



GT REILLY
& COMPANY
CPAs and Advisors

Audited Financial Statements

**Pope St. John XXIII
National Seminary, Inc.**

June 30, 2015

Pope St. John XXIII National Seminary, Inc.

Audited Financial Statements

June 30, 2015

INDEPENDENT AUDITORS' REPORT	1
AUDITED FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	3
STATEMENTS OF ACTIVITIES	4
STATEMENTS OF CASH FLOWS	5
NOTES TO FINANCIAL STATEMENTS	6
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	15



GT REILLY & COMPANY

CPAs and Advisors

424 Adams Street, Milton MA 02186-4358

T. 617.696.8900 / F. 617.698.1803

www.gtreilly.com

Independent Auditors' Report

To the Trustees
Pope St. John XXIII National Seminary, Inc.

We have audited the accompanying financial statements of Pope St. John XXIII National Seminary, Inc., which comprise the statements of financial position as of June 30, 2015 and 2014, 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. 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.

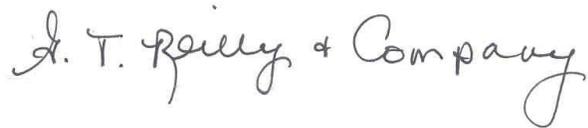
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pope St. John XXIII National Seminary, Inc. as of June 30, 2015 and 2014, and the changes in its net assets and cash flows for the years then ended, in conformity 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 our report dated October 5, 2015 on our consideration of Pope St. John XXIII National Seminary, Inc.'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 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 the Seminary's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "G. T. Reilly & Company". The signature is written in dark ink and is positioned above the printed name of the company.

G.T. Reilly & Company

Milton, Massachusetts
October 5, 2015

Pope St. John XXIII National Seminary, Inc.

Statements of Financial Position

June 30

	<u>2015</u>	<u>2014</u>
<u>Assets</u>		
Cash	\$ 1,568,796	\$ 1,074,142
Interest and dividends receivable	52,741	41,664
Contributions receivable, net (Notes 1 & 5)	807,127	2,008,138
Inventories (Note 1)	10,000	12,500
Prepaid expenses	10,118	167,282
Investments at fair value (Notes 1, 2 & 3)	6,205,034	5,289,244
Interest in net assets of a foundation (Notes 1 & 4)	913,394	937,362
Property and equipment, net (Notes 1 & 6)	<u>5,183,391</u>	<u>4,590,622</u>
 TOTAL ASSETS	 <u><u>\$ 14,750,601</u></u>	 <u><u>\$ 14,120,954</u></u>
<u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable and accrued expenses	<u>\$ 247,974</u>	<u>\$ 46,819</u>
Net Assets (Notes 1, 10 & 11):		
Unrestricted:		
Board designated for capital improvements	1,059,778	1,037,401
Board designated quasi-endowments	1,389,780	1,364,690
Undesignated	<u>1,783,376</u>	<u>1,632,861</u>
	<u>4,232,934</u>	<u>4,034,952</u>
Temporarily restricted	5,526,559	5,296,049
Permanently restricted	<u>4,743,134</u>	<u>4,743,134</u>
	<u><u>14,502,627</u></u>	<u><u>14,074,135</u></u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 14,750,601</u></u>	 <u><u>\$ 14,120,954</u></u>

Pope St. John XXIII National Seminary, Inc.

