Audited
Financial Statements

St. John's Seminary

June 30, 2013

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

St. John's Seminary

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INDEPENDENT AUDITORS' REPORT

To the Trustees
St. John's Seminary

Report on the Financial Statements

We have audited the accompanying financial statements of St. John's Seminary (a nonprofit organization), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of St. John's Seminary as of June 30, 2013 and 2012, and the changes in its net assets and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated November 20, 2013 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, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering St. John's Seminary's internal control over financial reporting and compliance.

G. T. Reilly & Company

G.T. Reilly & Company

Milton, Massachusetts
November 20, 2013

Statements of Financial Position

June 30

	2013	2012
Assets		
Cash and cash equivalents (Note 2)	**$ 2,243,704**	$ 1,976,206
Investment redemption receivable (Note 5)	**1,700,000**	-
Tuition receivable, net of allowances (Note 2)	**118,819**	118,796
Pledges receivable (Note 2)	**77,351**	44,237
Interest and dividends receivable	**448,746**	464,515
Prepaid expenses and other assets	**2,741**	42,026
Notes receivable, related organization (Note 3 & 4)	**39,628,400**	43,516,670
Investments, at fair value (Note 5 & 11)	**42,406,220**	44,581,436
Interest in the net assets of related foundation (Note 6)	**2,102,258**	1,975,248
Land, buildings and equipment, net (Note 8)	**19,816,522**	16,244,947
TOTAL ASSETS	**$ 108,544,761**	$ 108,964,081
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	**$ 816,316**	$ 660,671
Due to related organization (Note 12)	**353,786**	15,048
	1,170,102	675,719
Net Assets (Notes 7 & 10):		
Unrestricted, including board designated (Note 7)	**84,668,630**	86,274,047
Temporarily restricted	**10,338,875**	9,757,213
Permanently restricted	**12,367,154**	12,257,102
	107,374,659	108,288,362
TOTAL LIABILITIES AND NET ASSETS	**$ 108,544,761**	$ 108,964,081

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

St. John's Seminary

Statement of Activities

For the Year Ended June 30, 2013
(With summarized comparative information for the year ended June 30, 2012)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total	2012 Total
REVENUES, GAINS & SUPPORT					
Tuition, fees, room and board	$ 3,158,514	$ -	$ -	$ 3,158,514	$ 2,704,093
Less: financial aid	(1,515,531)	-	-	(1,515,531)	(1,311,258)
Net tuition, fees, room and board	1,642,983	-	-	1,642,983	1,392,835
Parish collections - Pentecost		-	-	-	215,923
Contributions and bequests	335,083	340,445	107,812	783,340	232,088
Matching gifts	198,925	-	-	198,925	218,095
Contributed services & facilities (Note 9)	941,299	-	-	941,299	930,808
Investment income	1,038,401	741,572	400	1,780,373	1,827,168
Other revenues	239,788	-	-	239,788	170,419
Change in interest in net assets of related foundation (Note 6)	-	205,035	1,840	206,875	(24,871)
Net assets released through satisfaction of restrictions (Note 10)	1,847,752	(1,847,752)	-	-	-
TOTAL REVENUES, GAINS & SUPPORT	6,244,231	(560,700)	110,052	5,793,583	4,962,465
EXPENSES					
School of Theology	5,053,035	-	-	5,053,035	4,179,325
School of Masters in Ministry	879,351	-	-	879,351	878,070
Redemptoris Mater (Note 12)	235,000	-	-	235,000	235,000
Management and general	1,145,787	-	-	1,145,787	954,714
Fundraising	110,737	-	-	110,737	69,816
TOTAL EXPENSES	7,423,910	-	-	7,423,910	6,316,925
OPERATING LOSS	(1,179,679)	(560,700)	110,052	(1,630,327)	(1,354,460)
NONOPERATING ITEMS					
Net realized and unrealized gains (losses) on investments	1,612,532	1,142,362	-	2,754,894	(2,201,245)
Contribution (Note 15)	(1,000,000)	-	-	(1,000,000)	-
Forgiveness on settlement of note receivable (Note 4)	(1,038,270)	-	-	(1,038,270)	-
NONOPERATING INCOME (LOSS)	(425,738)	1,142,362	-	716,624	(2,201,245)
CHANGE IN NET ASSETS	(1,605,417)	581,662	110,052	(913,703)	(3,555,705)
NET ASSETS AT BEGINNING OF YEAR	86,274,047	9,757,213	12,257,102	108,288,362	111,844,067
NET ASSETS AT END OF YEAR	$ 84,668,630	$ 10,338,875	$ 12,367,154	$ 107,374,659	$ 108,288,362

