Audited
Financial Statements

St. John's Seminary

June 30, 2006

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

St. John's Seminary

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Internationally,
Moore Stephens Reilly, P.C.
Reilly Consulting Group, Inc.
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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 as of June 30, 2006 and 2005, 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, 2006 and 2005, 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 September 22, 2006 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

G. T. Reilly & Company

G. T. Reilly & Company

Milton, Massachusetts
September 22, 2006

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Statements of Financial Position

June 30

	2006	2005
Assets		
Cash and cash equivalents (Note 1)		
Cash and cash equivalents	**$ 4,318,660**	$12,782,992
Deposits with the Corporation Sole-Revolving Loan Fund	**97,307**	93,565
Total cash and cash equivalents	**4,415,967**	12,876,557
Tuition receivable, net (Note 2)	**124,495**	26,066
Pledges receivable, net (Note 3)	**18,942**	24,294
Grants receivable	**13,282**	13,282
Interest and dividends receivable	**385,647**	274,814
Prepaid expenses and other assets	**26,041**	31,550
Due from related organizations (Note 4)	**5,331,894**	4,940,175
Investments, at market value (Note 5)	**37,018,660**	27,225,279
Interest in the net assets of the Foundation (Note 6)	**2,112,848**	1,889,919
Land held for sale	**116,800**	0
Land, buildings & equipment, net (Note 7)	**23,291,107**	23,968,270
TOTAL ASSETS	**$72,855,683**	$71,270,206
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	**$ 344,937**	$ 172,713
Deferred tuition revenue	**5,500**	13,900
	350,437	186,613
Net Assets (Note 9):		
Unrestricted	**49,416,831**	49,136,101
Temporarily restricted	**12,707,586**	11,506,293
Permanently restricted	**10,380,829**	10,441,199
	72,505,246	71,083,593
TOTAL LIABILITIES AND NET ASSETS	**$72,855,683**	$71,270,206

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

Statements of Activities

Year Ended June 30

	2006				2005			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS & OTHER SUPPORT								
Tuition and fees	$ 569,308	$ 0	$ 0	$ 569,308	$ 741,106	$ 0	$ 0	$ 741,106
Collections-Pentecost	263,312	0	0	263,312	340,242	0	0	340,242
Contributions, bequests and grants	261,482	219,715	5,500	486,697	169,573	481,207	1,601	652,381
Matching gifts	328,258	0	0	328,258	376,650	0	0	376,650
Contributed services (Note 8)	692,448	0	0	692,448	710,435	0	0	710,435
Investment income	859,759	705,027	751	1,565,537	203,147	603,967	576	807,690
Other revenues	34,498	0	0	34,498	65,717	0	0	65,717
Special fees	259	0	0	259	4,042	0	0	4,042
Conferences	0	0	0	0	1,030	0	0	1,030
Rental income (Note 11)	627,124	0	0	627,124	627,124	0	0	627,124
Contribution from Corporation Sole (Note 11)	300,000	0	0	300,000	1,288,000	0	0	1,288,000
Revenue from and interest in change in net assets of the Foundation (Note 6)	0	306,517	1,075	307,592	0	(654)	79,816	79,162
Net assets released through satisfaction of restrictions (Note 9)	699,171	(631,475)	(67,696)	0	559,019	(559,019)	0	0
TOTAL REVENUES, GAINS & OTHER SUPPORT	4,635,619	599,784	(60,370)	5,175,033	5,086,085	525,501	81,993	5,693,579
EXPENSES								
School of Theology (Note 10)	4,131,453	0	0	4,131,453	3,895,921	0	0	3,895,921
Management and general	737,782	0	0	737,782	878,000	0	0	878,000
Depreciation (Note 7)	752,764	0	0	752,764	886,878	0	0	886,878
Fundraising	20,780	0	0	20,780	9,614	0	0	9,614
TOTAL EXPENSES	5,642,779	0	0	5,642,779	5,670,413	0	0	5,670,413
Operating Income (loss)	(1,007,160)	599,784	(60,370)	(467,746)	(584,328)	525,501	81,993	23,166
NONOPERATING INCOME								
Net realized and unrealized gains on investments and assets held under split-interest agreements	872,310	601,509	0	1,473,819	138,964	385,675	0	524,639
Interest income, related organization (Note 4)	415,580	0	0	415,580	36,314	0	0	36,314
Gain on sale of land & buildings (Notes 7 & 11)	0	0	0	0	25,179,541	0	0	25,179,541
Nonoperating income	1,287,890	601,509	0	1,889,399	25,354,819	385,675	0	25,740,494
CHANGE IN NET ASSETS	280,730	1,201,293	(60,370)	1,421,653	24,770,491	911,176	81,993	25,763,660
NET ASSETS AT BEGINNING OF YEAR	49,136,101	11,506,293	10,441,199	71,083,593	24,365,610	10,595,117	10,359,206	45,319,933
NET ASSETS AT END OF YEAR	$49,416,831	$12,707,586	$10,380,829	$72,505,246	$49,136,101	$11,506,293	$10,441,199	$71,083,593

