GT Reilly & Company

CPAs and Advisors

Audited Financial Statements

Pope St. John XXIII National Seminary, Inc.

June 30, 2019

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& Company
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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, 2019 and 2018, and the related statements of activities, functional expenses 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 from 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 risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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, 2019 and 2018, 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 September 17, 2019 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.

G. T. Reilly & Company

G.T. Reilly & Company

Milton, Massachusetts
September 17, 2019

Statements of Financial Position

June 30

	2019	2018
Assets		
Cash	**$ 91,890**	$ 434,184
Interest and dividends receivable	**37,773**	38,875
Promises to give, net (Note 5)	**129,563**	324,042
Accounts receivable	**-**	13,855
Inventories	**6,500**	6,500
Prepaid expenses	**13,841**	66,617
Investments at fair value (Notes 2 & 3)	**3,551,426**	3,783,068
Interest in net assets of a foundation (Note 4)	**989,820**	1,005,133
Property and equipment, net (Note 6)	**8,670,056**	8,861,449
TOTAL ASSETS	**$ 13,490,869**	$ 14,533,723
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	**$ 84,760**	$ 96,392
Note payable (Note 8)	**21,500**	32,142
Note payable to affiliate (Note 7)	**64,930**	408,932
TOTAL LIABILITIES	**171,190**	537,466
Net Assets (Notes 11 & 12):		
Without donor restrictions:		
Board designated for capital improvements	**10,714**	10,274
Board designated quasi-endowments	**8,654**	8,051
Undesignated	**7,691,329**	7,838,533
	7,710,697	7,856,858
With donor restrictions	**5,608,982**	6,139,399
	13,319,679	13,996,257
TOTAL LIABILITIES AND NET ASSETS	**$ 13,490,869**	$ 14,533,723

Statements of Activities

Year Ended June 30

	2019			2018		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS & OTHER SUPPORT						
Tuition	**$ 1,933,750**	**$ -**	**$ 1,933,750**	$ 2,314,750	$ -	$ 2,314,750
Fundraising - special events	**371,463**	**-**	**371,463**	365,871	-	365,871
Contributions	**443,694**	**10,000**	**453,694**	451,480	89,540	541,020
Investment interest and dividends	**9,471**	**144,396**	**153,867**	11,302	152,989	164,291
Miscellaneous income	**653**	**-**	**653**	6,889	-	6,889
Matching gifts	**58,798**	**-**	**58,798**	48,193	-	48,193
Contributed services (Note 10)	**223,397**	**-**	**223,397**	252,445	-	252,445
Net realized and unrealized gains (losses) on investments (Note 2)	**(705)**	**(31,780)**	**(32,485)**	(2,382)	137,270	134,888
Interest in change in net assets of a foundation (Note 4)	**-**	**24,687**	**24,687**	-	93,973	93,973
Net assets released from restrictions through satisfaction of use restrictions (Note 11)	**677,720**	**(677,720)**	**-**	436,000	(436,000)	-
TOTAL REVENUES, GAINS & SUPPORT	**3,718,241**	**(530,417)**	**3,187,824**	3,884,548	37,772	3,922,320
EXPENSES						
Program	**1,981,736**	**-**	**1,981,736**	2,035,513	-	2,035,513
General and administrative	**1,438,198**	**-**	**1,438,198**	1,401,147	-	1,401,147
Fundraising and development	**444,468**	**-**	**444,468**	552,221	-	552,221
TOTAL EXPENSES	**3,864,402**	**-**	**3,864,402**	3,988,881	-	3,988,881
(DECREASE) INCREASE IN NET ASSETS	**(146,161)**	**(530,417)**	**(676,578)**	(104,333)	37,772	(66,561)
NET ASSETS AT BEGINNING OF YEAR	**7,856,858**	**6,139,399**	**13,996,257**	7,961,191	6,101,627	14,062,818
NET ASSETS AT END OF YEAR	**$ 7,710,697**	**$ 5,608,982**	**$ 13,319,679**	$ 7,856,858	$ 6,139,399	$ 13,996,257