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

St. John's Seminary

Statement of Activities

For the Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total
REVENUES, GAINS & SUPPORT				
Tuition, fees, room and board	$ 2,704,093	$ -	$ -	$ 2,704,093
Less: financial aid	(1,311,258)	-	-	(1,311,258)
Net tuition, fees, room and board	1,392,835	-	-	1,392,835
Parish collections - Pentecost	215,923	-	-	215,923
Contributions and bequests	79,651	79,588	72,849	232,088
Matching gifts	218,095	-	-	218,095
Contributed services & facilities (Note 9)	930,808	-	-	930,808
Investment income	1,116,270	710,498	400	1,827,168
Other revenues	170,419	-	-	170,419
Change in interest in net assets of related foundation (Note 6)	-	(37,709)	12,838	(24,871)
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
EXPENSES				
School of Theology	4,179,325	-	-	4,179,325
School of Masters in Ministry	878,070	-	-	878,070
Redemptoris Mater (Note 12)	235,000	-	-	235,000
Management and general	954,714	-	-	954,714
Fundraising	69,816	-	-	69,816
TOTAL EXPENSES	6,316,925	-	-	6,316,925
OPERATING LOSS	(716,317)	(724,230)	86,087	(1,354,460)
NONOPERATING ITEMS				
Net realized and unrealized losses on investments	(1,323,883)	(877,362)	-	(2,201,245)
NONOPERATING LOSS	(1,323,883)	(877,362)	-	(2,201,245)
CHANGE IN NET ASSETS	(2,040,200)	(1,601,592)	86,087	(3,555,705)
NET ASSETS AT BEGINNING OF YEAR	88,314,247	11,358,805	12,171,015	111,844,067
NET ASSETS AT END OF YEAR	$ 86,274,047	$ 9,757,213	$ 12,257,102	$ 108,288,362

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

Statements of Cash Flows

For the Years Ended June 30

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ **(913,703)**	$ (3,555,705)
Adjustments to reconcile change in net assets to net cash and cash equivalents from operating activities:		
Net realized and unrealized (gains) losses on investments	**(2,754,894)**	2,201,245
Forgiveness on settlement of note receivable (Note 4)	**1,038,270**	-
Depreciation	**628,461**	585,330
Change in interest in net assets of related foundation (Note 6)	**(206,875)**	24,871
Changes in operating assets and liabilities:		
Interest and dividends receivable	**15,769**	20,079
Due from related party	**338,738**	81,707
Prepaid expenses and other assets	**39,285**	(11,041)
Tuition receivable, net of allowances	**(23)**	(88,710)
Pledges receivable	**(33,114)**	(44,237)
Accounts payable and accrued expenses	**155,646**	526,301
NET CASH AND CASH EQUIVALENTS USED IN OPERATING ACTIVITIES	**(1,692,440)**	(260,160)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of land, buildings and equipment	**(1,350,038)**	(1,174,871)
Purchase of investments	**(187,897)**	(208,682)
Proceeds from sale/redemptions of investments	**3,418,008**	150,000
Transfer of assets from related foundation (Note 6)	**79,865**	80,937
NET CASH AND CASH EQUIVALENTS PROVIDED BY (USED IN) INVESTING ACTIVITIES	**1,959,938**	(1,152,616)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**267,498**	(1,412,776)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,976,206**	3,388,982
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ **2,243,704**	$ 1,976,206

Noncash Investing Activities

	2013	2012
Transfer of property in settlement of note receivable (Note 4)	$ **2,850,000**	$ -
Investment redemption receivable (Note 5)	$ **1,700,000**	$ -

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

Notes to Financial Statements

June 30, 2013

Note 1 - Principal Activity

St. John's Seminary (the "Seminary") was incorporated in Massachusetts as a non-profit religious organization in 1883. 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. Receivables are expected to be collected within a year. At June 30, 2013 and 2012, there is no allowance for doubtful accounts related to pledge receivables as management did not deem it to be necessary. At June 30, 2013 there is an allowance for doubtful accounts of $33,188 related to tuition (none at June 30, 2012).

