pledges receivable are expected to be collected within a year.

Investments – The Seminary's investments are carried at fair value. Changes in fair value are reflected in the statements of activities as net realized and unrealized gains (losses) on investments.

Investments represent the Seminary's unit holdings in the Common Investment Fund, Roman Catholic Archbishop of Boston (the "Common Investment Fund") and the Fixed Income Investment Fund, Roman Catholic Archbishop of Boston (the "Fixed Income Fund") separate related organizations established to provide common investment pools in which the Seminary and other related organizations may participate. The Common Investment Fund invests nearly all of its funds in the RCAB Collective Investment Partnership (the "Investment Partnership"), the underlying investments of which are primarily equity and fixed-income securities (U.S. Government and agency securities, asset-backed securities and corporate bonds) owned either directly or indirectly through mutual funds and private investment entities.

The fair value of the Fixed Income Fund and Investment Partnership's investments in actively traded domestic securities is determined by State Street Corporation, which obtains bid price quotations from independent pricing services on most securities. Investments in traded foreign securities are fair valued by State Street Corporation at the mean between bid and asked prices. For those securities whose prices are not available through independent pricing services, bid price quotations are obtained by State Street Corporation from principal market makers in those securities or at fair value as determined in good faith by management. Investment holdings of private investment entities that are not actively traded are valued by the managers of these entities. At June 30, 2009 and 2008, securities whose prices are not available through independent pricing services are limited to less than 6% of the total investments of the investment funds (see Notes 5 and 11).

Land, Buildings and Equipment – Land and improvements, buildings and improvements, furniture and equipment are carried at cost or, if donated, at fair market value at the time of donation. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets, which range from five years for furniture and equipment to forty years for buildings. Leasehold improvements are depreciated over the term of the lease. Expenditures for maintenance and repairs are charged to expense, whereas major betterments are capitalized.

Contributed Services - The Seminary recognizes contributions of services received as support in the statement of activities with an equal amount recognized as expense if the services provided require special skills and would need to be purchased by the Seminary if not contributed. Contributed services are recorded for professors in the Seminary's School of Theology who contribute their services (see Note 9).

Contributed Facilities – The difference between the estimated fair rental value of the facilities and the amounts actually paid for rent is recorded as support with an equivalent amount recorded as rent expense (see Note 9).

Note 2 - Summary of Significant Accounting Policies (Cont.)

Accounting for Assets Held by Others – The Seminary follows the provisions of Statement of Financial Accounting Standards No. 136, “Transfer of Assets to a Not-for-Profit Organization or Charitable Trust that raises or Holds Contributions for Others” (SFAS No. 136). The statement requires the Seminary to recognize as an asset its interest in the net assets of other related organizations that hold funds that have been donated for the benefit of the Seminary. Additionally, the statement requires the Seminary to adjust the interest for its share of the change in the related organization’s net assets via a charge or credit to its statement of activities. Transfers of funds from the related organization are reported as reductions to the Seminary’s recorded interest (see Note 7).

Concentration of Credit Risk – The Foundation’s financial instruments that are subject to concentrations of credit risk consist primarily of cash, cash equivalents, investments and contributions receivable.

The Seminary maintains its cash deposits in one major financial institution, which is insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000. At June 30, 2009, based on bank balances, cash deposits exceeded insured limits by approximately \$714,000. Included in cash equivalents are uninsured money market mutual funds totaling approximately \$5,611,000 at June 30, 2009. The Seminary has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents. Management monitors on a regular basis, the financial institution, along with its balances, to keep this potential risk to a minimum.

Investments are uninsured and are subject to ongoing market fluctuations (see Note 5).

At June 30, 2009, one donor represents approximately \$1,400,000 (99%) of the net pledge receivable balance. These funds are due and payable from the donor’s estate at June 30, 2009.

Income Tax Status - The Seminary is included in the United States Catholic Conference Group Ruling and in the Official Catholic Directory and is therefore exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is included in these financial statements.

Accounting 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 affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period.

Subsequent Events - The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America requires management to disclose the date through which subsequent events have been evaluated for possible recognition or disclosure in the accompanying financial statements. Subsequent events are transactions or events that occur after the statement of financial position date, but before the financial statements are issued or available to be issued. The accompanying financial statements include the evaluation of subsequent events that have occurred through December 11, 2009, which is the date the financial statements were available to be issued.