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

Statements of Functional Expenses

Year Ended June 30

	2019				2018			
	Program Services	General and Administrative	Fundraising and Development	Total	Program Services	General and Administrative	Fundraising and Development	Total
Salaries and benefits	$ 1,095,284	$ 1,034,411	$ 256,362	$ 2,386,057	$ 1,072,013	$ 1,037,207	$ 365,372	$ 2,474,592
Contract services	28,947	115,098	15,242	159,287	28,354	79,774	-	108,128
Professional services	5,706	50,747	-	56,453	-	23,000	-	23,000
Admissions	28,587	-	-	28,587	39,257	-	-	39,257
Travel and entertainment	13,130	7,256	299	20,685	24,632	15,297	62	39,991
Utilities	227,290	42,617	14,206	284,113	197,662	37,062	12,354	247,078
Technology	-	-	3,600	3,600	-	-	3,300	3,300
Property maintenance	110,474	20,714	6,905	138,093	92,919	17,422	5,807	116,148
Interest and service fees	16,259	3,048	1,016	20,323	25,033	4,694	1,565	31,292
Office	11,657	25,079	1,716	38,452	16,029	24,173	1,709	41,911
Depreciation	227,140	42,589	14,196	283,925	238,436	44,707	14,902	298,045
Publicity	1,500	-	25,711	27,211	425	-	15,769	16,194
Library	35,315	4,533	-	39,848	39,135	3,700	-	42,835
Kitchen	130,911	24,546	8,182	163,639	156,283	29,303	9,768	195,354
Fundraising events and activities	-	-	97,033	97,033	50	-	121,613	121,663
Student assistance	42,328	-	-	42,328	95,887	500	-	96,387
Operational supplies	21	66,054	-	66,075	1,060	81,140	-	82,200
Other	7,187	1,506	-	8,693	8,338	3,168	-	11,506
	$ 1,981,736	$ 1,438,198	$ 444,468	$ 3,864,402	$ 2,035,513	$ 1,401,147	$ 552,221	$ 3,988,881

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

Statements of Cash Flows

For the Year Ended June 30

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	**$ (676,578)**	$ (66,561)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	**283,925**	298,046
Donation of investments	**-**	(814)
Net realized and unrealized losses (gains) on investments	**32,396**	(134,888)
Interest in change in net assets of a foundation	**(24,687)**	(93,973)
Transfer of assets from a foundation	**40,000**	50,000
Changes in operating assets and liabilities:		
Interest and dividends receivable	**1,102**	(2,463)
Prepaid expenses	**52,776**	23,933
Promises to give, net	**194,479**	242,492
Accounts receivable	**13,855**	(13,855)
Accounts payable and accrued expenses	**(11,632)**	40,813
NET CASH (APPLIED TO) PROVIDED FROM OPERATING ACTIVITIES	**(94,364)**	342,730
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	**(92,532)**	(173,059)
Redemptions of investments, net	**199,246**	124,292
NET CASH PROVIED FROM (APPLIED TO) INVESTING ACTIVITIES	**106,714**	(48,767)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on note payable to affiliate	**(344,002)**	(331,469)
Payments on note payable	**(10,642)**	(10,029)
NET CASH APPLIED TO FINANCING ACTIVITIES	**(354,644)**	(341,498)
NET DECREASE IN CASH	**(342,294)**	(47,535)
CASH AT BEGINNING OF YEAR	**434,184**	481,719
CASH AT END OF YEAR	**$ 91,890**	$ 434,184

Supplemental Disclosure of Cash Flow Information

Interest paid	**$ 11,233**	$ 23,011

Notes to Financial Statements

June 30, 2019

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.

Change in Financial Statement Presentation – In fiscal 2019, the Financial Accounting Standards Board issued Accounting Standard Update (ASU) 2016-14, "*Presentation of Financial Statements of Not-for-Profit Entities" (Topic 958).* The ASU is intended to improve net asset classification requirements as well as information presented in financial statements and notes about a not-for-profit entity's liquidity and availability of resources, and its expenses. The Seminary has adopted and implemented the provisions of the ASU retrospectively to the fiscal 2018 financial statements as previously presented. The adoption and retrospective application of the ASU had no effect on the net assets as previously reported at June 30, 2018 or on the change in net assets for the year then ended. As required by the ASU, the Seminary's statements of activities present a summary of expenses by function (program, general and administrative, and fundraising and development) and the Seminary also includes statements of functional expenses, which presents the natural classification of expenses by function (see "Functional Allocation of Expenses" below). In addition, the Seminary now presents in its statements of financial position and changes in net assets two classes of net assets based on the existence or absence of donor-imposed restrictions as discussed below.

