

LOUISVILLE PRESBYTERIAN  
THEOLOGICAL SEMINARY

FINANCIAL STATEMENTS  
AND ADDITIONAL INFORMATION  
WITH INDEPENDENT AUDITOR'S  
REPORT THEREON  
YEAR ENDED MAY 31, 2019

LOUISVILLE PRESBYTERIAN THEOLOGICAL SEMINARY  
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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of  
Louisville Presbyterian Theological Seminary

### **Report on Financial Statements**

We have audited the accompanying financial statements of Louisville Presbyterian Theological Seminary, which comprise the statements of financial position as of May 31, 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.

#### *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.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditor's 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.

**INDEPENDENT AUDITOR'S REPORT  
(CONTINUED)**

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 Louisville Presbyterian Theological Seminary as of May 31, 2019, and the changes in its net assets and its cash flows for the year 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 12, 2019 on our consideration of Louisville Presbyterian Theological Seminary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Louisville Presbyterian Theological Seminary's internal control over financial reporting and compliance.

*Hamilton, Thomas & Co., PLLC*

September 12, 2019

LOUISVILLE PRESBYTERIAN THEOLOGICAL SEMINARY  
STATEMENT OF FINANCIAL POSITION  
MAY 31, 2019

ASSETS:	
Cash	\$ 664,425
Cash, refundable deposits	72,481
Short-term investments	9,219,886
Accounts receivable	109,687
Contributions receivable	135,193
Inventories and prepaid expenses	69,666
Student loans	341,541
Annuity and life income investments	1,253,498
Long-term investments	80,117,605
Beneficial interests in perpetual trusts	1,680,823
Property and equipment, net	<u>16,770,806</u>
 TOTAL ASSETS	 <u><u>\$110,435,611</u></u>
LIABILITIES:	
Accounts payable	\$ 10,802
Refundable advances on grants	12,460,922
Deferred revenue	81,596
Other liabilities	208,131
Annuity obligations	438,205
Notes payable	4,725,615
Interest rate swap agreement	170,932
Advances from Federal Government for student loans	293,105
Agency funds	708,375
Total liabilities	<u>19,097,683</u>
NET ASSETS:	
Without donor restrictions	20,315,751
With donor restrictions -	
Restricted by time or purpose	32,192,845
Perpetual in nature	<u>38,829,332</u>
Total with donor restrictions	<u>71,022,177</u>
Total net assets	<u>91,337,928</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$110,435,611</u></u>

See notes to financial statements.

LOUISVILLE PRESBYTERIAN THEOLOGICAL SEMINARY  
STATEMENT OF ACTIVITIES  
YEAR ENDED MAY 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support and Gains (Losses):			
Net tuition and fees	\$ 122,779	\$ -	\$ 122,779
Contributions and grants	921,318	4,541,093	5,462,411
Net investment return	872,642	548,119	1,420,761
Distributions from and change in value of beneficial interests in assets held by others	71,639	(58,750)	12,889
Actuarial gain (loss) on split-interest agreements	(30,510)	253,148	222,638
Change in value of interest rate swap	(70,549)	-	(70,549)
Auxiliary enterprises	576,354	34,557	610,911
Other	226,214	-	226,214
Total revenue, support and gains (losses)	<u>2,689,887</u>	<u>5,318,167</u>	<u>8,008,054</u>
Net assets released from restrictions:			
Satisfaction of research restrictions	3,299,021	(3,299,021)	-
Satisfaction of student aid restrictions	466,626	(466,626)	-
Satisfaction of other restrictions	525,774	(525,774)	-
Total net assets released from restrictions	<u>4,291,421</u>	<u>(4,291,421)</u>	<u>-</u>
Total revenue, support, gains (losses) and reclassifications	6,981,308	1,026,746	8,008,054
Expenses:			
Program services -			
Educational activities	3,735,825	-	3,735,825
Student services	550,485	-	550,485
Student aid	263,664	-	263,664
Research	3,465,486	-	3,465,486
Auxiliary enterprises	1,208,038	-	1,208,038
Supporting services -			
Management and general	2,161,441	-	2,161,441
Institutional advancement	393,161	-	393,161
Capital fund raising	233,034	-	233,034
Total expenses	<u>12,011,134</u>	<u>-</u>	<u>12,011,134</u>
CHANGE IN NET ASSETS	(5,029,826)	1,026,746	(4,003,080)
Net Assets, Beginning of Year	<u>25,345,577</u>	<u>69,995,431</u>	<u>95,341,008</u>
NET ASSETS, END OF YEAR	<u>\$20,315,751</u>	<u>\$71,022,177</u>	<u>\$91,337,928</u>