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 (see Notes 5 and 11).

Land, Buildings and Equipment – Land and improvements, buildings and improvements and furniture and equipment are carried at cost or, if donated, at fair 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).

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, 2013, based on bank balances, cash deposits exceeded insured limits by approximately $145,000. Included in cash equivalents are uninsured money market mutual funds totaling approximately $1,776,000 at June 30, 2013. 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.

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

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 20, 2013, which is the date the financial statements were available to be issued.

Note 3 – Joint Sale of Property and Related Agreements

In 2007, the Seminary and the Roman Catholic Archbishop of Boston, A Corporation Sole, ("Corporation Sole"), a related organization, sold buildings and land (owned partially by the Seminary and partially by the Corporation Sole) to Boston College for $65 million. The sales price was allocated between Corporation Sole and the Seminary based upon the relative appraised values of the properties owned by each entity, which resulted in $44.2 million being allocated to the Seminary. Corporation Sole remitted $8.2 million of the sale proceeds and issued a promissory note to the Seminary in the amount of $36.4 million (see Note 4).

As part of the property sale to Boston College in 2007, the Seminary agreed to lease a portion of St. John's Hall to Boston College for $1 per year over a 99-year term. This agreement was 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. Upon completion of the 99-year term the control of the leased portion of St. John's Hall reverts back to the Seminary.

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 permanent 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

St. John’s Seminary held a note receivable from The Roman Catholic Archbishop of Boston, a Corporation Sole (“Corporation Sole”) with a principal balance of $4,916,314 and an accumulated interest and late fee penalty balance of $2,191,956, totaling $7,108,270. The note matured on January 1, 2011 but was not paid. In June of 2011, the Seminary and Corporation Sole signed a Memorandum of Understanding (“MOU”) to settle the note. In exchange for a complete discharge of the promissory note, Corporation Sole agreed to transfer to the Seminary all of its rights, title and interest in Our Lady of Presentation Church and Rectory, as well as St. Gabriel Rectory and School, all located in Brighton, MA. The properties have a collective appraised value approximating $6,070,000, resulting in a write-down to the note receivable in the amount of $1,038,270, which is reported as a “non-operating” charge to the 2013 statement of activities. During the year ended June 30, 2013, Corporation Sole transferred the Our Lady of Presentation properties (valued at $2.85 million) to the Seminary to discharge a portion of the note. The transfer of Our Lady of Presentation properties, along with the forgiveness on note settlement, leaves a remaining balance on the note receivable of $3,220,000 at June 30, 2013 (appraised value of St. Gabriel properties). The Seminary and Corporation Sole anticipate the transfer of the St. Gabriel properties to take place in the near future.

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 its entirety on August 23, 2017.

Note 5 – Investments

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

	2013		2012	
	Cost	**Fair Value**	Cost	Fair Value
Common Investment Fund	**$ 31,927,496**	**$ 42,406,220**	$ 36,313,980	$ 44,581,436

At June 30, 2013, the Seminary has $1.7 million receivable from the Common Investment Fund representing investments redeemed.

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, 2013, investment holdings in private investment entities approximate 26% (24% in 2012), of which 69% (43% in 2012) are valued using observable inputs (“Level 2”), and 31% (57% in 2012) are valued using significant unobservable inputs (“Level 3”).

Note 6 – Interest in the Net Assets of Related 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 $2,102,258 and $1,975,248 at June 30, 2013 and 2012, respectively.