Net Assets Without Donor Restrictions – These are net assets available for use in general operations and not subject to donor restrictions. At its discretion, the Board of Trustees may designate net assets without donor restrictions for specific purposes. Net assets have been designated by the Board for capital improvements and as amounts quasi-endowed to provide a permanent source of income as disclosed in Note 12.

Net Assets With Donor Restrictions – These net assets are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met with the passage of time, the occurrence of events, or by the use of the funds as specified by the donor. Other donor-imposed restrictions may be perpetual in nature where the donor stipulates that the funds be maintained in perpetuity.

Donor-restricted revenues, support and gains are recorded as "net assets with donor restrictions" when received or pledged. When a temporary donor-imposed restriction expires, either by use of the funds for the specified purpose or by the expiration of a time restriction, related amounts of "net assets with donor restrictions" are reclassified to "net assets without donor restrictions" and reported in the statement of activities as "net assets released from restrictions".

Contributions made with donor-imposed restrictions to maintain the principal in perpetuity (endowments), while allowing the use of income generated therefrom, are also classified as "net assets with donor restrictions". Income derived from the investment of these perpetual net assets is reported as an increase in "net assets without donor restrictions" or "net assets with donor restrictions" depending on the terms of the donor instrument. Unrealized gains or losses on perpetual net assets are reported as increases or decreases in "net assets with donor restrictions", unless the donor explicitly states otherwise.

See Notes 11 and 12 regarding restrictions on net assets.

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

Accounting Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets, liabilities, revenues, expenses and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

Cash – The Seminary considers short-term, highly-liquid investments with original maturities of three months or less to be cash equivalents for presentation purposes in the statement of financial position and the statement of cash flows.

Promises to Give – Unconditional promises to give cash or other assets to the Seminary are recorded as assets receivable when the pledges are made and documented. Conditional promises to give are recorded only when the specified conditions are substantially met. Unconditional promises to give that are expected to be collected over a period of years are recorded at the present value of their estimated future cash flows. Amortization of such discounts is included in support. Recorded promises to give to the Seminary are reported in the statement of financial position net of an estimated allowance for uncollectable amounts. The allowance is recorded via a provision charged against support. On a periodic basis, management evaluates the promises to give to the Seminary and establishes or adjusts the allowance to an amount that it believes will be adequate to absorb possible losses on promises that may become uncollectible, based on evaluations of the individual pledges. Recorded amounts are written off and charged against the allowance or against support when management believes that the collectability of the specific pledge is unlikely. See Note 5 for a summary of recorded promises to give.

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

Investments – The Seminary reports investments in marketable securities and pooled funds at fair value. Increases or decreases in the fair value of investments 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 less accumulated provisions for depreciation. Property contributed by the Roman Catholic Archdiocese of Boston in 1997 is stated at the net book value on the records of the Archdiocese at the time of the contribution. Maintenance and repairs are expensed as incurred, whereas major additions and 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:

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

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 10).

Functional Allocation of Expenses – The costs and expenses of providing program and other activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Costs and expenses related directly to a program or a supporting function are charged to that program or function, while other expenses are allocated based on reasonable methods which include square footage, time spent and management's best estimates.

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

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 14).

Expense Reclassification – Certain expenses in the 2018 statement of activities and the statement of functional expenses have been retrospectively reclassified between program, general and administrative, and fundraising and development functions to conform to the current year classifications. Such expense reclassifications had no effect on total expenses or on the change in net assets as previously reported for the year ended June 30, 2018.

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, 2019 up through September 17, 2019, the date the accompanying financial statements were available to be issued.

Note 2 - Investments

Investments consist of the following at June 30:

	2019		2018	
	Cost	**Fair Value**	Cost	Fair Value
Common Investment Fund, Roman Catholic Archbishop of Boston	**$ 2,938,452**	**$ 3,499,608**	$ 3,099,199	$ 3,730,436
Common Stock	**54,144**	**51,818**	54,144	52,632
	$ 2,992,596	**$ 3,551,426**	$ 3,153,343	$ 3,783,068

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 Seminary's investments totaled $145,153 and $153,727 for the years ended June 30, 2019 and 2018, 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.