See notes to financial statements.

LOUISVILLE PRESBYTERIAN THEOLOGICAL SEMINARY  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED MAY 31, 2019

	Program Services				Supporting Services				Total Expenses
	Educational Activities	Student Services	Student Aid	Auxiliary Enterprises	Research	Management & General	Institutional Advancement	Capital Fund Raising	
Salaries and wages	\$2,004,090	\$290,100	\$ -	\$ 99,737	\$ 348,313	\$ 746,586	\$ 230,684	\$ 108,938	\$ 3,828,448
Fringe benefits	652,450	97,060	-	20,636	75,466	258,226	67,206	22,551	1,193,595
Travel and entertainment	23,877	17,804	-	-	19,182	30,144	16,103	13,293	120,403
Professional development	54,136	1,733	-	919	-	6,994	2,698	481	66,961
Presidential search, transition and inauguration	-	-	-	-	-	387,101	-	-	387,101
Office supplies and expenses	36,436	12,136	-	9,208	10,973	18,931	14,792	3,857	106,333
Professional fees	-	-	-	-	-	57,684	-	-	57,684
Consulting fees	26,661	-	-	-	51,828	-	-	-	78,489
Conferences	39,061	-	-	-	393,909	-	-	-	432,970
Insurance	-	-	-	1,420	-	104,077	-	-	105,497
Advertising and promotion	3,236	42,141	-	1,430	41,352	35,018	4,048	39,674	166,899
Books, periodicals and data bases	160,381	-	-	-	-	-	-	-	160,381
Grants paid	-	-	-	-	2,197,060	-	-	-	2,197,060
Information technology	121,035	-	-	-	-	121,035	-	-	242,070
Occupancy and campus maintenance	230,762	34,003	16,286	743,033	78,350	133,511	24,285	14,394	1,274,624
Interest expense	70,056	10,323	4,944	30,484	23,786	40,532	7,373	4,370	191,868
Student aid -									
Field education	-	-	72,719	-	-	-	-	-	72,719
Scholarships and fellowships	-	-	1,168,933	-	-	-	-	-	1,168,933
Less applied to tuition, housing and meals	-	-	(1,012,590)	-	-	-	-	-	(1,012,590)
Student employment	34,168	12,119	-	-	-	8,401	4,059	-	58,747
Other expenses	90,013	5,148	-	49,633	160,938	103,583	1,974	13,658	424,947
Total before depreciation	3,546,362	522,567	250,292	956,500	3,401,157	2,051,823	373,222	221,216	11,323,139
Depreciation expense	189,463	27,918	13,372	251,538	64,329	109,618	19,939	11,818	687,995
<b>TOTAL EXPENSES</b>	<b>\$3,735,825</b>	<b>\$550,485</b>	<b>\$ 263,664</b>	<b>\$ 1,208,038</b>	<b>\$ 3,465,486</b>	<b>\$ 2,161,441</b>	<b>\$ 393,161</b>	<b>\$ 233,034</b>	<b>\$12,011,134</b>

See notes to financial statements.