Statements of Activities

Year Ended June 30

	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS & OTHER SUPPORT								
Tuition	\$ 1,731,000	\$ -	\$ -	\$ 1,731,000	\$ 1,511,120	\$ -	\$ -	\$ 1,511,120
Fundraising - special events	331,835	-	-	331,835	344,112	-	-	344,112
Bequests	218,371	148,415	-	366,786	-	496,147	1,000,000	1,496,147
Contributions	100,133	1,022,443	-	1,122,576	183,039	2,009,694	-	2,192,733
Investment interest and dividends	92,288	111,210	-	203,498	50,671	114,108	-	164,779
Miscellaneous income	1,823	-	-	1,823	10,344	-	-	10,344
Matching gifts	54,534	-	-	54,534	104,772	-	-	104,772
Contributed services (Notes 1 & 9)	211,680	-	-	211,680	413,879	-	-	413,879
Net realized and unrealized gains (losses) on investments (Notes 1 & 2)	(180,693)	83,304	-	(97,389)	125,241	269,915	-	395,156
Interest in change in net assets of a foundation (Notes 1 & 4)	(9,625)	22,169	-	12,544	-	130,720	(163)	130,557
Net assets released from restrictions through satisfaction of use restrictions (Note 10)	1,157,031	(1,157,031)	-	-	583,772	(583,772)	-	-
TOTAL REVENUES, GAINS & SUPPORT	3,708,377	230,510	-	3,938,887	3,326,950	2,436,812	999,837	6,763,599
EXPENSES								
Instruction	876,594	-	-	876,594	1,001,789	-	-	1,001,789
Library	102,036	-	-	102,036	118,191	-	-	118,191
Administrative – General	739,351	-	-	739,351	729,148	-	-	729,148
Operation & maintenance of plant	520,856	-	-	520,856	511,214	-	-	511,214
Development	511,820	-	-	511,820	470,724	-	-	470,724
Household expenses	555,033	-	-	555,033	517,045	-	-	517,045
Depreciation	204,705	-	-	204,705	194,710	-	-	194,710
TOTAL EXPENSES	3,510,395	-	-	3,510,395	3,542,821	-	-	3,542,821
INCREASE (DECREASE) IN NET ASSETS	197,982	230,510	-	428,492	(215,871)	2,436,812	999,837	3,220,778
NET ASSETS AT BEGINNING OF YEAR:	4,034,952	5,296,049	4,743,134	14,074,135	4,250,823	2,859,237	3,743,297	10,853,357
NET ASSETS AT END OF YEAR	\$ 4,232,934	\$ 5,526,559	\$ 4,743,134	\$ 14,502,627	\$ 4,034,952	\$ 5,296,049	\$ 4,743,134	\$ 14,074,135

Pope St. John XXIII National Seminary, Inc.

Statements of Cash Flows

For the Year Ended June 30

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 428,492	\$ 3,220,778
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	204,705	194,710
Gain on sale of vehicle	-	(5,694)
Donation of investments	(65,336)	(155,328)
Net realized and unrealized losses (gains) on investments	97,389	(395,156)
Interest in change in net assets of a foundation	(12,544)	(130,557)
Transfer of assets from a foundation	36,512	201,433
Changes in operating assets and liabilities:		
Interest and dividends receivable	(11,077)	3,647
Prepaid expenses	157,164	(77,521)
Contributions receivable, net	1,201,011	(1,522,528)
Inventories	2,500	6,500
Accounts payable and accrued expenses	201,155	19,733
	<u>2,239,971</u>	<u>1,360,017</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	(797,474)	(134,204)
Purchases of investments, net	(947,843)	(238,776)
	<u>(1,745,317)</u>	<u>(372,980)</u>
NET CASH APPLIED TO INVESTING ACTIVITIES		
NET INCREASE IN CASH	494,654	987,037
CASH AT BEGINNING OF YEAR	<u>1,074,142</u>	<u>87,105</u>
CASH AT END OF YEAR	<u>\$ 1,568,796</u>	<u>\$ 1,074,142</u>

Pope St. John XXIII National Seminary, Inc.

Notes to Financial Statements

June 30, 2015

Note 1 - Principal Activity and Summary of Significant Accounting Policies

Principal Activity - The Seminary is a Roman Catholic, professional and graduate theological school dedicated primarily to the intellectual, cultural and spiritual preparation of second-career seminarians for the priesthood.

Financial Statement Presentation - The Seminary reports information regarding its financial position and activities according to three classes of net assets as determined by donor-imposed restrictions: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. See Note 10 regarding restrictions on net assets. Board-designated net assets are included in unrestricted net assets and consist of net assets designated by the Board of Trustees for capital improvements, and as amounts quasi-endowed to provide a permanent source of income.

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 certain reported amounts of assets, liabilities, revenues, expenses and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

Cash Equivalents - The Seminary considers short-term, highly-liquid investments with original maturities of three months or less to be cash equivalents.

Contributions Receivable – Contributions receivable are stated net of an allowance for doubtful accounts, which is reported on the face of the Seminary's statement of financial position. The allowance is established via a provision for bad debts charged against support. On a periodic basis, management evaluates its contributions receivable and establishes or adjusts its allowance to an amount that it believes will be adequate to absorb possible losses on accounts that may become uncollectible, based on evaluations of the collectability of individual accounts. Accounts are charged against the allowance when management believes that the collectability of the specific account is unlikely (see Note 5).

Inventories – Inventories are valued at the lower of cost or market value based on the first-in, first-out (FIFO) method, and consist of books and related supplies.