Note 3 – Joint Sale of Property and Related Agreements

During August 2007, the Seminary and the Roman Catholic Archbishop of Boston, A Corporation Sole, (“Corporation Sole”) sold to Boston College buildings and the surrounding 18.7 acres of land (owned partially by the Seminary and partially by the Corporation Sole) for \$65 million. Boston College remitted \$63 million in cash to the Corporation Sole. In accordance with the agreement, the remaining \$2 million is to be paid by Boston College to Corporation Sole upon satisfaction of a condition which the Corporation Sole expects to satisfy in the foreseeable future.

Note 3 – Joint Sale of Property and Related Agreements (Cont.)

The sales price was allocated between the Corporation Sole and the Seminary based upon the relative appraised values of the properties owned by each entity. The amount allocated to the Seminary was approximately \$44.2 million, which resulted in the Seminary recognizing a gain of \$38.3 million on the sale. Since the Corporation Sole has received or will receive the total proceeds from the sale, the Seminary has recorded an amount due from the Corporation Sole in the amount of \$44.5 million, which includes accrued escrow interest of approximately \$300,000 as of June 30, 2008. During fiscal year 2009, the Corporation Sole recorded additional escrow interest of \$100,000, remitted \$2 million of the proceeds to the Seminary, paid constructions costs of approximately \$1.3 million on behalf of the Seminary and issued a promissory note to the Seminary in the amount of \$36.4 million (see Note 4). The remaining \$4.9 million of the amount due from related organization on joint sale of property was remitted to the Seminary subsequent to the fiscal year-end.

The Seminary retained an ownership of a condominium in St. John's Hall. As part of the property sale to Boston College, the Seminary agreed to lease a portion of this property to Boston College for \$1 per year over a 99-year term. This agreement has been reflected in effect as a sale rather than as a lease and no portion of the property sale proceeds have been deferred as advanced rental payments for the property's use.

Additionally, the Seminary has a 50-year put option to require Boston College to purchase the retained portion of the Seminary building for \$10 million. During the period of this agreement, the Seminary has agreed not to sell or transfer the property to any other party. After the 50-year period, the put right will expire and Boston College will be provided with a right of first refusal, which will entitle the College to match any third-party offer to purchase the property that the Seminary wishes to accept.

Note 4 - Notes Receivable Related Organization

At June 30, 2009 and 2008, the Seminary has a \$4,880,000 promissory note receivable from the Corporation Sole, a related organization, in connection with the 2004 sale of real estate. Interest accrued and receivable totaled \$123,881 at June 30, 2009 (\$754,713 at June 30, 2008), and is included in "Notes Receivable, Related Organization" in the statement of financial position. The note principal together with interest accrued from the date of the note becomes payable on January 1, 2011. Interest compounds on the note at a rate equivalent to the average total return of the Common Investment Fund, which was a negative return of 11.13% and 6.60% for the year ended June 30, 2009 and 2008, respectively. Under the terms of the agreement, the negative return resulted in a reduction of \$630,832 and \$435,645 to the cumulative unpaid interest receivable on the note for the year ended June 30, 2009 and 2008, respectively.

In addition, during October 2008, Corporation Sole entered into a 10-year promissory note with the Seminary for \$36,408,400 owed to the Seminary from the August 2007 joint sale of property (see Note 3). This note is non-interest bearing and subordinated to all other liabilities, obligations and indebtedness of Corporation Sole. This promissory note becomes due and payable in one lump sum payment on August 23, 2017.

Note 5 – Investments

Investments are recorded at fair value and consist of the following at June 30:

	<u>2009</u>		<u>2008</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Common Investment Fund	\$28,126,118	\$30,266,665	\$28,465,324	\$35,940,901
Fixed Income Investment Fund	377,818	307,832	377,818	307,375
	<u>\$28,503,936</u>	<u>\$30,574,497</u>	<u>\$28,843,142</u>	<u>\$36,248,276</u>

Note 6 – Endowments

The Seminary's endowment consists of 303 individual funds established for scholarships, one fund established for facility maintenance and three funds established to support general operations. Its endowment includes both donor-restricted endowment funds and a fund designated by the Board of Trustees to function as an endowment. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Seminary has historically viewed the Massachusetts Uniform Management of Institutional Funds Act (UMIFA) as requiring the Seminary to preserve 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 Seminary classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. This is regarded as the "historic dollar value" of the endowment fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets and is regarded as "net appreciation" is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Seminary.

