Audited
Financial Statements

St. John's Seminary

June 30, 2011

G.T. Reilly & Company
Certified Public Accountants/Business Consultants

St. John's Seminary

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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, 2011 and 2010, 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, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2011 and 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2011, on our consideration of St. John's Seminary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

G. T. Reilly & Company

G. T. Reilly & Company

Milton, Massachusetts
December 9, 2011

Statements of Financial Position

June 30

		2011		2010
Assets				
Cash and cash equivalents (Note 2)	$	**3,388,982**	$	4,925,937
Tuition receivable (Note 2)		**30,086**		14,839
Pledges receivable (Note 2)		**-**		1,400,000
Interest and dividends receivable		**484,594**		414,143
Due from related party (Note 12)		**66,659**		-
Prepaid expenses and other assets		**30,985**		28,737
Notes receivable, related organization (Note 3 & 4)		**43,516,670**		42,014,004
Investments, at fair value (Note 5)		**46,724,001**		39,183,308
Interest in the net assets of a foundation (Note 6)		**2,081,055**		1,848,356
Land and building held for sale (Note 2)		**256,500**		
Land, buildings and equipment, net (Note 8)		**15,398,905**		15,703,582
TOTAL ASSETS	$	**111,978,437**	$	105,532,906
Liabilities and Net Assets				
Liabilities:				
Accounts payable and accrued expenses	$	**134,370**	$	419,504
Net Assets (Notes 7 & 10):				
Unrestricted		**88,314,247**		83,769,436
Temporarily restricted		**11,358,805**		9,268,011
Permanently restricted		**12,171,015**		12,075,955
		111,844,067		105,113,402
TOTAL LIABILITIES AND NET ASSETS	$	**111,978,437**	$	105,532,906

The accompanying notes are an integral part of these financial statements.

Statement of Activities

For the Year Ended June 30, 2011
(With summarized comparative information for the year ended June 30, 2010)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total	2010 Total
REVENUES, GAINS & SUPPORT					
Tuition, fees, room and board	$ 2,386,015	$ -	$ -	$ 2,386,015	$ 2,127,651
Less: financial aid	(1,121,667)	-	-	(1,121,667)	(935,160)
Net tuition, fees, room and board	1,264,348	-	-	1,264,348	1,192,491
Parish collections - Pentecost	240,442	-	-	240,442	387,113
Contributions and bequests	405,409	162,356	94,660	662,425	703,865
Matching gifts (Note 6)	191,084	-	-	191,084	199,007
Contributed services & facilities (Note 9)	872,026	-	-	872,026	853,059
Investment income	1,095,488	681,162	400	1,777,050	1,503,325
Other revenues	65,327	-	-	65,327	95,368
Change in interest in net assets of a foundation (Note 6)	-	381,968	-	381,968	281,307
Net assets released through satisfaction of restrictions (Note 10)	1,403,646	(1,403,646)	-	-	-
TOTAL REVENUES, GAINS & SUPPORT	5,537,770	(178,160)	95,060	5,454,670	5,215,535
EXPENSES					
School of Theology	4,198,551	-	-	4,198,551	4,261,168
School of Masters in Ministry	835,190	-	-	835,190	668,766
Redemptoris Mater room & board (Note 12)	217,622	-	-	217,622	150,000
Management and general	733,826	-	-	733,826	611,681
Fundraising	145,366	-	-	145,366	19,393
TOTAL EXPENSES	6,130,555	-	-	6,130,555	5,711,008
OPERATING LOSS	(592,785)	(178,160)	95,060	(675,885)	(495,473)
NONOPERATING INCOME					
Net realized and unrealized gain on investments	3,634,929	2,268,954	-	5,903,883	2,211,290
Interest income and late fee penalty on related organization note (Note 4)	1,502,667	-	-	1,502,667	601,723
NONOPERATING INCOME	5,137,596	2,268,954	-	7,406,550	2,813,013
CHANGE IN NET ASSETS	4,544,811	2,090,794	95,060	6,730,665	2,317,540
NET ASSETS AT BEGINNING OF YEAR	83,769,436	9,268,011	12,075,955	105,113,402	102,795,862
NET ASSETS AT END OF YEAR	$ 88,314,247	$ 11,358,805	$ 12,171,015	$ 111,844,067	$ 105,113,402

The accompanying notes are an integral part of these financial statements.