Investments - The Seminary reports investments at fair value. Increases or decreases in the fair value are reflected currently in the statement of activities as net realized and unrealized gains (losses) on investments (see Notes 2 & 3).

Property and Equipment - Property and equipment are stated at cost. Property contributed by the Roman Catholic Archdiocese of Boston in 1997 is stated at the net book value of the Archdiocese at the time of the contribution. Maintenance and repairs are expensed as incurred, whereas major purchases are capitalized (see Note 6).

Depreciation has been calculated and provided over the estimated useful lives of the respective assets on a straight-line basis. Estimated useful lives are summarized as follows:

	<u>Estimated Useful Lives</u>
Building and building improvements	15 - 40 years
Furniture and equipment	5 years
Motor vehicles	5 years

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

Contributions and Donor Restrictions – Donors' unconditional promises to contribute cash or other assets to the Seminary are recorded as receivable when the pledges are made and documented. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Amortization of discounts is included in contribution revenue. Conditional promises to contribute are recorded only when the specified conditions are substantially met (see Note 5).

The Seminary reports contributions of cash or other assets as restricted support, thereby increasing temporarily restricted net assets, if they are received with donor stipulations that limit, specify or otherwise restrict the use of such contributions. When a donor restriction expires, either by use of the funds for the specified purpose or by the expiration of a time restriction, 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 has initiated a "Pathway to the Future" campaign to raise funds for renovations, expansion, endowment and infrastructure.

Contributions received for the purpose of acquiring property or equipment, or renovating the facility, are reported as support, increasing temporarily restricted net assets. When the expenditures for the acquisition or renovations are incurred, the financial statements report a reduction in temporarily restricted net assets and an increase in unrestricted net assets.

Endowment funds established by donor restrictions to permanently maintain the principal, while allowing the use of income generated therefrom, are classified as permanently restricted net assets. Income derived from the investment of endowment funds (interest and dividends) is reported as unrestricted revenue or as temporarily restricted revenue depending on the terms of the donor instrument.

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 11).

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 (see Note 9).

Accounting for Assets Held by Others – The Seminary recognizes as an asset its interest in the net assets of other related organizations who hold funds that have been donated for the benefit of the Seminary. The asset amount is adjusted for the Seminary's share of the change in the related organization's net assets via a charge or credit to the Seminary's statement of activities. Transfers of funds from the related organization are reported as reductions to the Seminary's recorded interest (see Note 4).

Income Tax – The Seminary is included in the United States Catholic Conference Group Ruling and in the Official Catholic Directory and is therefore exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is included in these financial statements (see Note 13).

Evaluation of Subsequent Events – Management has evaluated subsequent events involving the Seminary for potential recognition or disclosure in the accompanying financial statements. Subsequent events are events or transactions that occurred after June 30, 2015 up through October 5, 2015, the date the accompanying financial statements were available to be issued.

Note 2 - Investments

Investments consist of the following at June 30:

	<u>2015</u>		<u>2014</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Common Investment Fund, Roman Catholic Archbishop of Boston	\$ 5,226,557	\$ 6,148,648	\$ 4,217,241	\$ 5,240,000
Common Stock	64,796	56,386	54,418	49,244
	<u>\$ 5,291,353</u>	<u>\$ 6,205,034</u>	<u>\$ 4,271,659</u>	<u>\$ 5,289,244</u>

The majority of the Seminary's investments represent 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 participants own units based upon a per-unit value at the time of purchase. The Common Investment Fund incurs service fees from the Corporation Sole for administrative and clerical services performed on behalf of the fund. These fees are reflected in the calculation of the value per unit. Dividend income from the investments totaled \$198,884 and \$162,676 for the years ended June 30, 2015 and 2014, respectively.

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 entities.

The Seminary's investments (including investments bought, sold and held during the year) appreciated in value as follows during the years ended June 30:

	<u>2015</u>	<u>2014</u>
Common Investment Fund, Roman Catholic Archbishop of Boston	\$ (93,064)	\$ 374,461
Common Stock	(4,325)	20,695
	<u>\$ (97,389)</u>	<u>\$ 395,156</u>

Risks and Uncertainties – The Seminary's investments in the common investment fund and mutual funds are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with these investment securities, and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the statements of financial position and the statements of activities.

Note 3 – 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).

The Seminary measures the fair value of investments in certain entities that do not have a quoted market price based on the investees' calculated net asset value (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 financial assets that are accounted for at fair value on a recurring basis as of June 30, 2015 and 2014, by level within the fair value hierarchy, are presented in the table below. Financial assets measured at fair value on a nonrecurring basis, such as contributions receivable, are excluded from the table.