Funds with Deficiencies

From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the "historic dollar value". Deficiencies of this nature are reported by a charge to unrestricted net assets. There were no deficiencies of endowment funds at June 30, 2009 or 2008.

Endowment Investment Policy

The Seminary has adopted an investment philosophy which, combined with the spending rate, attempts to provide a predictable stream of returns thereby making funds available to programs that are supported by its endowment, while at the same time seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Seminary must hold in perpetuity or for donor-specified periods. Under the Seminary's Investment Policy and spending rate, both of which are approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce an inflation-adjusted return in excess of the spending rate over a long period of time. Actual returns in any given year may vary.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Seminary 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 Seminary has invested its endowment investment portfolio in the Common Investment Fund, which in-turn invests in the Investment Partnership. The Investment Committee of Corporation Sole is responsible for selecting the investment managers of the Investment Partnership. The Investment Committee's investment rationale is to include an array of different strategy and investment managers for the Investment Partnership's portfolio to reduce overall volatility while providing investment returns above industry benchmarks. (See Note 5, Investments, for more details on the Seminary's investments and how they are valued.)

Note 6 – Endowments (Continued)

Endowment net asset composition by type of fund as of June 30, 2009 and 2008 is as follows:

<u>June 30, 2009</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
Donor Restricted Endowments	\$ -	\$ 4,621,241	\$10,600,059	\$15,221,300	
Donor Restricted Endowments at The Foundation	-	346,292	1,318,821	1,665,113	
Board-Designated Endowment	<u>16,531,356</u>	<u>-</u>	<u>-</u>	<u>16,531,356</u>	
Total Funds	<u>\$16,531,356</u>	<u>\$4,967,533</u>	<u>\$11,918,880</u>	<u>\$33,417,769</u>	
	<u>June 30, 2008</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor Restricted Endowments	\$ -	\$ 6,627,722	\$ 9,142,383	\$15,770,105	
Donor Restricted Endowments at The Foundation	-	628,366	1,322,078	1,950,444	
Board-Designated Endowment	<u>19,644,821</u>	<u>-</u>	<u>-</u>	<u>19,644,821</u>	
Total Funds	<u>\$19,644,821</u>	<u>\$7,256,088</u>	<u>\$10,464,461</u>	<u>\$37,365,370</u>	

Changes in endowment net assets for the fiscal years ended June 30, 2009 and 2008 are as follows:

<u>June 30, 2009</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	<u>\$19,644,821</u>	<u>\$ 7,256,088</u>	<u>\$10,464,461</u>	<u>\$37,365,370</u>
Investment Return:				
Investment income	706,878	621,917	348	1,329,143
Net depreciation	<u>(3,302,814)</u>	<u>(2,293,848)</u>	<u>-</u>	<u>(5,596,662)</u>
Total investment return	(2,595,936)	(1,671,931)	348	(4,267,519)
Contributions	221,212	-	1,457,329	1,678,541
Appropriation of endowment assets for operations (draw)	<u>(738,741)</u>	<u>(616,624)</u>	<u>-</u>	<u>(1,355,365)</u>
Other charges:				
Changes in interest in net assets of the Foundation	<u>-</u>	<u>-</u>	<u>(3,258)</u>	<u>(3,258)</u>
Endowment net assets, end of year	<u>\$16,531,356</u>	<u>\$ 4,967,533</u>	<u>\$11,918,880</u>	<u>\$33,417,769</u>

Note 6 – Endowments (Cont.)

<u>June 30, 2008</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	<u>\$22,014,314</u>	<u>\$ 9,200,528</u>	<u>\$10,398,936</u>	<u>\$41,613,778</u>
Investment Return:				
Investment income	874,976	743,650	400	1,619,026
Net depreciation	<u>(2,301,804)</u>	<u>(1,911,063)</u>	<u>-</u>	<u>(4,212,867)</u>
Total investment return	(1,426,828)	(1,167,413)	400	(2,593,841)
Contributions	(67,696)	-	67,696	-
Appropriation of endowment assets for operations (draw)	(874,969)	(777,027)	-	(1,651,996)
Other charges:				
Change in interest in net assets of the Foundation	<u>-</u>	<u>-</u>	<u>(2,571)</u>	<u>(2,571)</u>
Endowment net assets, end of year	<u>\$19,644,821</u>	<u>\$ 7,256,088</u>	<u>\$10,464,461</u>	<u>\$37,365,370</u>