LOUISVILLE PRESBYTERIAN THEOLOGICAL SEMINARY  
STATEMENT OF CASH FLOWS  
YEAR ENDED MAY 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ (4,003,080)
Adjustments to reconcile change in net assets to net cash used for operating activities -	
Gains on investments	(1,036,901)
Depreciation	687,995
Amortization of debt issuance costs	22,916
Actuarial gain on split-interest agreements	(222,638)
Loss on valuation of interest rate swap	70,549
Contributions restricted for endowments, plant acquisitions and annuity contracts	(936,564)
(Increase) decrease in:	
Accounts receivable	(37,477)
Contributions receivable	113,672
Inventories and prepaid expenses	12,151
Increase (decrease) in:	
Accounts payable	(11,303)
Refundable advances on grants	(3,594,886)
Deferred revenue	(13,044)
Other liabilities	(107,168)
Agency funds	10,489
Net cash used for operating activities	<u>(9,045,289)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Short-term investment sales and purchases, net	3,886,041
Other investment sales and purchases, net	5,559,257
Purchase of property and equipment	(273,082)
Repayment of funds advanced from Federal Government for student loans	(2,296)
Student loans, net	31,032
Net cash from investing activities	<u>9,200,952</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from contributions restricted for investments in endowments	936,564
Payments on notes payable	(550,000)
Payments on annuities payable	(151,331)
Net cash from financing activities	<u>235,233</u>
Net change in cash and cash equivalents	390,896
Cash and cash equivalents, beginning of year	<u>346,010</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 736,906</u>

See notes to financial statements.



LOUISVILLE PRESBYTERIAN THEOLOGICAL SEMINARY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MAY 31, 2019

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Nature of Activities - Louisville Presbyterian Theological Seminary serves the church and the world by educating men and women for participation in the continuing ministry of Jesus Christ. The Seminary's primary goal is to serve the church by equipping those preparing for ordination as Ministers of the Word and Sacrament. In addition, the Seminary provides education for counselors, educators, and other church leaders whose vocation invites professional training integrated with theological reflection. The Seminary also serves as an educational resource to the church through continuing education programs for ministers and other officers and members of the church and through scholarly research.

B. Basis of Presentation and Use of Estimates - The financial statements have been prepared on the accrual basis of accounting. The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates, and those differences could be material.

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for a board-designated endowment.

*Net Assets With Donor Restrictions* – Net assets subject to donor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. Revenues from sources other than contributions are reported as increases in net assets without donor restrictions and expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law.

LOUISVILLE PRESBYTERIAN THEOLOGICAL SEMINARY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MAY 31, 2019  
(CONTINUED)

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

C. Cash and Cash Equivalents – For purposes of the statement of cash flows, the Seminary considers all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to building projects, endowments that are perpetual in nature, or other long-term purposes are excluded from this definition.

D. Accounts Receivable and Student Loans - Accounts receivable and student loans are reported on the balance sheet at historical value adjusted for any charge offs and the allowance for uncollectible accounts and loans. Receivables and loans are charged off in the period in which they are deemed to be uncollectible. The allowance for doubtful accounts and loans reflects management's best estimate of probable losses determined principally on the basis of historical experience, an assessment of economic conditions and known troubled accounts. The allowance for uncollectible accounts receivable was \$5,000 at May 31, 2019. The allowance for uncollectible student loans was \$21,303 at May 31, 2019.

E. Inventories - Inventories are stated at the lower of cost or net realizable value, using the first-in, first-out method.

F. Investments – Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. Net investment return (loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

G. Split-Interest Agreements – The Seminary’s split-interest agreements with donors consist primarily of irrevocable charitable remainder trusts, charitable gift annuities, and life income funds for which the Seminary serves as trustee. Assets held in these split-interest agreements are included in annuity and life income investments. Contribution revenue is recognized at the dates the split-interest agreements are established, net of the liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. Annually, the Seminary records the change in value of split-interest agreements by marking to fair value the assets that are associated with each agreement and recalculating the liability for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. The discount rate and actuarial assumptions used in calculating the annuity obligation are those provided in Internal Revenue Service guidelines and actuarial tables.