Statement of Activities

For the Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010 Total
REVENUES, GAINS & SUPPORT				
Tuition, fees, room and board	$ 2,127,651	$ -	$ -	$ 2,127,651
Less: financial aid	(935,160)	-	-	(935,160)
Net tuition, fees, room and board	1,192,491	-	-	1,192,491
Parish collections - Pentecost	387,113	-	-	387,113
Contributions and bequests	251,623	296,457	155,785	703,865
Matching gifts (Note 6)	199,007	-	-	199,007
Contributed services & facilities (Note 9)	853,059	-	-	853,059
Investment income	733,741	769,184	400	1,503,325
Other revenues	95,368	-	-	95,368
Change in interest in net assets of a foundation (Note 6)	-	280,417	890	281,307
Net assets released through satisfaction of restrictions (Note 10)	1,163,131	(1,163,131)	-	-
TOTAL REVENUES, GAINS & SUPPORT	4,875,533	182,927	157,075	5,215,535
EXPENSES				
School of Theology	4,261,168	-	-	4,261,168
School of Masters in Ministry	668,766	-	-	668,766
Redemptoris Mater room & board (Note 12)	150,000	-	-	150,000
Management and general	611,681	-	-	611,681
Fundraising	19,393	-	-	19,393
TOTAL EXPENSES	5,711,008	-	-	5,711,008
OPERATING LOSS	(835,475)	182,927	157,075	(495,473)
NONOPERATING INCOME				
Net realized and unrealized gain on investments	1,312,380	898,910	-	2,211,290
Interest income on related organization note (Note 4)	601,723	-	-	601,723
NONOPERATING INCOME	1,914,103	898,910	-	2,813,013
CHANGE IN NET ASSETS	1,078,628	1,081,837	157,075	2,317,540
NET ASSETS AT BEGINNING OF YEAR	82,690,808	8,186,174	11,918,880	102,795,862
NET ASSETS AT END OF YEAR	$ 83,769,436	$ 9,268,011	$ 12,075,955	$ 105,113,402

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows

For the Years Ended June 30

	2011	2010
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	$ 6,730,665	$ 2,317,540
Adjustments to reconcile change in net assets to net cash and cash equivalents from operating activities:		
Net realized and unrealized gain on investments	(5,903,883)	(2,211,290)
Depreciation	564,788	558,513
Interest income on related organization note receivable (Note 4)	(1,502,667)	(601,723)
Change in interest in net assets of a foundation (Note 6)	(381,968)	(281,307)
Donation of land and building held for sale (Note 2)	(256,500)	-
Changes in operating assets and liabilities:		
Interest and dividends receivable	(70,451)	(135,444)
Due from related party	(66,659)	-
Prepaid expenses and other assets	(2,248)	(9,679)
Tuition receivable	(15,247)	329,667
Pledges receivable	1,400,000	5,000
Accounts payable and accrued expenses	(285,134)	237,336
NET CASH AND CASH EQUIVALENTS PROVIDED BY OPERATING ACTIVITIES	210,696	208,613
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of land, buildings and equipment	(260,111)	(54,978)
Repayments on amounts due from related organizaton	-	4,855,626
Purchase of investments	(1,636,810)	(6,735,932)
Proceeds from the sale of investments	-	338,411
Transfer of assets from a foundation (Note 6)	149,270	174,377
NET CASH AND CASH EQUIVALENTS USED IN INVESTING ACTIVITIES	(1,747,651)	(1,422,496)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,536,955)	(1,213,883)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	4,925,937	6,139,820
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 3,388,982	$ 4,925,937

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

June 30, 2011

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.

In accordance with generally accepted accounting principles 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.)

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. At June 30, 2011 and 2010, 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") 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 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, 2011 and 2010, securities whose prices are not available through independent pricing services (investment holdings of private investment entities) are 27% and 22%, respectively, of the total investments of the investment funds (see Notes 5 and 11).

Land and Building Held for Sale – During 2011, the Seminary received a donation of property, which was recorded at its fair value at the time of donation of $256,500. This property will be carried at the lower of cost or market, and since it is being held for sale, is not being depreciated by the Seminary.