The change in the Seminary's interest is reflected in the statement of activities as an increase in net assets of $206,875 in 2013 and a decrease in net assets of $24,871 and 2012. Transfers of funds from the Foundation totaled $79,865 and $80,937 for the years ended June 30, 2013 and 2012, 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 direct reduction to unrestricted net assets. There were no deficiencies as of June 30, 2013 or 2012.

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, 2013 and 2012 is as follows:

June 30, 2013	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor Restricted Endowments	**$ -**	**$ 8,087,370**	**$ 11,032,764**	**$ 19,120,134**
Donor Restricted Endowments at The Foundation	**-**	**767,868**	**1,334,390**	**2,102,258**
Board-Designated Endowment	**22,534,605**	**-**	**-**	**22,534,605**
Total Funds	**$ 22,534,605**	**$ 8,855,238**	**$ 12,367,154**	**$ 43,756,997**

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

Changes in endowment net assets for the fiscal years ended June 30, 2013 and 2012 are as follows:

June 30, 2013	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets, beginning of year	**$ 24,090,105**	**$ 7,588,105**	**$ 12,257,102**	**$ 43,935,312**
Investment Return:				
Investment income	**908,356**	**741,572**	**400**	**1,650,328**
Net appreciation	**1,444,500**	**1,142,362**	**-**	**2,586,862**
Total investment return	**2,352,856**	**1,883,934**	**400**	**4,237,190**
Contributions and bequests	**-**	**-**	**107,812**	**107,812**
Appropriation of endowment assets for operations (draw)	**(3,908,356)**	**(741,972)**	**-**	**(4,650,328)**
Other changes:				
Change in interest in net assets of the Foundation (Note 6)	**-**	**125,171**	**1,840**	**127,011**
Endowment net assets, end of year	**$ 22,534,605**	**$ 8,855,238**	**$ 12,367,154**	**$ 43,756,997**

Note 7 – Endowments (Cont.)

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 (Note 6)	-	(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 8 – Land, Buildings and Equipment

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

	2013	2012
Land and land improvements	**$ 1,996,304**	$ 122,055
Buildings and improvements	**23,407,390**	21,552,434
Leasehold improvements	**1,743,333**	1,743,333
Furniture and equipment	**1,791,936**	1,582,236
Motor vehicles	**21,031**	21,031
Construction in Progress	**803,853**	542,722
	29,763,847	25,563,811
Less accumulated depreciation	**(9,947,325)**	(9,318,864)
	$ 19,816,522	$ 16,244,947

Depreciation expense totaled $628,461 and $585,330 for the years ended June 30, 2013 and 2012, respectively.

Note 9 – Contributed Services and Facilities

Contributed Services - For the years ended June 30, 2013 and 2012, the Seminary recorded contributed services received in the amount of $821,299 and $810,808, 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, 2013 and 2012 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:

	2013	2012
Net assets available for the following purposes:		
Scholarship awards	**$ 1,423,567**	$ 2,138,895
Building and equipment	**4,481**	1,450
General operations and other	**55,590**	28,763
Interest in temporarily restricted net assets of the Foundation (Note 6)	**767,868**	642,697
	2,251,506	2,811,805
Realized and unrealized gains on investments related to temporarily and permanently restricted net assets	**8,087,369**	6,945,408
	$ 10,338,875	$ 9,757,213

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

	2013	2012
Net assets restricted to investment in perpetuity, the income from which is expendable to support:		
Scholarships	**$ 9,111,657**	$ 9,003,846
Building and equipment	**1,184,463**	1,184,463
General	**736,644**	736,242
Interest in permanently restricted net assets of the Foundation (Note 6)	**1,334,390**	1,332,551
	$ 12,367,154	$ 12,257,102

During the years ended June 30, 2013 and 2012, 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:

	2013	2012
Scholarship awards	**$ 1,472,352**	$ 1,311,258
Building and equipment	**258,810**	58,525
General operations and other	**116,590**	106,824
	$ 1,847,752	$ 1,476,607

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 $42,406,220 and $44,581,436 at June 30, 2013 and 2012, respectively, are classified as Level 2 in the fair value hierarchy.

