Audited
Financial Statements

St. John's Seminary

June 30, 2012

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

St. John's Seminary

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June 30, 2011

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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, 2012 and 2011, 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, 2012 and 2011, 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 November 19, 2012, 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
November 19, 2012

An independent firm associated with
MOORE STEPHENS

Statements of Financial Position

June 30

	2012	2011
Cash and cash equivalents (Note 2)	**$ 1,976,206**	$ 3,388,982
Tuition receivable (Note 2)	**118,796**	30,086
Pledges receivable (Note 2)	**44,237**	-
Interest and dividends receivable	**464,515**	484,594
Due from related party (Note 12)	**-**	66,659
Prepaid expenses and other assets	**42,026**	30,985
Notes receivable, related organization (Note 3 & 4)	**43,516,670**	43,516,670
Investments, at fair value (Note 5 & 11)	**44,581,436**	46,724,001
Interest in the net assets of a foundation (Note 6)	**1,975,248**	2,081,055
Land and building held for sale (Note 2)	**-**	256,500
Land, buildings and equipment, net (Note 8)	**16,244,947**	15,398,905
TOTAL ASSETS	**$ 108,964,081**	$ 111,978,437

Liabilities and Net Assets

	2012	2011
Liabilities:		
Accounts payable and accrued expenses	**$ 660,671**	$ 134,370
Due to related party (Note 12)	**15,048**	-
	675,719	134,370
Net Assets (Notes 7 & 10):		
Unrestricted, including board designated (Note 7)	**86,274,047**	88,314,247
Temporarily restricted	**9,757,213**	11,358,805
Permanently restricted	**12,257,102**	12,171,015
	108,288,362	111,844,067
TOTAL LIABILITIES AND NET ASSETS	**$ 108,964,081**	$ 111,978,437

St. John's Seminary

Statement of Activities

For the Year Ended June 30, 2012
(With summarized comparative information for the year ended June 30, 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total	2011 Total
REVENUES, GAINS & SUPPORT					
Tuition, fees, room and board	$ 2,704,093	$ -	$ -	2,704,093	$ 2,386,015
Less: financial aid	(1,311,258)	-	-	(1,311,258)	(1,121,667)
Net tuition, fees, room and board	1,392,835	-	-	1,392,835	1,264,348
Parish collections - Pentecost	215,923	-	-	215,923	240,442
Contributions and bequests	79,651	79,588	72,849	232,088	662,425
Matching gifts	218,095	-	-	218,095	191,084
Contributed services & facilities (Note 9)	930,808	-	-	930,808	872,026
Investment income	1,116,270	710,498	400	1,827,168	1,777,050
Other revenues	170,419	-	-	170,419	65,327
Change in interest in net assets of a fund (Note 6)	-	(37,709)	12,838	(24,871)	381,968
Net assets released through satisfaction of restrictions (Note 10)	1,476,607	(1,476,607)	-	-	-
TOTAL REVENUES, GAINS & SUPPORT	5,600,608	(724,230)	86,087	4,962,465	5,454,670
EXPENSES					
School of Theology	4,179,325	-	-	4,179,325	4,198,551
School of Masters in Ministry	878,070	-	-	878,070	835,190
Redemptoris Mater (Note 12)	235,000	-	-	235,000	217,622
Management and general	954,714	-	-	954,714	733,826
Fundraising	69,816	-	-	69,816	145,366
TOTAL EXPENSES	6,316,925	-	-	6,316,925	6,130,555
OPERATING LOSS	(716,317)	(724,230)	86,087	(1,354,460)	(675,885)
NONOPERATING INCOME					
Net realized and unrealized (loss) gain on investments	(1,323,883)	(877,362)	-	(2,201,245)	5,903,883
Interest income and late fee penalty on related organization note (Note 4)	-	-	-	-	1,502,667
NONOPERATING (LOSS) INCOME	(1,323,883)	(877,362)	-	(2,201,245)	7,406,550
CHANGE IN NET ASSETS	(2,040,200)	(1,601,592)	86,087	(3,555,705)	6,730,665
NET ASSETS AT BEGINNING OF YEAR	88,314,247	11,358,805	12,171,015	111,844,067	105,113,402
NET ASSETS AT END OF YEAR	$ 86,274,047	$ 9,757,213	$ 12,257,102	$ 108,288,362	$ 111,844,067

