GT Reilly & Company
CPAs and Advisors

Audited Financial Statements

Pope St. John XXIII National Seminary, Inc.

June 30, 2020

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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, 2020 and 2019, 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, 2020 and 2019, and the changes in its net assets and its 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 our report dated October 7, 2020 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
October 7, 2020

Pope St. John XXIII National Seminary, Inc.

Statements of Financial Position

June 30

	2020	2019
Assets		
Cash	**$ 244,060**	$ 91,890
Interest and dividends receivable	**33,081**	37,773
Promises to give, net (Note 5)	**23,658**	129,563
Inventories	**5,500**	6,500
Prepaid expenses	**5,011**	13,841
Investments at fair value (Notes 2 & 3)	**3,741,396**	3,551,426
Interest in net assets of a foundation (Note 4)	**999,579**	989,820
Property and equipment, net (Note 6)	**8,483,663**	8,670,056
TOTAL ASSETS	**$ 13,535,948**	$ 13,490,869
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	**$ 66,378**	$ 84,760
Equipment note payable (Note 8)	**10,207**	21,500
SBA Paycheck Protection Program loan (Note 8)	**355,600**	-
Note payable to affiliate (Note 7)	**-**	64,930
TOTAL LIABILITIES	**432,185**	171,190
Net Assets (Notes 11 & 12):		
Without donor restrictions:		
Board designated for capital improvements	**11,179**	10,714
Board designated quasi-endowments	**9,019**	8,654
Undesignated	**7,534,093**	7,691,329
	7,554,291	7,710,697
With donor restrictions	**5,549,472**	5,608,982
	13,103,763	13,319,679
TOTAL LIABILITIES AND NET ASSETS	**$ 13,535,948**	$ 13,490,869

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

Pope St. John XXIII National Seminary, Inc.

Statements of Activities

Year Ended June 30

	2020			2019		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS & OTHER SUPPORT						
Tuition	**$ 1,882,000**	**$ -**	**$ 1,882,000**	$ 1,933,750	$ -	$ 1,933,750
Fundraising - special events	**325,791**	**-**	**325,791**	371,463	-	371,463
Contributions	**552,660**	**125,000**	**677,660**	443,694	10,000	453,694
Investment interest and dividends	**6,053**	**141,580**	**147,633**	9,471	144,396	153,867
Miscellaneous income	**5,632**	**-**	**5,632**	653	-	653
Matching gifts	**88,238**	**-**	**88,238**	58,798	-	58,798
Contributed services (Note 10)	**213,601**	**-**	**213,601**	223,397	-	223,397
Net realized and unrealized gains (losses) on investments (Note 2)	**722**	**(81,349)**	**(80,627)**	(705)	(31,780)	(32,485)
Interest in change in net assets of a foundation (Note 4)	**-**	**9,759**	**9,759**	-	24,687	24,687
Net assets released from restrictions through satisfaction of use restrictions (Note 11)	**254,500**	**(254,500)**	**-**	677,720	(677,720)	-
TOTAL REVENUES, GAINS & SUPPORT	**3,329,197**	**(59,510)**	**3,269,687**	3,718,241	(530,417)	3,187,824
EXPENSES						
Program	**1,820,527**	**-**	**1,820,527**	1,981,736	-	1,981,736
General and administrative	**1,333,758**	**-**	**1,333,758**	1,438,198	-	1,438,198
Fundraising and development	**331,318**	**-**	**331,318**	444,468	-	444,468
TOTAL EXPENSES	**3,485,603**	**-**	**3,485,603**	3,864,402	-	3,864,402
DECREASE IN NET ASSETS	**(156,406)**	**(59,510)**	**(215,916)**	(146,161)	(530,417)	(676,578)
NET ASSETS AT BEGINNING OF YEAR	**7,710,697**	**5,608,982**	**13,319,679**	7,856,858	6,139,399	13,996,257
NET ASSETS AT END OF YEAR	**$ 7,554,291**	**$ 5,549,472**	**$ 13,103,763**	$ 7,710,697	$ 5,608,982	$ 13,319,679

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

Pope St. John XXIII National Seminary, Inc.

