Audited
Financial Statements

St. John's Seminary

June 30, 2008

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

St. John's Seminary

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Moore Stephens Reilly, P.C.
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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, 2008 and 2007, 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, 2008 and 2007, 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 May 5, 2009, 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
May 5, 2009

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Statements of Financial Position

June 30

Assets	**2008**	2007
Cash and cash equivalents (Note 1)	**$ 5,016,688**	$ 4,272,498
Tuition receivable (Note 2)	**146,305**	25,915
Pledges receivable (Note 3)	**23,612**	12,515
Grants receivable	**-**	13,282
Interest and dividends receivable	**367,812**	394,063
Prepaid expenses and other assets	**22,625**	21,892
Note receivable, related organization (Note 4)	**5,634,713**	6,070,358
Amount due from related organization on joint sale of property (Note 14)	**45,440,895**	-
Investments, at fair value (Note 5)	**36,248,276**	40,300,483
Interest in the net assets of the Foundation (Note 6)	**1,954,430**	2,175,498
Land and buildings held for sale (Notes 7 & 14)	**-**	6,843,183
Land, buildings and equipment, net (Notes 7 & 14)	**15,431,947**	15,834,449
TOTAL ASSETS	**$ 110,287,303**	$ 75,964,136

Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	**$ 703,571**	$ 503,661
Deferred tuition revenue	**-**	7,715
	703,571	511,376
Net Assets (Note 9):		
Unrestricted	**86,742,635**	50,816,432
Temporarily restricted	**12,376,636**	14,237,392
Permanently restricted	**10,464,461**	10,398,936
	109,583,732	75,452,760
TOTAL LIABILITIES AND NET ASSETS	**$ 110,287,303**	$ 75,964,136

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

Statements of Activities

Year Ended June 30

	2008				2007			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS & OTHER SUPPORT								
Tuition and fees	**$ 838,668**	**$ -**	**$ -**	**$ 838,668**	$ 554,078	$ -	$ -	$ 554,078
Collections-Pentecost	**348,105**	**-**	**-**	**348,105**	281,957	-	-	281,957
Contributions, bequests and grants	**368,323**	**117,700**	**-**	**486,023**	87,011	18,500	5,606	111,117
Matching gifts	**298,621**	**-**	**-**	**298,621**	288,294	-	-	288,294
Contributed services (Note 8)	**679,706**	**-**	**-**	**679,706**	696,537	-	-	696,537
Investment income	**920,226**	**751,579**	**400**	**1,672,205**	891,922	757,402	573	1,649,897
Other revenues	**92,012**	**-**	**-**	**92,012**	38,320	-	-	38,320
Special fees	**5,888**	**-**	**-**	**5,888**	3,190	-	-	3,190
Rental income (Note 11)	**633,724**	**-**	**-**	**633,724**	627,124	-	-	627,124
Change in interest in net assets of the Foundation (Note 6)	**-**	**(133,847)**	**(2,571)**	**(136,418)**	-	161,670	12,501	174,171
Net assets released through satisfaction of restrictions (Note 9)	**798,348**	**(866,044)**	**67,696**	**-**	860,735	(668,887)	(191,848)	-
TOTAL REVENUES, GAINS & OTHER SUPPORT	**4,983,621**	**(130,612)**	**65,525**	**4,918,534**	4,329,168	268,685	(173,168)	4,424,685
EXPENSES								
School of Theology (Note 10)	**3,502,685**	**-**	**-**	**3,502,685**	4,106,805	-	-	4,106,805
Management and general	**1,699,815**	**-**	**-**	**1,699,815**	810,064	-	-	810,064
Depreciation (Note 7)	**538,633**	**-**	**-**	**538,633**	730,276	-	-	730,276
Fundraising	**21,903**	**-**	**-**	**21,903**	50,835	-	-	50,835
TOTAL EXPENSES	**5,763,036**	**-**	**-**	**5,763,036**	5,697,980	-	-	5,697,980
OPERATING INCOME (LOSS)	**(779,415)**	**(130,612)**	**65,525**	**(844,502)**	(1,368,812)	268,685	(173,168)	(1,273,295)
NONOPERATING INCOME								
Net realized and unrealized (losses) gains on investments and assets held under split-interest agreements	**(2,335,628)**	**(1,730,144)**	**-**	**(4,065,772)**	2,029,949	1,261,121	191,275	3,482,345
Interest income on escrow	**1,180,357**	**-**	**-**	**1,180,357**	-	-	-	-
Interest income (reduction), related organization note (Note 4)	**(435,645)**	**-**	**-**	**(435,645)**	738,464	-	-	- 738,464
Gain on sale of land and buildings (net of closing costs) (Note 14)	**38,296,534**	**-**	**-**	**38,296,534**	-	-	-	-
NONOPERATING INCOME	**36,705,618**	**(1,730,144)**	**-**	**34,975,474**	2,768,413	1,261,121	191,275	4,220,809
CHANGE IN NET ASSETS	**35,926,203**	**(1,860,756)**	**65,525**	**34,130,972**	1,399,601	1,529,806	18,107	2,947,514
NET ASSETS AT BEGINNING OF YEAR	**50,816,432**	**14,237,392**	**10,398,936**	**75,452,760**	49,416,831	12,707,586	10,380,829	72,505,246
NET ASSETS AT END OF YEAR	**$ 86,742,635**	**$ 12,376,636**	**$ 10,464,461**	**$ 109,583,732**	$ 50,816,432	$ 14,237,392	$ 10,398,936	$ 75,452,760