Note 2 – Investments (Cont.)

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

	2019	2018
Common Investment Fund, Roman Catholic Archbishop of Boston	**$ (31,671)**	$ 138,788
Common Stock	**(814)**	(3,900)
	$ (32,485)	$ 134,888

Risks and Uncertainties – The Seminary's investments in the common investment fund and common stock 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 reports 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, 2019 and 2018, 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 recorded promises to give to the Seminary, 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
June 30, 2019				
Units of Common Investment Fund	**$ -**	**$ 3,499,608**	**$ -**	**$ 3,499,608**
Common Stock	**51,818**	**-**	**-**	**51,818**
	$ 51,818	**$ 3,499,608**	**$ -**	**$ 3,551,426**
June 30, 2018				
Units of Common Investment Fund	$ -	$ 3,730,436	$ -	$ 3,730,436
Common Stock	52,632	-	-	52,632
	$ 52,632	$ 3,730,436	$ -	$ 3,783,068

Note 3 – Fair Value Measurements (Cont.)

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. 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 they 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 $990,000 at June 30, 2019 ($1,005,000 at June 30, 2018). The change in the Seminary's interest is reflected in the statement of activities as an increase in net assets of approximately $25,000 in 2019 (approximately $94,000 in 2018). Transfer of funds from the Foundation to the Seminary totaled $40,000 and $50,000 for the years ended June 30, 2019 and 2018 respectively.

Note 5 – Promises to Give

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

	2019	2018
Capital renovations	**$ 58,419**	$ 201,074
Spanish language instruction	**50,000**	100,000
Missionary priests	**-**	40,000
Unrestricted	**25,000**	20,000
Unconditional promises to give before unamortized discount and provision for uncollectible pledges	**133,419**	361,074
Less unamortized discount	**-**	17,161
	133,419	343,913
Less provision for uncollectible pledges	**3,856**	19,871
	$ 129,563	$ 324,042
Amounts due in:		
Less than one year	**$ 129,563**	$ 213,748
One to five years	**-**	110,294
	$ 129,563	$ 324,042

Note 6 - Property and Equipment

Property and equipment consist of the following at June 30:

	2019	2018
Land	**$ 116,140**	$ 116,140
Building	**4,909,692**	4,909,692
Building improvements	**5,502,098**	5,431,544
Furniture and equipment	**1,596,256**	1,588,381
Construction in progress	**14,103**	-
	12,138,289	12,045,757
Less accumulated provision for depreciation	**3,468,233**	3,184,308
	$ 8,670,056	$ 8,861,449

Depreciation expense totaled $283,925 and $298,046 for the years ended June 30, 2019 and 2018, respectively.

Note 7 - Related Party Transactions

Tuition Revenue – The Seminary received $138,000 in 2019 ($167,500 in 2018) from the Archdiocese of Boston, representing tuition for registered Boston students.

Insurance – During the years ended June 30, 2019 and 2018, the Seminary was charged $349,666 and $347,572, respectively, for health, life, disability and property insurance administered by the Roman Catholic Archdiocese of Boston, A Corporation Sole.

Contributions – During the years ended June 30, 2019 and 2018, the Seminary received approximately $183,000 and $179,000, respectively, in contributions from several members of the Board of Trustees. In addition, promises to give to the Seminary by members total approximately $10,000 and $39,000 at June 30, 2019 and 2018, respectively, and are included in the schedules in Note 5.

Note Payable – On May 11, 2016 the Seminary entered into a 3.75% $1,000,000 promissory note with the Archdiocese of Boston to assist with the financing of the Learning Center construction. Under the terms of the agreement, the Seminary was not required to make any monthly payments until September 16, 2016, at which time monthly principal and interest payments of $29,413 commenced. The $64,930 principle balance of the note matures on August 19, 2019.

Line of Credit – On June 1, 2019 the Seminary entered into a $300,000 line of credit agreement with the Archdiocese of Boston. The applicable rate of interest on any outstanding balance will be charged at 4.25% per annum. The agreement is in effect until May 30, 2022. There are no outstanding borrowings at June 30, 2019. Subsequent to the date of the accompanying statement of financial position the Seminary drew down the entire $300,000 available on the line (see Note 15).