	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs	Balance at year end
<u>June 30, 2015</u>				
Units of Common Investment Fund	\$ -	\$ 6,148,648	\$ -	\$ 6,148,648
Common Stock	56,386	-	-	56,386
	\$ 56,386	\$ 6,148,648	\$ -	\$ 6,205,034
 <u>June 30, 2014</u>				
Units of Common Investment Fund	\$ -	\$ 5,240,000	\$ -	\$ 5,240,000
Common Stock	49,244	-	-	49,244
	\$ 49,244	\$ 5,240,000	\$ -	\$ 5,289,244

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement. The methods used for valuing the assets and liabilities are not necessarily an indication of the risks associated with those assets.

A summary of the methods used to estimate the fair value of investments is as follows:

Unit Values in the Common Investment Fund (CIF) – This investment does not have quoted prices in active markets or significant other observable inputs that have quoted market prices although the Seminary can redeem its investment at the net asset value per share at June 30, 2015. These assets are classified as being valued using Level 2 inputs under generally accepted accounting principles. The Seminary estimates the fair value of its unit holdings in the CIF based on the Seminary's share of the underlying investment portfolio that consists of actively-traded equities, bonds and money market funds.

Common Stock – The investments are valued at the closing price reported on the active market on which individual securities are traded and are classified within Level 1 of the valuation hierarchy.

Note 4 – Interest in the Catholic Community Fund of the Archdiocese of Boston, Inc. (“Foundation”)

The Seminary is the beneficiary of restricted donations collected on its behalf by the Foundation, a related party. As discussed in Note 1, “Accounting for Assets Held by Others”, the Seminary has recorded as an asset its interest in the Foundation’s net assets, approximately \$913,000 at June 30, 2015 (\$937,000 at June 30, 2014). The change in the Seminary's interest is reflected in the statement of activities as an increase in net assets of \$12,544 in 2015 (increase of \$130,557 in 2014). Transfers of funds from the Foundation to the Seminary totaled \$36,512 and \$201,433 for the years ended June 30, 2015 and 2014, respectively.

Note 5 – Contributions Receivable

Included in contributions receivable are the following unconditional promises to give, summarized by use-restriction:

	<u>2015</u>	<u>2014</u>
Building renovations	\$ 897,465	\$ 1,202,150
Endowment for faculty chair of academic dean	-	1,000,000
Unrestricted	<u>28,000</u>	<u>27,988</u>
Unconditional promises to give before unamortized discount and provision for uncollectible pledges	<u>925,465</u>	2,230,138
Less unamortized discount	<u>68,338</u>	<u>172,000</u>
	<u>857,127</u>	2,058,138
Less provision for uncollectible pledges	<u>50,000</u>	<u>50,000</u>
	<u>\$ 807,127</u>	<u>\$ 2,008,138</u>
Amounts due in:		
Less than one year	\$ 421,556	\$ 1,276,466
One to five years	<u>385,571</u>	<u>731,672</u>
	<u>\$ 807,127</u>	<u>\$ 2,008,138</u>

Note 6 - Property and Equipment

	<u>2015</u>	<u>2014</u>
Land	\$ 116,140	\$ 116,140
Building	424,903	424,903
Building improvements	5,119,801	4,847,032
Furniture and equipment	1,415,496	1,329,869
Construction in progress	<u>439,079</u>	-
	<u>7,515,419</u>	<u>6,717,944</u>
Less accumulated provision for depreciation	<u>2,332,028</u>	<u>2,127,322</u>
	<u>\$ 5,183,391</u>	<u>\$ 4,590,622</u>

Depreciation expense totaled \$204,705 and \$194,710 for the years ended June 30, 2015 and 2014, respectively.

Note 7 - Related Party Transactions

The Seminary received \$130,500 in 2015 (\$207,683 in 2014) from the Archdiocese of Boston, representing tuition for registered Boston students.

During the years ended June 30, 2015 and 2014, the Seminary was charged \$290,624 and \$271,913, respectively, for health, life, disability and property insurance administered by the Roman Catholic Archdiocese of Boston, A Corporation Sole.

Note 7 - Related Party Transactions (Cont.)

During the years ended June 30, 2015 and 2014, the Seminary received approximately \$180,000 and \$462,000, respectively, in contributions from several members of the Board of Trustees. In addition, contributions receivable from members total approximately \$168,000 and \$544,000 at June 30, 2015 and 2014, respectively.