For non-perpetual agreements where the Seminary is not the trustee, the Seminary has recorded its beneficial interest in the agreements as an asset reported in the line item “Contributions Receivable.”

LOUISVILLE PRESBYTERIAN THEOLOGICAL SEMINARY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MAY 31, 2019  
(CONTINUED)

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

H. Beneficial Interests in Perpetual Trusts – The Seminary has been named as an irrevocable beneficiary of several perpetual trusts held and administered by independent trustees. Perpetual trusts provide for the distribution of the net income of the trusts to the Seminary; however, the Seminary will never receive the assets of the trusts. At the date notice is received of a beneficial interest, a contribution with donor restrictions is recorded in the statement of activities, and a beneficial interest in perpetual trust is recorded in the statement of financial position at the fair value of the underlying trust assets. Thereafter, beneficial interests in the trusts are reported at the fair value of the trusts' assets in the statement of financial position, with trust distributions and changes in fair value recognized in the statement of activities.

I. Property and Equipment - Acquisitions of property and equipment and expenditures for repairs, renewals and betterments that materially prolong the useful lives of assets in excess of \$1,000 are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is provided over the estimated useful lives of the assets using the straight-line method over the estimated useful lives of the assets ranging from 5 to 50 years.

J. Interest Costs - Interest costs are capitalized for all fixed assets that require a period of time to get them ready for their intended use. Total interest costs incurred for 2019 were \$191,868, all of which was expensed.

K. Allowances - The Seminary reports revenue from tuition and auxiliary enterprises (housing), net of scholarship allowances applied to these fees. Scholarship allowances applied to tuition amounted to \$875,312 for 2019 and allowances applied to housing amounted to \$137,278. Student aid, including student employment and field education, in excess of tuition and housing provided by the Seminary is reported as an expense.

L. Income Taxes - The Seminary has a determination from the IRS that it is a qualified church controlled organization exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, the Seminary is subject to federal income tax on any unrelated business income. No provision for income tax has been made in the accompanying financial statements.

GAAP requires the Seminary to evaluate tax positions taken by the Seminary and recognize a tax liability (or asset) if it has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. The Seminary has analyzed its tax positions and has concluded that there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Seminary is subject to routine audits by taxing jurisdictions; however there are currently no audits for any tax periods in progress. The Seminary believes it is no longer subject to income tax examinations for years prior to 2016.

LOUISVILLE PRESBYTERIAN THEOLOGICAL SEMINARY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MAY 31, 2019  
(CONTINUED)

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

M. Functional Allocation of Expenses – The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. When possible, expenses are directly identified to particular programs and supporting services. Certain categories of expenses are attributable to more than one program or supporting activity. These expenses include depreciation, interest, and facilities operations and maintenance. Allocation of these expenses to auxiliary enterprises is based on specific identification or square footage. The remaining portion of these allocable costs are based on personnel usage and other relevant factors.

N. Financial Instruments and Credit Risk – The Seminary manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Seminary has not experienced losses in any of these accounts. The Seminary's operations are heavily dependent upon the spendable return from endowment investments. Therefore, an extended downturn in financial markets could have an adverse effect on the Seminary's programs and activities. The Seminary's investments do not have a significant concentration of credit risk within any industry or specific institution. The market risk inherent in certain of the Seminary's investments is primarily the potential loss arising from adverse changes in quoted market prices on equity securities and in interest rates on fixed income securities. Investment securities, in general, are exposed to various risks, such as interest rates, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statement of financial position. In an effort to mitigate this market risk, the Seminary has adopted a policy of maintaining a diverse investment pool through the use of target asset allocation guidelines. These guidelines require that the Seminary's investment pool be made up of a mix of publicly traded fixed income and equity securities, hedge funds, private equities and other nonmarketable securities, and real estate investments.