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

St. John's Seminary

Statement of Activities

For the Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total
REVENUES, GAINS & SUPPORT				
Tuition, fees, room and board	$ 2,386,015	$ -	$ -	$ 2,386,015
Less: financial aid	(1,121,667)	-	-	(1,121,667)
Net tuition, fees, room and board	1,264,348	-	-	1,264,348
Parish collections - Pentecost	240,442	-	-	240,442
Contributions and bequests	405,409	162,356	94,660	662,425
Matching gifts	191,084	-	-	191,084
Contributed services & facilities (Note 9)	872,026	-	-	872,026
Investment income	1,095,488	681,162	400	1,777,050
Other revenues	65,327	-	-	65,327
Change in interest in net assets of a fund (Note 6)	-	381,968	-	381,968
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
EXPENSES				
School of Theology	4,198,551	-	-	4,198,551
School of Masters in Ministry	835,190	-	-	835,190
Redemptoris Mater (Note 12)	217,622	-	-	217,622
Management and general	733,826	-	-	733,826
Fundraising	145,366	-	-	145,366
TOTAL EXPENSES	6,130,555	-	-	6,130,555
OPERATING LOSS	(592,785)	(178,160)	95,060	(675,885)
NONOPERATING INCOME				
Net realized and unrealized gain on investments	3,634,929	2,268,954	-	5,903,883
Interest income and late fee penalty on related organization note (Note 4)	1,502,667	-	-	1,502,667
NONOPERATING INCOME	5,137,596	2,268,954	-	7,406,550
CHANGE IN NET ASSETS	4,544,811	2,090,794	95,060	6,730,665
NET ASSETS AT BEGINNING OF YEAR	83,769,436	9,268,011	12,075,955	105,113,402
NET ASSETS AT END OF YEAR	$ 88,314,247	$ 11,358,805	$ 12,171,015	$ 111,844,067

Statements of Cash Flows

For the Years Ended June 30

	2012	2011
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	**$ (3,555,705)**	$ 6,730,665
Adjustments to reconcile change in net assets to net cash and cash equivalents from operating activities:		
Net realized and unrealized loss (gain) on investments	**2,201,245**	(5,903,883)
Depreciation	**585,330**	564,788
Interest income on related organization note receivable (Note 4)	**-**	(1,502,667)
Change in interest in net assets of a foundation (Note 6)	**24,871**	(381,968)
Donation of land and building (Note 2)	**-**	(256,500)
Changes in operating assets and liabilities:		
Interest and dividends receivable	**20,079**	(70,451)
Due from related party	**81,707**	(66,659)
Prepaid expenses and other assets	**(11,041)**	(2,248)
Tuition receivable	**(88,710)**	(15,247)
Pledges receivable	**(44,237)**	1,400,000
Accounts payable and accrued expenses	**526,301**	(285,134)
NET CASH AND CASH EQUIVALENTS (USED IN) PROVIDED BY OPERATING ACTIVITIES	**(260,160)**	210,696
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of land, buildings and equipment	**(1,174,871)**	(260,111)
Repayments on amounts due from related organizaton	**-**	-
Purchase of investments	**(208,682)**	(1,636,810)
Proceeds from the sale of investments	**150,000**	-
Transfer of assets from a foundation (Note 6)	**80,937**	149,270
NET CASH AND CASH EQUIVALENTS USED IN INVESTING ACTIVITIES	**(1,152,616)**	(1,747,651)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(1,412,776)**	(1,536,955)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**3,388,982**	4,925,937
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 1,976,206**	$ 3,388,982

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

Notes to Financial Statements

June 30, 2012

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, 2012 and 2011, there were no allowances for doubtful accounts for tuition or pledge receivables as management did not deem it to be necessary. Receivables 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"), a separate related organization 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, 2012 and 2011, investment holdings of private investment entities approximate 24% (of which 43% contain significant observable inputs in the fair value hierarchy ("Level 2"), and 57% contain significant unobservable inputs ("Level 3")), and 27% (of which 53% contain Level 2 inputs and 47% contain Level 3 inputs), respectively (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 was carried at the lower of cost or market, and since it was being held for sale, was not being depreciated by the Seminary. During 2012, the Seminary transferred $135,945 to buildings, which began being depreciated in 2012 and $120,555 to land based on the Seminary's intent to retain and utilize, in the Seminary's operations, the land and building donated during 2011.

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, 2012, based on bank balances, cash deposits exceeded insured limits by approximately $80,000. Included in cash equivalents are uninsured money market mutual funds totaling approximately $1,728,000 at June 30, 2012. 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. The Seminary follows the accounting guidance of 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. Actual results could differ from these estimates.