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

Statements of Cash Flows

Year Ended June 30

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	**$ 34,130,972**	$ 2,947,514
Adjustments to reconcile change in net assets to net cash and cash equivalents from operating activities:		
Net realized and unrealized (gains) losses on investments	**4,065,772**	(3,482,345)
Depreciation	**538,633**	730,276
Interest income (accrual) reduction, related organization note	**435,645**	(738,464)
Gain on sale of land and buildings	**(38,715,419)**	-
Change in interest in net assets of the Foundation	**136,418**	(174,171)
Changes in operating assets and liabilities:		
Interest and dividends receivable	**26,250**	(8,416)
Prepaid expenses and other assets	**(733)**	4,151
Tuition receivable, net	**(120,390)**	98,580
Pledges receivable, net	**(11,097)**	6,426
Grants receivable	**13,282**	-
Accounts payable and accrued expenses	**199,911**	158,724
Deferred tuition revenue	**(7,715)**	2,215
NET CASH AND CASH EQUIVALENTS PROVIDED BY (APPLIED TO) OPERATING ACTIVITIES	**691,529**	(455,510)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to land, buildings and equipment	**(136,131)**	-
Proceeds from sale of land	**117,707**	-
(Additions to) redemptions of investments held in trust	**(13,565)**	200,521
Transfer of assets from the Catholic Foundation (Note 6)	**84,650**	111,520
NET CASH AND CASH EQUIVALENTS PROVIDED BY INVESTING ACTIVITIES	**52,661**	312,041
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	**744,190**	(143,469)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**4,272,498**	4,415,967
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 5,016,688**	$ 4,272,498

NONCASH INVESTING AND FINANCING ACTIVITIES		
Amount due from related organization on joint sale of property (Note 14)	**$ 44,762,514**	$ -

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

Notes to Financial Statements

June 30, 2008

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 is 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 maintains 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. Unexpended appreciation on permanently restricted net assets is included in temporarily restricted net assets, unless the donor states otherwise.

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 9 for restrictions on net assets.

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

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.

Cash and Cash Equivalents – For purposes of presentation of the statements of financial position and cash flows, cash includes all bank accounts with no restrictions on withdrawals. Financial instruments with original maturities of three months or less at purchase are classified as cash equivalents.

The Seminary maintains its cash deposits 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, 2008, based on bank balances, cash deposits exceeded insured limits by approximately $3,526,000. Included in cash equivalents are investments in uninsured money market mutual funds approximating $1,108,000 at June 30, 2008. The Seminary has not experienced any losses as a result of uninsured deposit amounts.

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 2008 and 2007, there were no allowances for doubtful accounts for tuition or pledge receivables as management did not deem it to be necessary.

Investments – The Seminary reports investments in equity securities, including mutual funds, at fair value. Unrealized increases or decreases in the market value are reflected currently in the statement of activities.

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.

Land and buildings held for sale are presented in the statement of financial position at the lower of cost or market value. When buildings are classified as held for sale, depreciation is no longer recorded (see Note 7).

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 (see Note 8).

Note 1 - Principal Activity and 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 6).

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.

Note 2 – Tuition Receivable

Tuition receivable is reported at the estimated net realizable amount at June 30, and consists of the following:

	2008	2007
Tuition receivable	**$ 146,305**	$ 25,915
Less: Allowance for uncollectible amounts	**0**	0
Net tuition receivable	**$ 146,305**	$ 25,915

Note 3 – Pledges Receivable

Pledges receivable are due within one year and consist of unrestricted, unconditional promises to give of $23,612 and $12,515 at June 30, 2008 and 2007, respectively.