Note 7 – Interest in the Net Assets of the Foundation

The Seminary is the beneficiary of donations collected on its behalf by the Catholic Foundation of the Archdiocese of Boston, Inc. (the "Foundation"), a related organization. As discussed in Note 2, "Accounting for Assets Held by Others", the Seminary has recorded its interest in the Foundation's net assets of \$1,741,426 and \$1,954,430 at June 30, 2009 and 2008, respectively. The change in the Seminary's interest, including matching gift pledges from the Annual Appeal Campaign, is reflected in the statement of activities as a decrease in net assets of \$75,519 and \$136,418 in 2009 and 2008, respectively. Transfers of funds from the Foundation, including matching gift distributions from the Annual Appeal Campaign, totaled \$137,485 and \$84,650 for the years ended June 30, 2009 and 2008, respectively.

Note 8 – Land, Buildings and Equipment

Land, buildings and equipment consist of the following at June 30:

	<u>2009</u>	<u>2008</u>
Buildings and improvements	\$21,034,537	\$21,034,537
Leasehold improvements	1,374,555	115,100
Furniture and equipment	1,387,228	1,329,017
Motor vehicles	<u>21,031</u>	<u>21,031</u>
	23,817,351	22,499,685
Less accumulated depreciation	<u>(7,610,235)</u>	<u>(7,067,738)</u>
	<u>\$16,207,116</u>	<u>\$15,431,947</u>

Depreciation expense totaled \$542,497 and \$538,633 for the years ended June 30, 2009 and 2008, respectively.

Note 9 – Contributed Services and Facilities

Contributed Services - For the years ended June 30, 2009 and 2008, the Seminary recorded contributed services received in the amount of \$746,379 and \$679,706, respectively, for full-time services provided by priests who serve as faculty. These amounts represent the differences between actual compensation paid and the estimated compensation that would be paid to laypersons performing the same services.

Contributed Facilities – On January 1, 2009, the Seminary entered into a 50-year lease agreement with Corporation Sole, a related organization, to lease space for the School of Masters in Ministry educational program for \$1. Accordingly, the Seminary has recognized contributed facilities as support via a corresponding charge to rent expense for the year ended June 30, 2009 in the amount of \$60,000, representing the required fair rental value.

Note 10 - Restricted Net Assets

Temporarily restricted net assets consist of the following at June 30:

	<u>2009</u>	<u>2008</u>
Net assets available for the following purposes:		
Scholarship awards	\$ 3,142,328	\$ 3,348,119
Building	-	774,308
General operations and other	-	680,454
Masses	-	313,681
Interest in temporarily restricted net assets of the Foundation	<u>422,605</u>	<u>632,352</u>
	<u>3,564,933</u>	5,748,914
Realized and unrealized losses on investments related to temporarily and permanently restricted net assets	<u>4,621,241</u>	<u>6,627,722</u>
	<u>\$ 8,186,174</u>	<u>\$12,376,636</u>

Permanently restricted net assets at June 30 consist of the following:

	<u>2009</u>	<u>2008</u>
Net assets restricted to investment in perpetuity, the income from which is expendable to support:		
Scholarships	\$ 8,680,552	\$ 7,223,223
Building and equipment	1,184,463	1,184,463
General	735,044	734,697
Interest in permanently restricted net assets of the Foundation	<u>1,318,821</u>	<u>1,322,078</u>
	<u>\$11,918,880</u>	<u>\$10,464,461</u>

During the years ended June 30, 2009 and 2008, temporarily restricted net assets were released from donor restrictions by incurring expenses or by the occurrence of other events satisfying the restricted purposes as follows:

	<u>2009</u>	<u>2008</u>
Student scholarships	\$ 759,687	\$ 798,348
Building	808,655	-
General operations and other	819,367	-
Masses	<u>313,681</u>	-
	<u>\$2,701,390</u>	<u>\$ 798,348</u>

Note 11 - Fair Value Measurements

The Seminary adopted Financial Accounting Standards Board (“FASB”) Statement of Financial Accounting Standards No 157, “*Fair Value Measurements*” (SFAS 157) effective July 1, 2008. SFAS 157 establishes a fair value hierarchy that prioritizes the inputs and assumptions used to measure fair value, giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under SFAS 157 are described below:

Level 1 – Valuations based on quoted prices available in active markets for identical assets and liabilities.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable either directly or indirectly for the asset or liability.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement for the asset or liability.

A qualifying asset or liability’s level within the framework is based upon the lowest level of any input that is significant to the fair value measurement. The methods used for valuing the assets and liabilities are not necessarily an indication of the risks associated with those assets.