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

Statements of Cash Flows

Year Ended June 30

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	**$ 1,421,653**	$25,763,660
Adjustments to reconcile change in net assets to net cash and cash equivalents provided from (applied to) operating activities:		
Net realized and unrealized gain on investments	**(1,473,819)**	(524,639)
Donation of land held for resale	**(116,800)**	0
Depreciation	**752,764**	886,878
Interest income, related organization	**(415,580)**	(36,314)
Gain on sale of land and buildings (Note 11)	**0**	(25,179,541)
Change in interest in net assets of the Foundation	**(307,592)**	(79,162)
Changes in operating assets and liabilities:		
Interest and dividends receivable	**(110,833)**	(110,232)
Prepaid expenses and other assets	**5,510**	(4,030)
Tuition receivable, net	**(98,428)**	5,349
Pledges receivable, net	**5,352**	(718)
Due from related organizations	**23,861**	213,844
Accounts payable and accrued expenses	**172,222**	(233,484)
Due to related organization	**0**	(414,791)
Deferred tuition revenue	**(8,400)**	13,900
NET CASH AND CASH EQUIVALENTS (APPLIED TO) PROVIDED BY OPERATING ACTIVITIES	**(150,090)**	300,720
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of land, buildings and equipment	**(75,601)**	(181,808)
Proceeds from sale of land and buildings (Note 11)	**0**	20,299,541
Proceeds from sale of investments and maturity of annuities	**186,953**	32,804
Purchase of investments and assets held in trust	**(8,506,515)**	(11,936,486)
Transfer of assets from the Catholic Foundation (Note 6)	**84,663**	85,079
NET CASH AND CASH EQUIVALENTS (APPLIED TO) PROVIDED BY INVESTING ACTIVITIES	**(8,310,500)**	8,299,130
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(8,460,590)**	8,599,850
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**12,876,557**	4,276,707
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 4,415,967**	$12,876,557

NONCASH INVESTING AND FINANCING ACTIVITIES

Promissory note received in partial payment of additional consideration on 2004 sale of property (Notes 4 & 11)	**$ 0**	$ 4,880,000

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

Notes to Financial Statements

June 30, 2006

Note 1 - Principal Activity and Summary of Significant Accounting Policies

Principal Activity – St. John's Seminary (the "Seminary") is a Roman Catholic, 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 for its services include investment income, tuition fees and donations.

Summary of Significant Accounting Policies - The significant accounting policies followed by the Seminary are described below:

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 they be maintained permanently by the Seminary. 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. Unexpended appreciation on permanently restricted net assets is included in temporarily restricted net assets.

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.

Note 1 - Principal Activity and Summary of Significant Accounting Policies (Cont.)

Cash and Cash Equivalents – For purposes of presentation of the statement of financial position, cash includes all bank accounts. Financial instruments with original maturities of three months or less at purchase are classified as cash equivalents.

The Seminary deposits its cash in two major financial institutions, which are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $100,000. At times, such cash is in excess of FDIC insured limits. At June 30, 2006 and 2005, based on bank balances, cash deposits exceeded insured limits by approximately $3,116,000 and $11,625,000, respectively. The Seminary has not experienced any losses as a result of the use of uninsured deposit amounts. Included in cash equivalents are investments in uninsured money market mutual funds approximating $1,036,000 and $995,000 at June 30, 2006 and 2005, respectively.