Note 4 – Note Receivable Related Organization

The Seminary has a $4,880,000 promissory note receivable 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. Interest accrued and receivable totaled $754,713 at June 30, 2008 ($1,190,358 at June 30, 2007), and is included in the balance of the note presented in the accompanying 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, Roman Catholic Archbishop of Boston, which was a negative return of 6.6% in 2008 and a positive return of 14.0% in 2007. Under the terms of the agreement, the negative return in 2008 resulted in a reduction of $435,645 to the cumulative unpaid interest receivable on the note for the year ended June 30, 2008 (interest income of $738,464 in 2007).

Note 5 – Investments

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

	2008		2007	
	Cost	**Fair Value**	Cost	Fair Value
Common Investment Fund, Roman Catholic Archbishop of Boston	**$28,465,324**	**$35,940,901**	$28,451,759	$39,923,348
Fixed Income Investment Fund, Roman Catholic Archbishop of Boston	**377,818**	**307,375**	377,318	377,135
	$28,843,142	**$36,248,276**	$28,829,077	$40,300,483

Note 5 – Investments (Cont.)

Investments consist of holdings in The Common Investment Fund and the Fixed Income Investment Fund of the Roman Catholic Archbishop of Boston Investment Partnership, which invest primarily in equity and fixed-income securities. Both funds 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.

Subsequent Decline in Fair Value - Management estimates that as of December 31, 2008 (the latest available date of valuation), the fair values of the Seminary's investments had declined by approximately 18% (approximately $6.7 million) from their fair values at June 30, 2008 as a result of current financial market events.

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, $1,954,430 at June 30, 2008 and $2,175,498 at June 30, 2007. The change in the Seminary's interest is reflected in the statement of activities as an increase (decrease) in net assets of ($136,418) and $174,171 in 2008 and 2007, respectively. Transfers of funds from the Foundation totaled $84,650 and $111,520 for the years ended June 30, 2008 and 2007, respectively.

Note 7 – Land, Buildings and Equipment

Land, buildings and equipment consist of the following:

	June 30	
	2008	2007
Buildings and improvements	**$21,034,537**	$21,034,537
Leasehold improvements	**115,100**	0
Furniture and equipment	**1,329,017**	2,481,156
Motor vehicles	**21,031**	0
	22,499,685	23,515,693
Less accumulated depreciation	**(7,067,738)**	(7,681,244)
	$15,431,947	$15,834,449

At June 30, 2007, the Seminary reported in its statement of financial position, land and buildings held for sale at a net book value (after depreciation) of $678,382. During 2008, it was determined that the net book value of this property was actually $6,843,183, and a retrospective reclassification of this amount was made to the June 30, 2007 statement of financial position. The reclassification had no effect on the Seminary's total assets as previously reported at June 30, 2007. As more fully discussed in Note 14, this property was sold in 2008.

Depreciation expense totaled $538,633 and $730,276 for the years ended June 30, 2008 and 2007, respectively.

Note 8 – Contributed Services

For the years ended June 30, 2008 and 2007, the Seminary recorded contributed services received in the amount of $679,706 and $696,537, 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:

	2008	2007
Scholarship awards	**$ 3,348,119**	$ 3,317,863
Building	**774,308**	798,076
Interest in net assets of the Catholic Foundation	**632,352**	850,848
General operations	**642,626**	574,305
Masses	**313,681**	300,606
Other	**37,828**	37,828
	5,748,914	5,879,525
Realized and unrealized gains on investments related to temporarily and permanently restricted net assets	**6,627,722**	8,357,866
	$ 12,376,636	$ 14,237,391

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

	2008	2007
Scholarships	**$ 7,223,223**	$ 7,223,223
Interest in permanently restricted net assets of the Foundation	**1,322,078**	1,324,650
Building and equipment	**1,184,463**	1,116,767
General	**734,697**	734,296
	$ 10,464,461	$ 10,398,936

During the years ended June 30, 2008 and 2007, net assets were released from donor restrictions by incurring expenses or by the occurrence of other events satisfying the restricted purposes as follows:

	2008	2007
Student scholarships	**$ 798,348**	$ 668,887
Building	**0**	90,848
General operations	**0**	101,000
	$ 798,348	$ 860,735

Note 10- Summary of Educational Expenses - School of Theology

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

	2008	2007
Instruction	**$ 1,594,545**	$ 1,684,359
Library	**236,485**	245,596
Student services/activities	**88,185**	65,556
Operation and maintenance of plant	**729,502**	1,190,803
Household expenses	**853,968**	920,491
	$ 3,502,685	$ 4,106,805

Note 11 - Related Organization Transactions

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. During the year ended June 30, 2008, the Seminary sold the land and property to Boston College (reference Note 14). However, the Seminary was allowed to continue the lease to Corporation Sole under a sub-lease arrangement which expired subsequent to year-end.