Investments

The Association’s unit holdings in the Common Investment Fund and Fixed Income Fund do not have quoted prices in active markets or significant other observable inputs that have quoted market prices although the Seminary can redeem its investment at the net asset value per share at June 30, 2009. These assets are classified as being valued with Level 2 inputs under the fair value hierarchy following the 2009-12 FASB Accounting Standards Update, which the Seminary early adopted. The Seminary estimates the fair value of its unit holdings in the Common Investment Fund and Fixed Income Fund based on the Seminary’s share of the underlying investment portfolio that consists of actively traded equities, bonds and money market funds.

	Quoted Prices in Active Markets for Identical Assets <u>Level 1</u>	Significant Other Observable Inputs <u>Level 2</u>	Significant Unobservable Inputs <u>Level 3</u>	Balance As of <u>June 30,2009</u>
Investments	\$ <u>-</u>	\$ <u>30,574,497</u>	\$ <u>-</u>	\$ <u>30,574,497</u>

Note 12 – Prior Period Restatement

During the current fiscal year, it was determined that the interest income recorded in 2008 on the amount due from Corporation Sole related to the joint sale of property to Boston College (Note 3) was overstated by \$904,417. Accordingly, the June 30, 2008 financial statements have been retrospectively restated to reduce the amount of interest income earned on amounts due from the related organization.

The following is a summary of the restatement to the June 30, 2008 financial statements:

	Originally Reported	Adjustment	Restated
Statement of Financial Position:			
Amount due from related organization on joint sale of property	\$ 45,440,895	\$ (904,417)	\$ 44,536,478
Unrestricted net assets	<u>\$ 86,742,635</u>	<u>\$ (904,417)</u>	<u>\$ 85,838,218</u>
Statement of Activities:			
Interest income on amounts due from related organization	\$ 1,180,357	\$ (904,417)	\$ 275,940
Change in net assets	<u>\$ 34,130,972</u>	<u>\$ (904,417)</u>	<u>\$ 33,226,555</u>

Note 13 - Related Organization Transactions

Rental Income - The Seminary had an agreement to lease Peterson Hall to Corporation Sole. The July 2007 joint property sale allowed for Corporation Sole to continue using Peterson Hall to June 2008. Corporation Sole continued the lease payments to the Seminary with rental income totaling \$633,724 for the year ended June 30, 2008.

Benefits – The Seminary participates with other Catholic organizations in lay employee health, dental, life and disability benefit plans that are considered related organizations. Expenses incurred by the Seminary for the benefit of lay employees under these plans were \$56,498 and \$42,711 for the years ended June 30, 2009 and 2008, respectively.

The Seminary participates with other Catholic organizations in the Archdiocese of Boston Clergy Medical/Hospitalization Trust, a related organization. Expenses incurred by the Seminary for the benefit of clergy under this plan were \$88,376 and \$72,750 for the years ended June 30, 2009 and 2008, respectively.

Insurance - The Seminary purchases general liability, automobile, fire and theft, crime, boiler and workers' compensation insurance through a pooled insurance program of Corporation Sole. Related insurance expense for this coverage was \$173,580 and \$97,527 for the years ended June 30, 2009 and 2008, respectively.

Services – The Seminary receives administrative, technological and clerical services from Corporation Sole. Fees incurred for these services were \$168,056 and \$105,573 for the years ended June 30, 2009 and 2008, respectively.

Note 14 - Employee Pension Plans

The Seminary participates with other organizations affiliated with the Archdiocese in a noncontributory, defined-benefit multiemployer pension plan covering substantially all lay employees. Benefits are provided through the Roman Catholic Archdiocese of Boston Pension Plan (the "Pension Plan"). The Seminary's employees represent approximately 1% of all lay employees covered under the Pension Plan. The Pension Plan is not subject to the Employee Retirement Income Security Act of 1974 ("ERISA"). Pension expense allocated to the Seminary is based on payroll cost and amounted to \$22,116 and \$28,464 for the years ended June 30, 2009 and 2008, respectively.

Accumulated plan benefits information, as provided by consulting actuaries, has not been distinguished from the benefits of the other organizations participating in the Pension Plan and, accordingly, such information is not presented herein. At June 30, 2009 and 2008, the financial statements of the Pension Plan reflected approximately \$239.6 million and \$272.1 million, respectively, in net assets available for benefits and \$321.1 and \$301.4 million, respectively, in accumulated plan benefits.