Note 12 - Related Party Transactions

Benefits – The Seminary participates with other Catholic organizations in lay employee health, dental, life and disability benefit plans that are considered related organizations. Expenses incurred by the Seminary for the benefit of lay employees under these plans were $167,020 and $130,356 for the years ended June 30, 2013 and 2012, 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 $131,269 and $148,416 for the years ended June 30, 2013 and 2012, respectively.

Insurance - The Seminary purchases general liability, automobile, fire and theft, crime, boiler and workers' compensation insurance through a pooled insurance program of Corporation Sole. Related insurance expense for this coverage was $60,806 and $62,083 for the years ended June 30, 2013 and 2012, respectively.

Services – The Seminary receives administrative, technological and clerical services from Corporation Sole. Fees incurred for these services were $162,366 and $158,082 for the years ended June 30, 2013 and 2012, respectively.

Redemptoris Mater – 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. Such expenditures were $235,000 for both years ended June 30, 2013 and 2012. The Seminary has also agreed to provide financial assistance to Redemptoris Mater seminarians for tuition and fees in the amounts of $290,683 and $253,183 for the years ended June 30, 2013 and 2012, respectively. This financial assistance is reflected as financial aid in the accompanying statement of activities.

Due to/from Related Party – Amounts due to Corporation Sole from the Seminary at June 30, 2013 and 2012 were $353,786 and $15,048, respectively.

Vendor - The Rector of St. John's Seminary is a board member of a major vendor of the Seminary involved with the construction of the various properties of the Seminary. For the services provided by this vendor as they relate to the Seminary the Rector recuses from voting.

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").

The following table discloses the name and funded status of the Roman Catholic Archdiocese of Boston Pension Plan as of June 30, 2013 (the date of the latest actuarial valuation), inclusive of the fair value of plan assets as of June 30, 2013:

Legal Name and Plan Number	Plan EIN	Actuarial Present Value of Accumulated Plan Benefits	Fair Value of Plan Assets	Total Contributions	Funded Status
Roman Catholic Archdiocese of Boston Pension Plan, Number 001	04-2777359	$256,195,000	$213,670,000	$7,899,000	Greater than 80%

Based on an actuarial valuation of the present value of the accumulated plan benefits at June 30, 2013, the Seminary's portion of the Pension Plan's accumulated benefit obligation, net of the Seminary's allocated Pension Plan assets was determined to be $661,000 and is not reflected in the accompanying statements of financial position.

The Seminary reserves the right to discontinue contributions at any time and terminate the Pension Plan. In the event of termination and discontinuance, the assets of the Pension Plan remaining after paying all administrative expenses of the Pension Plan will be allocated in accordance with the terms of the Roman Catholic Archdiocese of Boston Pension Plan for the purpose of paying benefits provided under the Pension Plan.

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 $25,130 and $42,731 for the years ended June 30, 2013 and 2012, respectively. Matching contributions related to the 401(k) defined contribution plan amounted to $25,621 and $5,870 for the years ended June 30, 2013 and 2012, respectively.

Note 14 – Summary of Educational Expenses

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

	2013	2012
Instruction	**$3,348,785**	$2,785,125
Library	**108,646**	91,019
Student services/activities	**32,232**	25,235
Operation and maintenance of plant	**806,443**	581,027
Depreciation expense	**517,349**	482,890
Household expenses	**1,118,931**	1,092,099
	$5,932,386	$5,057,395

Note 15 – Non-Operating Contribution

During the year ended June 30, 2013 the Seminary contributed $1,000,000 to the Committee Against Physician Assisted Suicide in opposition to the November 2012 Ballot Initiative in Massachusetts to legalize Physician Assisted Suicide in Massachusetts.

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INDEPENDENT AUDITORS' 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, in accordance with the 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, the financial statements of St. John's Seminary, which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 20, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered St. John's Seminary's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Seminary's internal control.

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 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether St. John's Seminary's financial statements are free from 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 20, 2013.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Seminary's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Seminary's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

G. T. Reilly & Company

G.T. Reilly & Company

Milton, Massachusetts
November 20, 2013