Note 8 –Note Payable

On May 31, 2017 the Seminary entered into a promissory note for $43,661 to facilitate the purchase of equipment. Under the terms of the agreement, the Seminary is making monthly principal and interest payments of $1,022. The note matures on April 30, 2021 and carries an interest rate of 5.95%.

Note 8 –Note Payable (Cont.)

Annual principal maturities on the note approximate the following:

Year Ending June 30	
2020	$ 11,247
2021	10,253
	$ 21,500

Note 9 - Employee Pension Plan

Through June of 2018, the Seminary participated in a multi-employer, noncontributory retirement income plan, the Roman Catholic Archdiocese of Boston (RCAB) Pension Plan (the "Pension Plan"). The plan provided defined benefits to participants upon retirement. 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. The relative position of the Seminary with regard to the plan's net assets and actuarial present value of accumulated plan benefits had not been distinguished from those of other groups participating in the retirement income plan. Pension expense for the year ended June 30, 2018 was approximately $122,000.

In June of 2018, the Seminary executed a withdrawal agreement with the RCAB Pension Plan. As part of the withdrawal agreement all of the Seminary's liabilities in the plan were replaced by an annuity contract. The Seminary was required to make an additional contribution of approximately $77,000 to increase its funding status. The Trustees of the RCAB Pension Plan negotiated the purchase of a single premium guaranteed annuity contract with Principal Life Insurance Company for the Corporation and nine other entities withdrawing from the RCAB Pension Plan. The written annuity contract was signed in December of 2018 and covers the pension benefits of all of the Seminary's employee-participants under the signed acceptance agreement with the insurance company.

To replace the curtailed defined benefit pension plan, the Archdiocese of Boston established a 401(k) defined contribution plan. The Seminary contributes a matching contribution subject to formulas defined in the plan document. Contributions by the Seminary approximated $36,000 and $38,000 for the years ended June 30, 2019 and 2018, respectively. Each eligible employee may defer up to 100% of compensation subject to limits on the maximum amount allowed by law.

Note 10 - Contributed Services

For the years ended June 30, 2019 and 2018, the Seminary recorded contributions in the amount of $223,397 and $252,445, respectively, for services performed by religious personnel 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 11 - Net Assets With Donor Restrictions

The following is a summary of net assets with donor restrictions:

	2019	2018
Temporary in Nature	**$ 864,701**	$ 1,395,118
Perpetual in Nature	**4,744,281**	4,744,281
	$ 5,608,982	$ 6,139,399

Note 11 - Net Assets With Donor Restrictions (Cont.)

Restricted net assets which are temporary in nature at June 30 consist of the following:

	2019	2018
Restricted for:		
Student scholarships	**$ 14,284**	$ 5,091
Foreign ministry students	**-**	40,000
Exercise facilities	**10,000**	15,000
Operations	**46,565**	264,886
Needy students	**13,857**	29,343
Spanish language instruction	**64,267**	134,267
Theology Chair	**-**	95
Catholic community	**65,656**	80,968
Pre-theology program	**-**	71,528
Academic Dean Faculty Chair	**-**	41,941
Pastoral ministry	**-**	1,649
Critical financial needs	**15,000**	5,000
Promise for Tomorrow case statement	**69,201**	69,201
	298,830	758,969
Unrealized gains and losses on investments related to restricted endowment net assets (see below)	**565,871**	636,149
	$ 864,701	$ 1,395,118

Restricted net assets which are perpetual in nature (endowments) at June 30 consist of the following:

	2019	2018
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
Pastoral Ministry	**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 endowment net assets of a foundation (Note 4)	**924,166**	924,166
	$ 4,744,281	$ 4,744,281

Note 11 - Net Assets With Donor Restrictions (Cont.)

During the years ended June 30, 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:

	2019	2018
Student scholarships	**$ 11,926**	$ 12,000
Foreign ministry students	**40,000**	40,000
Exercise	**5,000**	-
Operating expenses	**250,000**	70,000
Needy students	**20,000**	-
Spanish language instruction	**70,000**	48,000
Catholic community	**40,000**	-
Theology Chair	**13,348**	31,000
Pre-theology Chair	**109,145**	-
Academic Dean Faculty Chair	**81,520**	40,000
Pastoral ministry	**36,781**	70,000
Promise for Tomorrow case statement	**-**	125,000
	$ 677,720	$ 436,000

Note 12 – 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 considered restricted in perpetuity and is regarded as "net appreciation" is considered 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 in unrestricted net assets. There were no such deficiencies as of June 30, 2019 and 2018.