Note 8 - Employee Pension Plan

The Seminary participated with other Catholic organizations in a multi-employer, noncontributory, defined benefit pension plan covering substantially all lay employees. Benefits are provided through the Roman Catholic Archdiocese of Boston (RCAB) Pension Plan (the "Pension Plan"). The Seminary's employees comprise less than 1% of all lay employees covered. The Pension Plan is not subject to the Employee Retirement Income Security Act of 1974 ("ERISA"). Effective December 31, 2011, the Archdiocese of Boston amended the plan to curtail benefit accruals for plan participants. In addition, no additional participants are allowed into the plan. Pension expense associated with the defined benefit plan for the years ended June 30, 2015 and 2014 was approximately \$43,000 for both years.

To replace the curtailed defined benefit pension plan, the Archdiocese of Boston established a 401(k) defined contribution plan on January 1, 2012. The Seminary contributes a matching contribution subject to formulas defined in the plan document. Contributions by the Seminary approximated \$19,000 and \$18,000 for the years ended June 30, 2015 and 2014, respectively. Each eligible employee may defer up to 100% of compensation subject to limits on the maximum amount allowed by law.

Note 9 - Contributed Services

For the years ended June 30, 2015 and 2014, the Seminary recorded contributions in the amount of \$211,680 and \$413,879, respectively, for services performed by priests who serve as faculty. These amounts represent the differences between the actual compensation paid and the estimated compensation that would be paid to laypersons performing the same services (see Note 1).

Note 10 - Restricted Net Assets

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

	<u>2015</u>	<u>2014</u>
Restricted for:		
Student scholarships	\$ 80,009	\$ 147,240
Foreign ministry students	-	10,850
Building renovations	3,430,806	2,646,981
Operations	252,456	303,069
Needy students	65,305	63,919
Theology Chair	7,237	43,326
Pre-Theology Chair	60,279	93,378
Field education office and workshops	59,151	77,327
Promise for Tomorrow case statement	944,201	1,344,201
Interest in temporarily restricted net assets of a foundation	-	14,342
	<u>4,899,444</u>	<u>4,744,633</u>
Unrealized gains and losses on investments related to permanently restricted net assets (Note 1)	<u>627,115</u>	<u>551,416</u>
	<u>\$ 5,526,559</u>	<u>\$ 5,296,049</u>

Note 10 - Restricted Net Assets (Cont.)

Permanently restricted net assets at June 30 are restricted to investment in perpetuity, the income from which is expendable for specific purposes. Permanently restricted net assets consist of:

	<u>2015</u>	<u>2014</u>
Income restricted for:		
Student scholarships	\$ 236,321	\$ 236,321
Academic Dean Faculty Chair	1,000,000	1,000,000
Rector fund for needy students	35,000	35,000
Theology Chair	346,961	346,961
Field Education Director's Office	800,000	800,000
Pre-theology program	894,512	894,512
Operations	489,138	489,138
Promise for Tomorrow case statement	18,183	18,183
Interest in permanently restricted net assets of a foundation	923,019	923,019
	<u>\$ 4,743,134</u>	<u>\$ 4,743,134</u>

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

	<u>2015</u>	<u>2014</u>
Student scholarships granted	\$ 79,150	\$ 14,380
Foreign ministry students	10,850	27,000
Capital renovations	492,031	350,892
Operating expenses	-	71,500
Needy students	-	10,000
Theology Chair	50,000	20,000
Pre-theology Chair	75,000	15,000
Field education office and workshops	50,000	75,000
Promise for Tomorrow case statement	400,000	-
	<u>\$ 1,157,031</u>	<u>\$ 583,772</u>

Note 11 – Endowments and Quasi-Endowments

The Seminary's endowments consist of various funds established for the support of various activities. As required by accounting principles generally accepted in the United States, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law – The Seminary has historically viewed the Massachusetts Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the Seminary to preserve the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Seminary classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. This is regarded as the "historic dollar value" of the endowment fund. 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.

Note 11 – Endowments and Quasi-Endowments (Cont.)

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 in unrestricted net assets. There were no such deficiencies as of June 30, 2015 and 2014.

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.

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). From the time when the Seminary was organized, the Seminary has invested its endowment investment portfolio in the Common Investment Fund which, in turn, invests in the Investment Partnership (see Note 2). The Investment Committee of Corporation Sole is responsible for selecting the investment managers of the Investment Partnership. The Investment Committee’s investment rationale is to include an array of different strategy investment managers for the Investment Partnership’s portfolio to reduce overall volatility while providing investment returns above industry benchmarks.