The Corporation Sole maintains a revolving loan fund, which is a vehicle for parishes to commingle funds for short-term investment purposes. This fund is also a vehicle to provide temporary financing to parishes for short-term borrowing needs. St. John's Seminary deposits in the revolving loan fund are classified as cash equivalents as approximately 80% of the underlying revolving loan funds assets are cash and 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 2006 and 2005, there were no charges to the tuition allowance for doubtful accounts. Write-offs to the pledge allowance for doubtful accounts were approximately $1,337 in 2006 and $19,873 in 2005.

Investments – The Seminary reports investments in equity securities, including mutual funds, at market value. Increases or decreases in the market value are reflected currently in the statement of activities as net realized and unrealized gains on investments and assets held under split-interest agreements.

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. Expenditures for maintenance and repairs are charged to expense, whereas major betterments are capitalized.

Land and buildings held for sale are presented in the statement of financial position at the lower of cost or market. When buildings are classified as held for sale, depreciation is no longer recorded.

Deferred Tuition Revenue – Deferred tuition revenue consists of summer and fall semester tuition received in advance.

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.

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.

Note 1 - Principal Activity and Summary of Significant Accounting Policies (Cont.)

Income Tax - 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. The more significant items presented herein affected by the use of estimates are the allowances for uncollectible receivables and loans and depreciable lives of buildings and equipment. Actual results could vary from those estimates.

Reclassifications – Certain reclassifications have been made to the 2005 financial statements to conform to presentations used in 2006.

Note 2 – Tuition Receivable

Tuition receivables are reported at the estimated net realizable amount at June 30, and consist of the following:

	2006	2005
Tuition receivable	**$ 124,495**	$ 26,066
Less: Allowance for uncollectible amounts	**0**	0
Net tuition receivable	**$ 124,495**	$ 26,066

Note 3 – Pledges Receivable

Pledges receivable are due within one year and consist of unconditional promises to give as follows:

	2006	2005
Unrestricted promises	**$ 18,100**	$ 23,452
Restricted to renovations	**34,175**	34,175
	52,275	57,627
Less: Allowance for uncollectible amounts	**(33,333)**	(33,333)
Net pledges receivable	**$ 18,942**	$ 24,294

Note 4 - Due from Related Organizations

On April 22, 2005, the Seminary received a $4,880,000 promissory note from the Roman Catholic Archbishop of Boston, A Corporation Sole (the "Corporation Sole"), a related organization, in connection with a 2004 sale of real estate (Note 11). Interest accrued and receivable at June 30, 2006 totaled $451,894 ($36,314 at June 30, 2005). The note principal together with interest accrued from the date of the note becomes payable on January 1, 2011. For the period from July 1, 2005 through January 1, 2011, interest compounds on the note at a rate equivalent to the average total return of the Common Investment Fund, Roman Catholic Archbishop of Boston, which was 8.45% for the year ended June 30, 2006. Interest income amounted to $415,580 and $36,314 for the years ended June 30, 2006 and 2005, respectively. In addition, the Seminary had no other receivables at June 30, 2006 ($23,861 at June 30, 2005), from related organizations for items representing timing differences generated by operating activities.

Note 5 – Investments

Investments consist of the following at June 30:

	2006		2005	
	Cost	**Market Value**	Cost	Market Value
Common Investment Fund, Roman Catholic Archbishop of Boston	**$28,570,375**	**$36,640,807**	$20,179,676	$26,757,483
Fixed Income Investment Fund, Roman Catholic Archbishop of Boston	**377,818**	**377,853**	444,741	467,796
	$28,948,193	**$37,018,660**	$20,624,417	$27,225,279

Included in investments are holdings in the Common Investment Fund, Roman Catholic Archbishop of Boston (the "Common Investment Fund"), which invests, through the Roman Catholic Archbishop of Boston Collective Investment Partnership, primarily in equity and fixed-income securities, and the Fixed Income Investment Fund, Roman Catholic Archbishop of Boston (the "Fixed Income Fund"). Both are separate related organizations established to provide a common investment pool in which the Seminary and other Catholic organizations may participate. The participants own units based upon a per-unit value at the time of purchase. The Common Investment Fund and the Fixed Income Fund incur service fees from the Corporation Sole for administrative and clerical services performed on behalf of the two funds.