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 12 – Endowments and Quasi-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). 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:

		With Donor Restrictions		
	Without Donor Restrictions	**Temporary in Nature**	**Perpetual in Nature**	**Total**
For the year ended June 30, 2019:				
Endowment net assets at beginning of year	**$ 8,051**	**$ 1,131,650**	**$ 4,744,281**	**$ 5,875,931**
Interest in change in net assets of a foundation	**-**	**24,687**	**-**	**24,687**
Interest and dividends	**316**	**144,396**	**-**	**144,396**
Realized and unrealized gains (losses) on investments	**287**	**(31,780)**	**-**	**(31,780)**
Appropriation of endowment assets for expenditure	**-**	**(562,721)**	**-**	**(562,721)**
Endowment net assets at end of year	**$ 8,654**	**$ 706,232**	**$ 4,744,281**	**$ 5,450,513**

		With Donor Restrictions		
	Without Donor Restrictions	Temporary in Nature	Perpetual in Nature	Total
For the year ended June 30, 2018:				
Endowment net assets at beginning of year	$ 6,615	$ 1,020,418	$ 4,744,281	$ 5,764,699
Interest in change in net assets of a foundation	-	93,973	-	93,973
Interest and dividends	284	152,989	-	152,989
Realized and unrealized gains on investments	1,152	137,270	-	137,270
Appropriation of endowment assets for expenditure	-	(273,000)	-	(273,000)
Endowment net assets at end of year	$ 8,051	$ 1,131,650	$ 4,744,281	$ 5,875,931

Note 13 - Financial Instruments and Concentrations of Credit Risk

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

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, 2019, based on bank balances, there was no cash in excess of FDIC insurance limits.

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).

Note 13 - Financial Instruments and Concentrations of Credit Risk (Cont.)

As more fully discussed in Note 4, the Seminary's beneficial interest in the net assets of the Catholic Community Fund approximated $990,000 at June 30, 2019.

At June 30, 2019, the Seminary had $64,930 in debt payable to a related party (see Note 7).

The Seminary's recorded promises to give are dispersed among various corporate and individual contributors throughout the region. At June 30, 2019, approximately $50,000 or 39% of the total is pledged from one foundation.

Note 14 - 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 15 - Liquidity and Availability of Resources

The Seminary's financial assets and liquidity resources available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position are comprised of the following at June 30, 2019:

Liquid assets		
Cash	$	91,890
Interest and dividends receivable		37,773
Promises to give, net		129,563
Investments at fair value		3,551,426
		3,810,652
Less amounts restricted by donors and Board		
Donor restricted, net of net assets in a foundation		(4,619,160)
Board restricted		(18,928)
		(4,638,088)
Plus estimated releases of restrictions in the next fiscal year		
Satisfaction of use restrictions		150,000
Deficiency of net financial assets		(677,436)
Liquidity resources		
Line of credit		300,000
Deficiency of financial assets after applying liquid resources	$	(377,436)

The Seminary's cash flows have seasonal variations due to the nature and timing of tuition billings and various development events for fundraising. Most of the Seminary's cash inflow is received at the beginning of the school year, subsequent to its fiscal year-end.

Note 15 - Liquidity and Availability of Resources (Cont.)

The schedule of liquidity presented above reflects a deficiency in the Seminary's liquid assets at June 30, 2019, after reducing those assets by restricted amounts. The result is that the Seminary has insufficient financial assets in comparison to its donor restricted net assets. In effect, in order to meet cash flow needs for operations during the current fiscal year, the Seminary "borrowed" funds from its endowments with the intention of repaying those funds, with interest, in September of 2019 when funds become available.

The Seminary has entered into a $300,000 line of credit agreement in June of 2019 for additional resources for general expenditures. Subsequent to year end, $300,000 has been drawn on the line of credit. In addition, management is focusing on improvements to the Seminary's institutional advancement program to increase contributions, improvements to its recruiting process to increase enrollment, and it is determining the feasibility of generating additional revenue sources.

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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, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 17, 2019.

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

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
September 17, 2019