Statements of Functional Expenses

Year Ended June 30

	2020				2019			
	Program Services	General and Administrative	Fundraising and Development	Total	Program Services	General and Administrative	Fundraising and Development	Total
Salaries and benefits	$ 1,050,873	$ 1,018,788	$ 182,994	$ 2,252,655	$ 1,095,284	$ 1,034,411	$ 256,362	$ 2,386,057
Contract services	17,701	64,511	-	82,212	28,947	115,098	15,242	159,287
Professional services	-	27,771	-	27,771	5,706	50,747	-	56,453
Admissions	15,853	-	-	15,853	28,587	-	-	28,587
Travel and entertainment	15,451	8,593	707	24,751	13,130	7,256	299	20,685
Utilities	176,700	33,131	11,044	220,875	227,290	42,617	14,206	284,113
Technology	-	-	3,729	3,729	-	-	3,600	3,600
Property maintenance	62,861	11,786	3,929	78,576	110,474	20,714	6,905	138,093
Interest and service fees	16,998	3,187	1,062	21,247	16,259	3,048	1,016	20,323
Office	15,287	19,701	1,985	36,973	11,657	25,079	1,716	38,452
Depreciation	219,676	41,189	13,730	274,595	227,140	42,589	14,196	283,925
Publicity	-	-	17,544	17,544	1,500	-	25,711	27,211
Library	34,691	4,978	110	39,779	35,315	4,533	-	39,848
Kitchen	135,607	25,426	8,475	169,508	130,911	24,546	8,182	163,639
Fundraising events and activities	-	-	86,009	86,009	-	-	97,033	97,033
Student assistance	50,412	-	-	50,412	42,328	-	-	42,328
Operational supplies	1,602	74,112	-	75,714	21	66,054	-	66,075
Other	6,815	585	-	7,400	7,187	1,506	-	8,693
	$ 1,820,527	$ 1,333,758	$ 331,318	$ 3,485,603	$ 1,981,736	$ 1,438,198	$ 444,468	$ 3,864,402

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

Statements of Cash Flows

For the Year Ended June 30

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (215,916)	$ (676,578)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	274,595	283,925
Donation of investments	(5,135)	-
Net realized and unrealized losses on investments	80,627	32,396
Interest in change in net assets of a foundation	(9,759)	(24,687)
Transfer of assets from a foundation	-	40,000
Changes in operating assets and liabilities:		
Interest and dividends receivable	4,692	1,102
Prepaid expenses	8,830	52,776
Promises to give, net	105,905	194,479
Accounts receivable	-	13,855
Inventories	1,000	-
Accounts payable and accrued expenses	(18,382)	(11,632)
NET CASH PROVIDED FROM (APPLIED TO) OPERATING ACTIVITIES	226,457	(94,364)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	(88,202)	(92,532)
(Purchases) redemptions of investments, net	(265,462)	199,246
NET CASH (APPLIED TO) PROVIDED FROM INVESTING ACTIVITIES	(353,664)	106,714
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on note payable to affiliate	(64,930)	(344,002)
Payments on equipment note payable	(11,293)	(10,642)
SBA Paycheck Protection Program loan	355,600	-
NET CASH PROVIDED FROM (APPLIED TO) FINANCING ACTIVITIES	279,377	(354,644)
NET INCREASE (DECREASE) IN CASH	152,170	(342,294)
CASH AT BEGINNING OF YEAR	91,890	434,184
CASH AT END OF YEAR	$ 244,060	$ 91,890

Supplemental Disclosure of Cash Flow Information

	2020	2019
Interest paid	$ 11,091	$ 11,233

Notes to Financial Statements

June 30, 2020

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 – As a not-for-profit organization, the Seminary 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 follows:

Net Assets Without Donor Restrictions – Net assets that are 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 – Net assets that 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 support is 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" (see Note 11).

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.

Contributions – In June of 2018, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2018-08, *“Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made”*. The ASU is intended to assist entities in evaluating whether transactions should be accounted for, and reported as, contributions or as exchange transactions, and in determining whether a contribution is conditional or unconditional.

The ASU clarifies that a contribution represents a nonreciprocal transaction where the grantor or donor does not receive a benefit of commensurate value in return for the assets or resources provided to the recipient. In an exchange transaction, the resource provider receives some thing or benefit of commensurate value in return for the resources provided. Exchange transactions include instances where a transfer of assets represents a payment from a third-party payer on behalf of an existing exchange transaction between the recipient and an identified customer receiving the benefit. However, where the benefit or potential benefit is received by the public or segments thereof, and the resource provider (such as a foundation, government agency, corporation or other entity), only receives indirect or incidental benefit that is not of commensurate value, the transaction is considered a contribution for accounting purposes. Distinguishing between contributions and exchange transactions determines the appropriate accounting and reporting for a transaction.

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

The Seminary adopted the principles of the ASU effective July 1, 2019 on a modified prospective basis. Management made a determination that its existing accounting policies and methods substantially comply with the ASU. Therefore, there were no changes to the Seminary's accounting methods in 2020, and the adoption of ASU 2018-08 had no effect on the Seminary's financial statements as of and for the year ended June 30, 2020.