Note 6 – Interest in the Catholic Foundation of the Archdiocese of Boston, Inc. ("Foundation")

The Seminary is the beneficiary of restricted donations collected on its behalf by the Foundation, a related organization. As discussed in Note 1, "Accounting for Assets Held by Others", the Seminary has recorded as an asset its interest in the Foundation's net assets, $2,112,848 at June 30, 2006 and $1,889,919 at June 30, 2005. The change in the Seminary's interest is reflected in the statement of activities as an increase in net assets of $307,592 and $79,162 in 2006 and 2005, respectively. Transfers of funds from the Foundation totaled $84,663 and $85,079 for the years ended June 30, 2006 and 2005, respectively.

Note 7 – Land, Buildings and Equipment

	2006	2005
Buildings and improvements	**$32,041,788**	$31,976,211
Land and improvements	**67,414**	67,414
Furniture and equipment	**2,481,156**	2,471,132
	34,590,358	34,514,757
Less accumulated depreciation	**(11,299,251)**	(10,546,487)
Land, buildings and equipment, net	**$23,291,107**	$23,968,270

Land held for sale at June 30, 2006 is carried at cost, which is not in excess of the net realizable value.

Depreciation expense totaled $752,764 and $886,878 for the years ended June 30, 2006 and 2005, respectively.

Certain land and buildings were sold, resulting in a gain of $25,179,541 for the year ended June 30, 2005 (see Note 11).

Note 8 – Contributed Services

For the years ended June 30, 2006 and 2005, the Seminary recorded contributed services received in the amounts of $692,448 and $710,435, respectively, for full-time services provided by priests who serve as faculty. Those amounts represent the differences between actual compensation paid and the estimated compensation that would be paid to laypersons performing the same services.

Note 9 - Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30:

	2006	2005
Scholarship awards	**$ 3,227,701**	$ 2,973,101
Building renovation	**733,238**	671,911
Interest in net assets of the Catholic Foundation	**800,699**	578,845
General	**523,040**	482,504
Masses	**288,334**	277,066
Promise for Tomorrow	**35,533**	25,333
Emergency funds	**1,899**	1,899
Student medical expenses	**396**	396
	5,610,840	5,011,055
Unrealized gains (losses) on investments related to temporarily restricted net assets	**10,775**	(639)
Unrealized gains on investments related to permanently restricted net assets	**7,085,198**	6,495,877
Realized gains on investments related to permanently restricted net assets	**773**	0
	$12,707,586	$11,506,293

Permanently restricted net assets at June 30 are restricted to investment in perpetuity, the income from which is expendable to support:

	2006	2005
Scholarships	**$ 7,217,617**	$ 7,212,117
Interest in net assets of the Foundation	**1,312,149**	1,311,074
Building and equipment	**1,116,767**	1,184,463
General	**734,296**	733,545
	$10,380,829	$10,441,199

During the years ended June 30, 2006 and 2005, net assets were released from donor restrictions by incurring expenses or by the occurrence of other events satisfying the restricted purposes as follows:

	2006	2005
Student scholarships	**$ 631,475**	$ 559,019
Building	**67,696**	0
	$ 699,171	$ 559,019

Note 10- Summary of Educational Expenses - School of Theology

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

	2006	2005
Instruction	**$1,611,136**	$1,590,561
Library	**254,860**	212,872
Student services/activities	**84,735**	92,954
Operation & maintenance of plant	**1,188,321**	1,132,715
Household expenses	**992,401**	866,819
Totals	**$4,131,453**	$3,895,921

Note 11 - Related Organization Transactions

In June of 2004, the Seminary sold to Corporation Sole approximately 30 acres of land with the buildings for $24,776,640. In addition, the Corporation Sole assigned to the Seminary any insurance recoveries from sexual misconduct claims from two insurance companies up to a maximum of the first $30 million recovered from the settlements, net of recovery costs, with no obligation on the part of Corporation Sole for payment beyond the insurance proceeds.