Land, Buildings and Equipment – Land and improvements, buildings and improvements and 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 ASC Topic 958-605, "Transfer of Assets to a Not-for-Profit Organization or Charitable Trust that raises or Holds Contributions for Others". This topical 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 Notes 6 & 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, 2011, based on bank balances, cash deposits exceeded insured limits by approximately $792,000. Included in cash equivalents are uninsured money market mutual funds totaling approximately $2,818,000 at June 30, 2011. 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).

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. In fiscal year 2010, the Seminary adopted guidance recognizing the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. The Seminary's management has reviewed the tax positions for open periods and determined that no provision for income tax is required in the Seminary's financial statements. 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 9, 2011, 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"), a related organization, 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 was paid by Boston College to Corporation Sole upon satisfaction of a condition which the Corporation Sole has satisfied. This $2 million was received by Corporation Sole from Boston College on July 29, 2011.

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 $44.2 million, which resulted in the Seminary recognizing a gain of $38.3 million on the sale. Corporation Sole has remitted $8.2 million of the sale proceeds, which includes $400,000 of accrued escrow interest, and issued a promissory note to the Seminary in the amount of $36.4 million (see Note 4).

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, 2011 and 2010, the Seminary has a $4,916,314 promissory note receivable, which includes capitalized interest of $36,314, from the Corporation Sole in connection with a 2004 sale of real estate. Interest and late fee penalty accrued and receivable totaled $2,191,956 at June 30, 2011 ($689,290 at June 30, 2010), and is included in "Notes Receivable, Related Organization" in the statement of financial position. The note with interest accrued is 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 positive return of 19.24% and a positive return of 12.17% for the year ended June 30, 2011 and 2010, respectively. Under the terms of the agreement, the positive return resulted in interest income of $1,162,667 and $601,723 to the cumulative unpaid interest receivable on the note for the year ended June 30, 2011 and 2010, respectively. In addition, since the note became due and payable at January 1, 2011, but was not paid by Corporation Sole, the Seminary recorded an accrued late fee penalty of $340,000 in accordance with the terms of the note agreement (see Note 15).

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:

	2011		2010	
	Cost	**Fair Value**	Cost	Fair Value
Common Investment Fund	**$ 36,264,920**	**$ 46,724,001**	$ 34,917,315	$ 39,183,308

Note 6 – Interest in the Net Assets of a 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 $2,081,055 and $1,848,356 at June 30, 2011 and 2010, respectively.

Note 6 – Interest in the Net Assets of a Foundation (Cont.)

The change in the Seminary's interest, including matching gift pledges from the Annual Appeal Campaign, is reflected in the statement of activities as an increase in net assets of $381,968 and $281,307 in 2011 and 2010, respectively. Transfers of funds from the Foundation, including matching gift distributions from the Annual Appeal Campaign, totaled $149,270 and $174,377 for the years ended June 30, 2011 and 2010, respectively.

Note 7 – Endowments

The Seminary's endowment consists of approximately 300 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

During 2009, the Commonwealth of Massachusetts enacted a version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Although UPMIFA offers short-term spending flexibility, the explicit consideration of the preservation of the endowed funds among factors for prudent investment and spending suggests that a donor-restricted endowment fund is still perpetual in nature. As in the case in the current financial environment, there is no guarantee that the permanently restricted amount of an endowed fund will remain intact at all times. Under UPMIFA, the Board of Trustees is permitted to determine and continue a prudent payout amount, even if the market value of the fund is below the historic-dollar value. There is an expectation that, over time, the permanently restricted amount will generally remain intact. This perspective is aligned with the accounting standards definition that permanently restricted funds are those that must be held on perpetuity even though the historic-dollar value may be spent on a temporary basis. 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 change to unrestricted net assets and corresponding increase to temporarily restricted net assets. There were no deficiencies as of June 30, 2011 or 2010.

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.

Note 7 – Endowments (Cont.)

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 invests its 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.