<u>Accounting Estimates</u> – 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.

<u>Cash</u> – 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.

<u>Revenue Recognition</u> – Effective July 1, 2019, the Seminary adopted FASB Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers", and all subsequent amendments to the ASU (collectively, Accounting Standards Codification (ASC) 606). The new standards are based on the principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under the new standard, among other things, revenue is recognized at a point in time (when), or over time (as), a performance obligation is satisfied.

The Seminary has determined that there were no significant changes necessary to its existing revenue recognition policies and methods upon adoption of ASC 606. As a result, there was no effect on the Seminary's net assets or changes in net assets as of and for the year ended June 30, 2020 from the adoption of this standard. Similarly, under the permitted full retrospective method of adoption, it was also determined that the new standard had no effect on the Seminary's net assets and changes in net assets as previously reported for 2019. To date, AHS has not had to significantly change its revenue recognition or make any significant accounting adjustments as a result of adopting this standard. The new revenue standards do not apply to revenues and support that are covered under other accounting standards such as contributions and investment earnings, gains and losses. The Seminary's revenues and related methods of recognition are summarized as follows:

> *Tuition Revenue* – The Seminary recognizes revenue from student tuition and fees during the year in which the related services are provided to students. The performance obligation of delivering educational services is simultaneously received and consumed by the students; therefore, the revenue is recognized ratably over the course of the academic year. In addition, the students pay room and board to live on premises during the school year. Contracts for tuition, room, and board are combined into a single portfolio of similar contracts. Payment for tuition, room and board is required before the start of the academic year. All amounts received prior to the commencement of the academic year are recorded as liabilities and revenue recognition is deferred to the applicable period. Scholarships provided to students are recorded as reductions to tuition, room and board at the time the revenue is recognized.
>
> *Fundraising - Special Events* – The Seminary recognizes revenue from fundraising-special events once the event has taken place.

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

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 the Seminary have been summarized and presented in the statement of activities by function: program, general and administrative, and fundraising and development. 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.

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).

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

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).

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, 2020 up through October 7, 2020, the date the accompanying financial statements were available to be issued.

Note 2 – Investments

Investments consist of the following at June 30:

	2020		2019	
	Cost	**Fair Value**	Cost	Fair Value
Common Investment Fund, Roman Catholic Archbishop of Boston	**$3,261,658**	**$ 3,741,227**	$2,938,452	$3,499,608
Common Stock	**18**	**169**	54,144	51,818
	$3,261,676	**$ 3,741,396**	$2,992,596	$3,551,426

The majority of the Seminary's investments represent unit holdings in the Common Investment Fund established by the Roman Catholic Archbishop of Boston (RCAB) 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 RCAB 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 $142,375 and $145,153 for the years ended June 30, 2020 and 2019, 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 (depreciated) in value as follows during the years ended June 30:

	2020	2019
Common Investment Fund, Roman Catholic Archbishop of Boston	**$ (81,587)**	$ (31,671)
Common Stock	**960**	(814)
	$ (80,627)	$ (32,485)

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, 2020 and 2019, 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	Level 2	Level 3	Total
June 30, 2020				
Common Stock	**$ 169**	**$ -**	**$ -**	**$ 169**
Units of Common Investment Fund, measured at net asset value				**3,741,227**
Total investments at fair value				**$ 3,741,396**
June 30, 2019				
Common Stock	$ 51,818	$ -	$ -	$ 51,818
Units of Common Investment Fund, measured at net asset value				3,499,608
Total investments at fair value				$ 3,551,426

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. The Seminary estimates the net asset value of its unit holdings in the CIF based on the Seminary's share of the underlying net assets of the 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 $1,000,000 at June 30, 2020 ($990,000 at June 30, 2019). The change in the Seminary's interest is reflected in the statement of activities as an increase in net assets of approximately $10,000 in 2020 (approximately $25,000 in 2019). There were no transfers of funds from the Foundation to the Seminary for the year ended June 30, 2020. Transfers of funds from the Foundation to the Seminary totaled $40,000 for the year ended June 30, 2019.