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 November 19, 2012, 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.

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, 2012 and 2011, 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, 2012 and 2011, and is included in "Notes Receivable, Related Organization" in the statement of financial position. The note with interest accrued was payable on January 1, 2011. Interest stopped compounding as of June 30, 2011 due to a preliminary agreement between the Seminary and the Corporation Sole to settle the note receivable. Interest compounded 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% for the year ended June 30, 2011. Under the terms of the agreement, the positive return resulted in interest income of $1,162,667 to the cumulative unpaid interest receivable on the note for the year ended June 30, 2011. 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 regarding subsequent Memorandum of Understanding agreement.)

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:

	2012		2011	
	Cost	**Fair Value**	Cost	Fair Value
Common Investment Fund	**$ 36,313,980**	**$ 44,581,436**	$ 36,264,920	$ 46,724,001

Note 6 – Interest in the Net Assets of a Foundation

The Seminary is the beneficiary of donations collected on its behalf by the Catholic Community Fund of the Archdiocese of Boston, Inc. (the "Foundation"), a related organization, formerly known as the Catholic Foundation of the Archdiocese of Boston, Inc. As discussed in Note 2, "Accounting for Assets Held by Others", the Seminary has recorded its interest in the Foundation's net assets of $1,975,248 and $2,081,055 at June 30, 2012 and 2011, respectively.

The change in the Seminary's interest is reflected in the statement of activities as a decrease in net assets of $24,871 in 2012 and an increase in net assets of $381,968 and 2011. Transfers of funds from the Foundation totaled $80,937 and $149,270 for the years ended June 30, 2012 and 2011, 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 reduction to unrestricted net assets and a corresponding increase to temporarily restricted net assets. There were no deficiencies as of June 30, 2012 or 2011.

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, 2012 and 2011 is as follows:

June 30, 2012	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor Restricted Endowments	$ -	$ 6,945,408	$ 10,924,551	$ 17,869,959
Donor Restricted Endowments at The Foundation	-	642,697	1,332,551	1,975,248 -
Board-Designated Endowment	24,090,105	-	-	24,090,105
Total Funds	$ 24,090,105	$ 7,588,105	$ 12,257,102	$ 43,935,312

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

Changes in endowment net assets for the fiscal years ended June 30, 2012 and 2011 are as follows:

June 30, 2012	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets, beginning of year	$ 25,277,382	$ 8,561,422	$ 12,171,015	$ 46,009,819
Investment Return:				
Investment income	963,037	710,098	400	1,673,535
Net appreciation	(1,187,277)	(876,962)	-	(2,064,239)
Total investment return	(224,240)	(166,864)	400	(390,704)
Contributions and bequests	-	-	72,849	72,849
Appropriation of endowment assets for operations (draw)	(963,037)	(710,498)	-	(1,673,535)
Other changes:				
Change in interest in net assets of the Foundation	-	(95,955)	12,838	(83,117)
Endowment net assets, end of year	$ 24,090,105	$ 7,588,105	$ 12,257,102	$ 43,935,312

Note 7 – Endowments (Cont.)

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 8 – Land, Buildings and Equipment

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

	2012	2011
Land and land improvements	**$ 122,055**	$ -
Buildings and improvements	**21,552,434**	21,141,454
Leasehold improvements	**1,743,333**	1,374,555
Furniture and equipment	**1,582,236**	1,534,606
Motor vehicles	**21,031**	21,031
Construction in Progress	**542,722**	60,795
	25,563,811	24,132,441
Less accumulated depreciation	**(9,318,864)**	(8,733,536)
	$ 16,244,947	$ 15,398,905

Depreciation expense totaled $585,330 and $564,788 for the years ended June 30, 2012 and 2011, respectively.