Endowment net asset composition by type of fund as of June 30, 2011 and 2010 is as follows:

June 30, 2011	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor Restricted Endowments	**$ -**	**$ 7,822,770**	**$ 10,851,304**	**$ 18,674,074**
Donor Restricted Endowments at The Foundation	**-**	**738,652**	**1,319,711**	**- 2,058,363**
Board-Designated Endowment	**25,277,382**	**-**	**-**	**25,277,382**
Total Funds	**$ 25,277,382**	**$ 8,561,422**	**$ 12,171,015**	**$ 46,009,819**

June 30, 2010	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted Endowments	$ -	$ 5,520,152	$ 10,756,244	$ 16,276,396
Donor Restricted Endowments at The Foundation	-	472,798	1,319,711	1,792,509
Board-Designated Endowment	21,999,931	-	-	21,999,931
Total Funds	$ 21,999,931	$ 5,992,950	$ 12,075,955	$ 40,068,836

Changes in endowment net assets for the fiscal years ended June 30, 2011 and 2010 are as follows:

June 30, 2011	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets, beginning of year	**$ 21,999,931**	**$ 5,992,950**	**$ 12,075,955**	**$ 40,068,836**
Investment Return:				
Investment income	**958,695**	**680,687**	**400**	**1,639,782**
Net appreciation	**3,277,451**	**2,268,954**	**-**	**5,546,405**
Total investment return	**4,236,146**	**2,949,641**	**400**	**7,186,187**
Contributions and bequests	**-**	**-**	**94,660**	**94,660**
Appropriation of endowment assets for operations (draw)	**(958,695)**	**(647,024)**	**-**	**(1,605,719)**
Other changes:				
Change in interest in net assets of the Foundation	**-**	**265,855**	**-**	**265,855**
Endowment net assets, end of year	**$ 25,277,382**	**$ 8,561,422**	**$ 12,171,015**	**$ 46,009,819**

Note 7 – Endowments (Cont.)

June 30, 2010	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 16,531,356	$ 4,967,533	$ 11,918,880	$ 33,417,769
Investment Return:				
Investment income	837,649	660,276	400	1,498,325
Net appreciation	1,297,162	1,080,667	-	2,377,829
Total investment return	2,134,811	1,740,943	400	3,876,154
Contributions and bequests	4,408,926	-	155,785	4,564,711
Appropriation of endowment assets for operations (draw)	(1,075,162)	(842,032)	-	(1,917,194)
Other changes:				
Change in interest in net assets of the Foundation	-	126,506	890	127,396
Endowment net assets, end of year	$ 21,999,931	$ 5,992,950	$ 12,075,955	$ 40,068,836

Note 8 – Land, Buildings and Equipment

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

	2011	2010
Buildings and improvements	**$ 21,141,454**	$ 21,034,537
Leasehold improvements	**1,374,555**	1,374,555
Furniture and equipment	**1,534,606**	1,442,207
Motor vehicles	**21,031**	21,031
Construction in Progress	**60,795**	-
	24,132,441	23,872,330
Less accumulated depreciation	**(8,733,536)**	(8,168,748)
	$ 15,398,905	$ 15,703,582

Depreciation expense totaled $564,788 and $558,513 for the years ended June 30, 2011 and 2010, respectively.

Note 9 – Contributed Services and Facilities

Contributed Services - For the years ended June 30, 2011 and 2010, the Seminary recorded contributed services received in the amount of $752,026 and $733,059, 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.

Note 9 – Contributed Services and Facilities (Cont.)

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 years ended June 30, 2011 and 2010 in the amounts of $120,000 for both years, representing the required fair rental value.

Note 10 - Restricted Net Assets

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

	2011	2010
Net assets available for the following purposes:		
Scholarship awards	**$ 2,742,679**	$ 3,209,214
Building and equipment	**1,450**	10,000
General operations and other	**30,563**	-
Interest in temporarily restricted net assets of a foundation	**761,343**	528,645
	3,536,035	3,747,859
Realized and unrealized gains on investments related to temporarily and permanently restricted net assets	**7,822,770**	5,520,152
	$ 11,358,805	$ 9,268,011

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

	2011	2010
Net assets restricted to investment in perpetuity, the income from which is expendable to support:		
Scholarships	**$ 8,930,997**	$ 8,836,337
Building and equipment	**1,184,463**	1,184,463
General	**735,844**	735,444
Interest in permanently restricted net assets of a foundation	**1,319,711**	1,319,711
	$12,171,015	$12,075,955

During the years ended June 30, 2011 and 2010, 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:

	2011	2010
Scholarship awards	**$ 1,121,667**	$ 935,160
Building and equipment	**53,432**	31,943
General operations and other	**228,547**	196,028
	$ 1,403,646	$ 1,163,131

Note 11 - Fair Value Measurements

The Seminary measures the fair values of assets and liabilities as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value hierarchy is used to prioritize the inputs to valuation techniques used to measure fair value. The Seminary classifies its assets and liabilities into Level 1 (securities valued using quoted prices from active markets for identical assets), Level 2 (securities not traded on an active market for which observable market inputs are readily available), and Level 3 (securities valued based on significant unobservable inputs). Investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The Seminary adopted amended guidance on fair value measurements in its June 30, 2009 financial statements and expanded disclosure requirements in its June 30, 2010 financial statements.