Note 5 – Promises to Give

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

	2020	2019
Capital renovations	**$ 22,400**	$ 58,419
Spanish language instruction	**-**	50,000
Unrestricted	**3,758**	25,000
Unconditional promises to give before provision for uncollectible pledges	**26,158**	133,419
Less provision for uncollectible pledges	**2,500**	3,856
	$ 23,658	$ 129,563

Note 6 – Property and Equipment

Property and equipment consist of the following at June 30:

	2020	2019
Land	**$ 116,140**	$ 116,140
Building	**4,909,692**	4,909,692
Building improvements	**5,584,121**	5,502,098
Furniture and equipment	**1,612,537**	1,596,256
Construction in progress	**4,000**	14,103
	12,226,490	12,138,289
Less accumulated provision for depreciation	**3,742,827**	3,468,233
	$ 8,483,663	$ 8,670,056

Depreciation expense totaled $274,595 and $283,295 for the years ended June 30, 2020 and 2019, respectively.

Note 7 – Related Party Transactions

Tuition Revenue – The Seminary received $108,000 in 2020 ($138,000 in 2019) from the Archdiocese of Boston, representing tuition for registered Boston students.

Insurance – During the years ended June 30, 2020 and 2019, the Seminary was charged $351,107 and $349,666, 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.)

Contributions – During the years ended June 30, 2020 and 2019, the Seminary received approximately $79,000 and $183,000, respectively, in contributions from several members of its Board of Trustees. Promises to give to the Seminary by members totaled approximately $10,000 at June 30, 2019 (none at June 30, 2020) 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 principal balance of the note at June 30, 2019 was paid in full in August, 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 is charged at 3.75% per annum. The agreement is in effect until May 30, 2022. There are no outstanding borrowings at June 30, 2020 or 2019.

Note 8 –Notes Payable

Equipment Note – 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%.

SBA Paycheck Protection Program – In April of 2020, the Seminary applied for and received a $355,600 Paycheck Protection Program (PPP) loan from its primary lender, guaranteed by the Small Business Association as authorized by the U.S. Government's stimulus package in response to the economic fallout of the COVID-19 pandemic, the CARES Act. The Seminary will be eligible for partial or complete loan forgiveness if it meets certain criteria related to maintaining employment and salary levels, and its uses the loan funds for payroll costs and utilities over a 24-week period from the time the loan is obtained. Should any portion of the loan not be forgiven, it will become a 2-year loan at 1% per year, with interest on any unforgiven portion of the loan deferred for the first six months of the loan.

Management anticipates that the Seminary will meet the criteria and receive a full forgiveness of the loan in the next fiscal year. However, there can be no guarantee at this time that this will occur, or in what amount. The full amount of the loan has been recorded and presented as debt in the accompanying statement of financial position at June 30, 2020 until such time as some, or all, of the amount is repaid or forgiven by the SBA, and the Seminary is legally released from the debt instrument.

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.

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.

Note 9 – Employee Pension Plan (Cont.)

The Seminary now participates in the Archdiocese of Boston 401(k) defined contribution plan. The Seminary contributes a matching contribution subject to formulas defined in the plan document. Contributions by the Seminary approximated $32,000 and $36,000 for the years ended June 30, 2020 and 2019, 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, 2020 and 2019, the Seminary recorded contributions in the amount of $213,601 and $223,397, 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:

	2020	2019
Temporary in Nature	**$ 805,191**	$ 864,701
Perpetual in Nature	**4,744,281**	4,744,281
	$ 5,549,472	$ 5,608,982

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

	2020	2019
Restricted for:		
Student scholarships	**$ 25,305**	$ 14,284
Accent Reduction Program	**20,000**	-
Adoration Chapel	**25,000**	-
Exercise facilities	**10,000**	10,000
Operations	**33,097**	46,565
Needy students	**15,034**	13,857
Spanish language instruction	**4,767**	64,267
Theology Chair	**3,320**	-
Catholic community	**75,415**	65,656
Pre-theology program	**7,056**	-
Academic Dean Faculty Chair	**7,561**	-
Pastoral ministry	**9,914**	-
Critical financial needs	**15,000**	15,000
Promise for Tomorrow case statement	**69,201**	69,201
	320,670	298,830
Unrealized gains and losses on investments related to restricted endowment net assets (see below)	**484,521**	565,871
	$ 805,191	$ 864,701

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

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

	2020	2019
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

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:

	2020	2019
Student scholarships	**$ -**	$ 11,926
Foreign ministry students	**-**	40,000
Exercise	**-**	5,000
Operating expenses	**30,000**	250,000
Needy students	**-**	20,000
Spanish language instruction	**59,500**	70,000
Catholic community	**-**	40,000
Theology Chair	**10,000**	13,348
Pre-theology Chair	**25,000**	109,145
Academic Dean Faculty Chair	**30,000**	81,520
Pastoral ministry	**20,000**	36,781
Lounge renovation	**80,000**	-
	$ 254,500	$ 677,720

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.

Note 12 – Endowments and Quasi-Endowments (Cont.)