O. Subsequent Events - The Seminary evaluates events subsequent to the date of the balance sheet to determine if they have an affect on matters reported in the financial statements, or should be disclosed under current accounting standards. The Seminary has evaluated all subsequent events through September 12, 2019, the date the financial statements were available to be issued.

LOUISVILLE PRESBYTERIAN THEOLOGICAL SEMINARY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MAY 31, 2019  
(CONTINUED)

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

P. Change in Accounting Principle – In 2019, the Seminary adopted ASU No. 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The standard requires the Seminary to reclassify its net assets from three categories (i.e., unrestricted, temporarily restricted and permanently restricted) into two categories: net assets without donor restrictions and net assets with donor restrictions. It also requires recognition of underwater endowment funds as a reduction of net assets with donor restrictions. In addition, the guidance requires enhanced disclosures about governing board designations; composition of net assets with donor restrictions; the Seminary's liquidity; and expenses by both their natural and functional classification. As a result of adopting this standard, prior year underwater endowment funds of \$305,960 were reclassified from net assets without donor restrictions to net assets with donor restrictions.

NOTE 2 - CONTRIBUTIONS RECEIVABLE

Contributions receivable at May 31, 2019 consists entirely of beneficial interests in life income funds held by outside trustees.

NOTE 3 - FAIR VALUE MEASUREMENTS AND DISCLOSURES

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. One key component of the fair value measurement required by GAAP includes the development of a three-tiered fair value hierarchy. Assets and liabilities reported at fair value are placed in one of the three tiers based upon the "inputs" used to determine fair value at the measurement date. These inputs are summarized in the three broad levels listed below:

Level 1 - quoted prices in active markets for identical financial instruments.

Level 2 - other significant observable inputs (including quoted prices of similar securities, interest rates, prepayment spreads, credit risk, etc.)

Level 3 - significant unobservable inputs (includes the general partner's valuation for certain limited partnerships).

The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Seminary's assessment of the quality, risk, or liquidity profile of the asset or liability.

LOUISVILLE PRESBYTERIAN THEOLOGICAL SEMINARY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MAY 31, 2019  
(CONTINUED)

NOTE 3 - FAIR VALUE MEASUREMENTS AND DISCLOSURES (CONTINUED)

Investment assets that are classified within Level 1 are comprised of open-end mutual funds with readily determinable fair values based on daily redemption values. CDs and money market funds are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates, and market-rate assumptions, and are classified within Level 2. Certain venture capital, private equity and real assets are valued using information provided by the general partner or investment manager, and are classified within Level 3. The fair values of beneficial interests in charitable and perpetual trusts are determined by using present value techniques and risk-adjusted discount rates designated to reflect the assumptions market participants would use in pricing the underlying assets and are based on the fair values of trust investments as reported by the trustees. These are considered to be Level 3 measurements.

The Seminary uses net asset value (NAV) per share, or its equivalent, such as member units or an ownership interest in partners' capital, as a practical expedient to estimate the fair values of certain hedge funds, private equity funds, funds of funds, and limited partnerships, which do not have readily determinable fair values. Investments that are measured at fair value using NAV per share as a practical expedient are not classified in the fair value hierarchy.

The interest rate swap agreement is valued using a third party's proprietary discounted cash flow model, which considers past, present, and future assumptions regarding interest rates and market conditions to estimate the fair value of the agreement. This is classified within Level 2.