Rental income under the lease agreement totaled $633,724 and $627,124 for the years ended June 30, 2008 and 2007, respectively.

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 $42,711 and $91,731 for the years ended June 30, 2008 and 2007, 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 $72,750 and $61,942 for the years ended June 30, 2008 and 2007, respectively.

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 these services was $97,527 and $102,961 for the years ended June 30, 2008 and 2007, respectively.

Services – The Seminary receives administrative, technological and clerical services from Corporation Sole. Fees incurred for these services were $105,573 and $167,535 for the years ended June 30, 2008 and 2007, 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 $28,464 and $50,590 for the years ended June 30, 2008 and 2007, 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, 2008 audited financial statements of the Pension Plan reflect approximately $272 million in net assets available for benefits and $301 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 $8,000 in fiscal 2008 and $20,000 in fiscal 2007.

Note 14 – Joint Sale of Property and Related Agreements

In July 2007, the Seminary and the Corporation Sole sold to Boston College Peterson Hall (owned by the Seminary) 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 $61 million in cash to the Corporation Sole prior to June 30, 2008, along with accrued escrow interest. In accordance with the agreement, the remaining $4 million is to be paid by Boston College upon satisfaction of two conditions, one of which was satisfied in July 2008, and the second of which the Corporation Sole expects to satisfy in the foreseeable future.

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 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 $45.4 million, which includes accrued escrow interest of approximately $1.1 million. Subsequent to June 30, 2008, the Corporation Sole remitted $9.2 million of the proceeds to the Seminary, and in December of 2008 it issued the Seminary a 10-year, non-interest bearing promissory note in the amount of $36.4 million, representing the balance of the proceeds plus additional accrued interest.

The Seminary retained an ownership in 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.

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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, 2008, and have issued our report thereon dated May 5, 2009. 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. A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Seminary's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Seminary's financial statements that is more than inconsequential will not be prevented or detected by the Seminary's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Seminary's internal control.

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We consider the following deficiencies to be significant deficiencies in the Seminary's internal control:

Closing Process and Certified Audit

This year's closing process was substantially delayed because some important procedures were not performed on time and because of personnel turnover within the Chancery. This led to a delay in producing closing entries, trial balances, schedules, reconciliations, accounts analyzes, and other financial reports needed by management and the auditors. As a result, our audit work did not commence until January 2009 and did not conclude until late March 2009 (9 months after year end).

In addition, because we commenced our audit procedures prior to the accounts being closed and properly reconciled, we identified numerous adjustments which in the normal course of a closing would have been identified by Chancery staff. Similarly, the draft audit report was not completely prepared and reviewed by Chancery staff prior to being delivered to the auditors. We were required to make changes to the draft report that normally would have been identified and made in the internal review process.

We believe that the year-end closing process could proceed in a more efficient manner by developing a closing schedule that indicates who will perform each procedure and when completion of each procedure is due and accomplished. The due dates should be monitored to determine that they are being met.

Interim Financial Statements

It came to our attention during the audit that certain parties responsible for oversight, namely the Rector and the Finance and Budget Committee members did not receive interim financial statements in a timely manner. This precludes those individuals from making decisions with the most up to date financial data available.

We understand this was in part due to a transition to a new reporting system at the Chancery as well as substantial turnover in staff. However, timely and accurate financial data is critical to decision making. We recommend that interim financial statements be provided to key members of management in a predictable and timely manner.

Net Asset Classifications

In recent years various reviews have been made of certain components of restricted net assets. Specifically, a review was made of the burses by a law firm. We noted during our audit procedures that these subsidiary records have not been routinely updated. Based on our observation, Chancery staff has recently updated these records.

In addition, a further review of other types of restricted net assets notes that the Seminary still carries temporarily restricted net assets for building renovations. Since all renovations have been completed, the Seminary should consider releasing these restricted net assets to an unrestricted classification. There may be other restricted net assets that potentially could be released upon a further review.

We recommend such a review be performed.

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 or other matters 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

G. T. Reilly & Company

Milton, Massachusetts
May 5, 2009