Note 9 – Contributed Services and Facilities

Contributed Services - For the years ended June 30, 2012 and 2011, the Seminary recorded contributed services received in the amount of $810,808 and $752,026, 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, 2012 and 2011 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:

	2012	2011
Net assets available for the following purposes:		
Scholarship awards	**$ 2,138,895**	$ 2,742,679
Building and equipment	**1,450**	1,450
General operations and other	**28,763**	30,563
Interest in temporarily restricted net assets of a foundation	**642,697**	761,343
	2,811,805	3,536,035
Realized and unrealized gains on investments related to temporarily and permanently restricted net assets	**6,945,408**	7,822,770
	$ 9,757,213	$ 11,358,805

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

	2012	2011
Net assets restricted to investment in perpetuity, the income from which is expendable to support:		
Scholarships	**$ 9,003,846**	$ 8,930,997
Building and equipment	**1,184,463**	1,184,463
General	**736,242**	735,844
Interest in permanently restricted net assets of a foundation	**1,332,551**	1,319,711
	$ 12,257,102	$ 12,171,015

During the years ended June 30, 2012 and 2011, 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:

	2012	2011
Scholarship awards	**$ 1,311,258**	$ 1,121,667
Building and equipment	**58,525**	53,432
General operations and other	**106,824**	228,547
	$ 1,476,607	$ 1,403,646

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).

Fair value accounting guidance affects 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, guidance permits, but does 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 Seminary's investments of $44,581,436 and $46,724,001 at June 30, 2012 and 2011, respectively, are classified as Level 2 in the fair value hierarchy.

Note 12 - Related Party Transactions

<u>Benefits</u> – 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 $130,356 and $119,731 for the years ended June 30, 2012 and 2011, 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 $148,416 and $166,675 for the years ended June 30, 2012 and 2011, respectively.

<u>Insurance</u> - 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 $62,083 and $91,848 for the years ended June 30, 2012 and 2011, respectively.

<u>Services</u> – The Seminary receives administrative, technological and clerical services from Corporation Sole. Fees incurred for these services were $158,082 and $153,530 for the years ended June 30, 2012 and 2011, respectively.

<u>Redemptoris Mater</u> – The Seminary paid an agreed upon amount of housing expenditures for students belonging to the Redemptoris Mater religious group, as well as clergy renumeration and related benefits for Redemptoris Mater order priests. Those expenditures incurred by the Seminary were $235,000 and $217,622 for the years ended June 30, 2012 and 2011, respectively.

<u>Due from Related Party</u> – Amounts due to Corporation Sole from the Seminary at June 30, 2012 were $15,048 and amounts due from Corporation Sole to the Seminary at June 30, 2011 were $66,659.

<u>Vendor</u> - The Rector of St. John's Seminary, is a board member of a major vendor of the Seminary dealing with the construction of the various properties of the Seminary. For the services provided by the major vendor as they relate to the Seminary the Rector recuses from voting. Additionally the Seminary has created a subcommittee that does not include the Rector, to determine projects and extent in which the Seminary will engage with this major vendor.

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 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").

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, 2012 and 2011, the financial statements of the Pension Plan reflected approximately $207.9 million and $284.5 million, respectively, in net assets available for benefits and $260.7 million and $328.9 million, respectively, in accumulated plan benefits.

Effective December 31, 2011, the Pension Plan Trustees amended the plan to curtail benefit accruals for plan participants. No additional participants are allowed into the plan. To replace the curtailed defined benefit pension plan, the Archdiocese of Boston established a 401(k) defined contribution plan on January 1, 2012.

Pension expense allocated to the Seminary by the defined benefit Pension Plan is based on payroll cost and amounted to $42,731 and $43,867 for the years ended June 30, 2012 and 2011, respectively. Matching contributions related to the 401(k) defined contribution plan amounted to $5,870 for the year ended June 30, 2012.

Note 14 – Summary of Educational Expenses

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

	2012	2011
Instruction	**$2,785,125**	$2,804,239
Library	**91,019**	89,037
Student services/activities	**25,235**	26,242
Operation and maintenance of plant	**581,027**	572,325
Depreciation expense	**482,890**	476,458
Household expenses	**1,092,099**	1,065,440
	$5,057,395	$5,033,741

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). St. John’s Seminary and The Roman Catholic Archbishop of Boston, a Corporation Sole, signed a Memorandum of Understanding (“MOU”) to discharge this loan obligation. In accordance with the terms of the MOU, in exchange for a complete discharge of the loan obligation, RCAB will canonically transfer all of its rights, title and interest in Our Lady of the Presentation Church, Rectory and parking lots and St. Gabriel Rectory and School, all located in Brighton, MA to St. John’s Seminary. The properties have a collective appraised value approximating $6,000,000. The property transfer is expected to happen during fiscal year 2013, at which time the settlement of the note will be recorded.

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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, 2012, and have issued our report thereon dated, November 19, 2012. 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

Management of St. John's Seminary is responsible for establishing and maintaining effective 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.

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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 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 the Trustees of St. John's Seminary in a separate letter dated November 19, 2012.

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
November 19, 2012