The new guidance effects how the Seminary measures the fair value of investments in certain entities that do not have a quoted market price, but calculate net asset value (NAV) per share or its equivalent. As a practical expedient, the amendments permit, but do not require, the Seminary to measure the fair value of an investment in an investee within the scope of the amendments based on the investee's NAV per share or its equivalent. The Seminary records its investments at the net asset value per unit on the valuation day. The adoption did not have an impact on the fair value determination of the Seminaries investments. The Seminary's investments of $46,724,001 and $39,183,308 at June 30, 2011 and 2010, respectively, are classified as Level 2 in the fair value hierarchy.

Note 12 - Related Organization Transactions

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 $119,731 and $85,295 for the years ended June 30, 2011 and 2010, 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 $166,675 and $115,289 for the years ended June 30, 2011 and 2010, 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 $91,848 and $99,722 for the years ended June 30, 2011 and 2010, respectively.

Services – The Seminary receives administrative, technological and clerical services from Corporation Sole. Fees incurred for these services were $153,530 and $134,283 for the years ended June 30, 2011 and 2010, respectively.

Student Housing – The Seminary paid an agreed upon amount of housing expenditures for students belonging to the Redemptoris Mater religious group. Housing expenditures, namely room and board, incurred by the Seminary was $217,622 and $150,000 for the years ended June 30, 2011 and 2010, respectively.

Due from Related Party – Amounts due from Corporation Sole to the Seminary at June 30, 2011 was $66,659 (none at June 30, 2010).

Note 13 - 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 $43,867 and $29,276 for the years ended June 30, 2011 and 2010, 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, 2011 and 2010, the financial statements of the Pension Plan reflected approximately $284.5 and $264.9 million, respectively, in net assets available for benefits and $328.9 and $339.0 million, respectively, in accumulated plan benefits.

The Plan Trustees had voted to amend the Plan to implement a hard freeze effective December 31, 2011. Under the provision of the amendment, any employee hired after December 1, 2010 would not be eligible to become a participant in the Plan. As of December 31, 2011, all participants will stop accruing benefits. Employees with five or more years of service will remain vested. Employees with at least one year of service as of December 31, 2011, will be allowed to continue to add years of service towards vesting after the freeze date. Voluntary lump sum distributions and monthly in-service annuities were also offered.

A new Archdiocese of Boston 401(k) Retirement Savings Plan will be launched effective January 1, 2012.

Note 14 – Summary of Educational Expenses

The following is a summary of educational expenses incurred for the years ended June 30:

	2011	2010
Instruction	**$2,804,239**	$2,444,148
Library	**89,037**	185,122
Student services/activities	**26,242**	70,643
Operation and maintenance of plant	**572,325**	707,803
Depreciation expense	**476,458**	493,515
Household expenses	**1,065,440**	1,028,703
	$5,033,741	$4,929,934

Note 15 – Subsequent Events

St. John's Seminary holds a note receivable due from Corporation Sole with a principal balance of $4,916,314 and an accumulated interest and late fee penalty balance of $2,191,956 for a total amount receivable of $7,108,270, which became due and payable on January 1, 2011 but was not paid (see Note 4). The Corporation Sole and the Seminary are in the progress of finalizing an agreement to address the retirement of this note.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Trustees
St. John's Seminary

We have audited the financial statements of St. John's Seminary as of and for the year ended June 30, 2011, and have issued our report thereon dated December 9, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered St. John's Seminary's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of St. John's Seminary's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Seminary's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether St. John's Seminary's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of St. John's Seminary in a separate letter dated December 9, 2011.

This report is intended solely for the information and use of management, the Board of Trustees, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

G. T. Reilly & Company

G. T. Reilly & Company

Milton, Massachusetts
December 9, 2011