During the year ended June 30, 2005, a settlement was reached between Corporation Sole and two insurance carriers on the sexual misconduct claims. As agreed, net proceeds of $20,299,541 were received by the Seminary, in addition to a promissory note for $4,880,000 (see Note 4), for a recognized gain of $25,179,541 in 2005.

Lease Commitments - In September 2003, the Seminary entered into a five-year agreement to lease Peterson Hall to Corporation Sole with a tenant option to extend the lease term an additional five years. The initial monthly lease payment of $15,487 was renegotiated in June 2004 to $56,141 due to an increase in the amount of space leased. The following is a schedule of future minimum lease payments to be received through August 30, 2009.

Year Ending June 30	
2007	$ 673,692
2008	673,692
2009	112,282
	$1,459,666

Rental income under the lease agreement totaled $627,124 for the years ended June 30, 2006 and 2005.

Support - The Seminary receives support from Corporation Sole to help cover the operating and construction costs of the Seminary. Such support was $300,000 and $1,288,000 for the years ended June 30, 2006 and 2005, respectively. These amounts are included in Contribution from Corporation Sole in the statement of activities.

Benefits – The Seminary participates with other Catholic organizations in lay employee health, dental, life and disability benefit plans that are related organizations. Expenses incurred by the Seminary for the benefit of lay employees under these plans were $82,180 and $67,434 for the years ended June 30, 2006 and 2005, 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 $61,208 and $95,436 for the years ended June 30, 2006 and 2005, respectively.

Note 11 - Related Organization Transactions (Cont.)

Insurance - The Seminary purchases general liability, automobile, fire and theft, crime, boiler and inland marine insurance through Corporation Sole from various insurance carriers. Related insurance expense for payment of these services was $68,409 and $75,690 for the years ended June 30, 2006 and 2005, respectively.

Services – The Seminary receives administrative, technological and clerical services from Corporation Sole. Service fees incurred for these services were $167,535 and $166,922 during the years ended June 30, 2006 and 2005, respectively.

Note 12 - Employee Pension Plans

The Seminary participates with other Catholic organizations in a noncontributory, defined-benefit multiemployer pension plan covering substantially all lay employees of the various organizations making up the Archdiocese of Boston. 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 $48,600 and $49,300 for the years ended June 30, 2006 and 2005, respectively.

Accumulated plan benefits information, as provided by consulting actuaries, has not been distinguished among the various organizations participating in the Pension Plan. The June 30, 2006 audited financials statements of the Pension Plan reflect approximately $257.5 million in net assets available for benefits and $267.3 million in accumulated plan benefits under the Pension Plan.

Note 13 - Other Lease Commitments

The Seminary leases its motor vehicles under an agreement, which is reported as an operating lease, whereby the payments are charged to operations as incurred. Lease expense approximated $18,000 in fiscal 2006 and $19,000 in fiscal 2005.

Future minimum lease payments are $19,276 through the year ending June 30, 2007.

Note 14 - Contingencies

As part of the 2004 campus sale agreement between the Seminary, A Corporation Sole and Boston College, the Seminary has a ten-year put right to require Boston College to purchase the remaining parcel of approximately 13.5 acres of land and buildings.

The purchase price shall be $40 million if the put right is exercised during the twelve-month period commencing on the fifth anniversary of the recording of this agreement and ending on the day immediately prior to the sixth anniversary of such recording. the purchase price shall increase by $1 million for each twelve month period thereafter with the purchase price not to exceed $45 million.

If the put right is exercised prior to the fifth anniversary, the $40 million selling price would be discounted from the fifth anniversary to the date the Seminary's put notice is received by Boston College. The discount shall be based on the U.S. Treasury Note rate applicable for the shorter period of time. This agreement also includes leaseback options for the Seminary of one year and an option to extend for a term of up to five years.

In addition, the Seminary granted Boston College a right of first refusal on any proposed sale of this parcel of real estate. The right of first refusal expires on the later of the twenty-first anniversary of the agreement, or the death of the last to survive of the freshman undergraduate class at Boston College commencing class in September of 2004.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL 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, 2006, and have issued our report thereon dated September 22, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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 would 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 that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the Board of Trustees and management of St. John's Seminary, and is not intended to be and should not be used by anyone other than these specified parties.

G. T. Reilly & Company

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September 22, 2006

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