Changes in Endowment Net Assets

Endowment net assets and changes therein as of and for the years ended June 30 are as follows:

	Board Designated Quasi- Endowment	Endowment Net Assets			Total
		Unrestricted	Temporarily Restricted	Permanently Restricted	
<u>For the year ended June 30, 2015:</u>					
Endowment net assets at beginning of year	\$ 1,364,690	\$ -	\$ 1,309,018	\$ 4,743,134	\$ 6,052,152
Interest in change in net assets of a foundation	-	(9,625)	22,169	-	12,544
Interest and dividends	54,334	-	111,210	-	111,210
Realized and unrealized gains on investments	(29,244)	-	83,304	-	83,304
Appropriation of endowment assets for expenditure	-	-	(269,149)	-	(269,149)
Endowment net assets at end of year	\$ 1,389,780	\$ (9,625)	\$ 1,256,552	\$ 4,743,134	\$ 5,990,061
<u>For the year ended June 30, 2014:</u>					
Endowment net assets at beginning of year	\$ 1,218,015	\$ -	\$ 984,275	\$ 3,743,297	\$ 4,727,572
Contributions	-	-	-	1,000,000	1,000,000
Transfer to board designated quasi-endowment	250,000	-	-	-	-
Interest in change in net assets of a foundation	-	-	130,720	(163)	130,557
Interest and dividends	45,927	-	114,108	-	114,108
Realized and unrealized gains on investments	15,360	-	269,915	-	269,915
Appropriation of endowment assets for expenditure	(164,612)	-	(190,000)	-	(190,000)
Endowment net assets at end of year	\$ 1,364,690	\$ -	\$ 1,309,018	\$ 4,743,134	\$ 6,052,152

Note 12 - Financial Instruments and Concentrations of Credit Risk

The Seminary's financial instruments that potentially subject it to concentrations of credit risk consist of cash, contributions receivable, investments and a beneficial interest in the net assets of a foundation.

The Seminary maintains its cash accounts in high quality financial institutions. At times, the amounts on deposit at any institution are in excess of insured limits. At June 30, 2015, based on bank balances, cash in excess of FDIC insurance limits approximated \$1,231,000.

As more fully discussed in Note 2, substantially all of the Seminary's investments consist of Common Investment Funds administered by the Roman Catholic Archdiocese of Boston (RCAB).

As more fully discussed in Note 4, the Seminary has a beneficial interest in the net assets of the Catholic Community Fund in the approximate amount of \$913,000 at June 30, 2015.

The Seminary's contributions receivable are dispersed among various corporate and individual contributors throughout the region. At June 30, 2015, approximately \$260,000 or 28% of the Seminary's total contributions receivable are due from four individuals.

Note 13 - Income Taxes

The Seminary recognizes 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.

Note 14 – Commitments

The Seminary has entered into a cost-plus construction contract with a general contractor to expand their facilities to include a Learning Center. The estimated cost to construct approximates \$4 million. Construction began in June of 2015 and is expected to be completed in December of 2015. Construction costs incurred through June of 2015 approximate \$439,000 and are presented as property and equipment on the statement of net assets.



GT REILLY & COMPANY

CPAs and Advisors

424 Adams Street, Milton MA 02186-4358

T. 617.696.8900 / F. 617.698.1803

www.gtreilly.com

Independent Auditor's 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
Pope St. John XXIII National Seminary, Inc.

We have audited, 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, the financial statements of Pope St. John XXIII National Seminary, Inc., which comprise the statement of financial position as of June 30, 2015, 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 October 5, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pope St. John XXIII National Seminary, Inc.'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 Pope St. John XXIII National Seminary, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Pope St. John XXIII National Seminary, Inc.'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 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.

An independent firm associated with
Moore Stephens International Limited

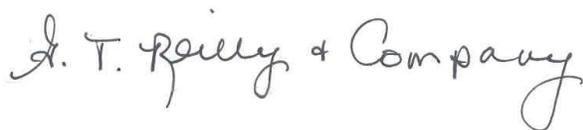
MOORE STEPHENS

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pope St. John XXIII National Seminary, Inc.'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*.

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.

A handwritten signature in cursive script that reads "G. T. Reilly & Company". The signature is written in dark ink and is positioned above the printed name of the company.

G.T. Reilly & Company

Milton, Massachusetts
October 5, 2015