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 restricted net assets. There were no significant deficiencies at June 30, 2020 or 2019.

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:

		With Donor Restrictions		
	Without Donor Restrictions	Temporary in Nature	Perpetual in Nature	Total
For the year ended June 30, 2020:				
Endowment net assets at beginning of year	$ 8,654	$ 706,232	$ 4,744,281	$ 5,450,513
Interest in change in net assets of a foundation	-	9,759	-	9,759
Interest and dividends	356	141,580	-	141,580
Realized and unrealized gains (losses) on investments	9	(81,349)	-	(81,349)
Appropriation of endowment assets for expenditure	-	(115,000)	-	(115,000)
Endowment net assets at end of year	$ 9,019	$ 661,222	$ 4,744,281	$ 5,405,503

Note 12 – Endowments and Quasi-Endowments (Cont.)

	Without Donor Restrictions	With Donor Restrictions: Temporary in Nature	With Donor Restrictions: 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 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

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, 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, 2020, based on bank balances, there was approximately $10,000 of 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).

As more fully discussed in Note 4, the Seminary's beneficial interest in the net assets of the Catholic Community Fund approximated $1,000,000 at June 30, 2020.

The Seminary's recorded promises to give are dispersed among various corporate and individual contributors throughout the region. At June 30, 2020, approximately $11,000 or 46% of the total is pledged from three donors.

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 Sufficiency of Net Assets

A comparison of the Seminary's financial assets and available resources to its donor restricted net assets is as follows:

	2020	2019
Financial assets	**$ 4,042,000**	$ 3,811,000
Other resources (line of credit)	**300,000**	300,000
Total financial assets and resources	**4,342,000**	4,111,000
Donor restricted net assets	**5,549,000**	5,619,000
Less interest in restricted net assets of the Catholic Community Fund	**(1,000,000)**	(990,000)
Net donor restricted	**4,549,000**	4,629,000
Insufficiency of financial assets related to donor restricted net assets	**$ (207,000)**	$ (518,000)

Note 15 – Liquidity and Sufficiency of Net Assets (Cont.)

Due to the insufficiency of financial assets in relation to donor restricted net assets, the Seminary has no liquid assets available for general expenditures at June 30, 2020 and 2019.

The Seminary's total financial assets approximate $4,042,000 at June 30, 2020, including its investment portfolio of $3,741,000, which primarily relates to its donor restricted net assets. However, at June 30, 2020 it has donor restrictions on its net assets of approximately $4,549,000, excluding its interest in the restricted net assets of the Catholic Community Fund (Note 4), resulting in an insufficiency in its investment portfolio of approximately $808,000. Similarly, at June 30, 2019, the Seminary had an insufficiency in its investment portfolio of approximately $1,068,000.

This situation results from the Seminary in effect “borrowing” funds from its endowment investments to fund its operations in recent years, with the intention of replenishing those funds along with an appropriate interest charge.

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. Management anticipates that the Seminary’s tuition revenues and support for the next fiscal year will be sufficient to meet the majority of its general expenditures. It also expects that the Seminary will not need to “borrow” from its endowment investments to meet its expenditures in the next fiscal year, as a result of the $355,600 PPP loan it received. Furthermore, management believes that the Seminary will meet the criteria for forgiveness of this loan in full, although that cannot be assured.

In addition, management will continue to focus 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 such as from the leasing of available grounds to a third party.

Note 16 – Coronavirus Pandemic

During the second half of the Seminary’s fiscal year, the novel coronavirus first identified in China grew to become a pandemic of a contagious respiratory disease affecting the human population. This health crisis and related reactive mandates by governments around the world have adversely affected global economies, including here in the United States.

In March of 2020, in Massachusetts, as in most other states, the Governor issued an emergency “stay at home” order forcing the closure of “non-essential” businesses and other organizations, and resulting in record levels of unemployment. During this period as well as the subsequent months of July and August of 2020, the Seminary was able to continue certain of its operations, and all staff remained fully compensated. Certain program events have been cancelled or rescheduled; however, the Seminary does not expect any collection issues or impacts related to tuition and revenues at this time. Additionally, in April of 2020, the Seminary applied for, and received, a $355,600 SBA Payroll Protection Program loan, which management expects will be fully forgiven (see Note 8).

In June, Massachusetts began a phased-in reopening of workplaces. However, the success of reopening plans, the spread or reoccurrence of the virus, and the economic disruptions nationally, internationally, and locally, is uncertain. Likewise, it is uncertain at this time what adverse effects this may have, if any, on the Seminary’s students and on its future operating results and financial position.

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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, 2020, 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 October 7. 2020.

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
October 7, 2020