LOUISVILLE PRESBYTERIAN THEOLOGICAL SEMINARY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MAY 31, 2019  
(CONTINUED)

NOTE 3 - FAIR VALUE MEASUREMENTS AND DISCLOSURES (CONTINUED)

The following table presents assets and liabilities measured at fair value on a recurring basis or by using NAV per share as a practical expedient at May 31, 2019:

Assets	Total Fair Value	Fair Value Measurements			Measured at NAV
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
<b>Short-term investments -</b>					
Cash equivalents	\$ 5,333,798	\$ -	\$ 5,333,798	\$ -	\$ -
Certificates of deposit	3,886,088	-	3,886,088	-	-
	<u>\$ 9,219,886</u>	<u>\$ -</u>	<u>\$ 9,219,886</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Annuity &amp; life income investments -</b>					
Cash equivalents	\$ 44,720	\$ -	\$ 44,720	\$ -	\$ -
Equity mutual funds	806,145	806,145	-	-	-
Bond mutual funds	272,762	272,762	-	-	-
Cash value of life insurance	129,871	-	129,871	-	-
	<u>\$ 1,253,498</u>	<u>\$ 1,078,907</u>	<u>\$ 174,591</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Long-term investments -</b>					
Cash equivalents	\$ 3,220	\$ -	\$ 3,220	\$ -	\$ -
Bond funds	5,600,908	1,466,323	-	-	4,134,585
<b>Equity funds:</b>					
U.S. funds	11,385,820	-	-	-	11,385,820
International funds	10,299,727	-	-	-	10,299,727
Real estate funds	1,957,899	1,957,899	-	-	-
Emerging market funds	6,416,128	-	-	-	6,416,128
Opportunistic funds	1,878,804	-	-	-	1,878,804
<b>Non-readily marketable limited partnerships:</b>					
Venure capital/private equity	6,401,836	-	-	6,401,836	-
Hedged equity	13,477,009	-	-	-	13,477,009
Real assets	5,361,823	-	-	5,361,823	-
Multi-strategy hedge	17,333,570	-	-	-	17,333,570
Loans to individuals	861	-	-	861	-
	<u>\$ 80,117,605</u>	<u>\$ 3,424,222</u>	<u>\$ 3,220</u>	<u>\$ 11,764,520</u>	<u>\$ 64,925,643</u>
<b>Beneficial interests in perpetual trusts</b>					
	<u>\$ 1,680,823</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,680,823</u>	<u>\$ -</u>
<b>Liabilities</b>					
Interest rate swap agreement	<u>\$ 170,932</u>	<u>\$ -</u>	<u>\$ 170,932</u>	<u>\$ -</u>	<u>\$ -</u>

LOUISVILLE PRESBYTERIAN THEOLOGICAL SEMINARY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MAY 31, 2019  
(CONTINUED)

NOTE 3 - FAIR VALUE MEASUREMENTS AND DISCLOSURES (CONTINUED)

The following presents a reconciliation of the changes in assets in which significant unobservable inputs (Level 3) were used to determine the fair value:

Level 3 Assets, beginning of year	\$14,222,338
Investment return, net	950,240
Purchases and sales, net	<u>(1,727,235)</u>
Level 3 Assets, end of year	<u>\$13,445,343</u>

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

Land	\$ 2,454,463
Land improvements	3,024,689
Buildings and improvements	29,530,243
Furnishings and equipment	5,997,828
Burnamwood	<u>363,209</u>
Total cost	41,370,432
Less accumulated depreciation	<u>24,599,626</u>
Net property and equipment	<u>\$16,770,806</u>

Burnamwood, in Richmond, Kentucky, was the former homeplace of an individual who donated the property to the Seminary and stipulated that it be maintained as a retirement facility for retired missionaries and their families or Seminary professors and their families or for any other religious or charitable purposes. The Seminary presently operates Burnamwood as a retirement facility. In the event the Seminary ceases to use the facility for these specified purposes, the property reverts to another church organization designated by the donor. The carrying value of facility, net of accumulated depreciation, is \$108,105.

NOTE 5 - CONDITIONAL GRANTS

As of May 31, 2019, the Seminary had been awarded certain research grants totaling \$12,460,922 that have not been recorded as income since they are conditional on certain future events. Amounts advanced on these conditional grants are reflected as a liability in the statement of financial position.



LOUISVILLE PRESBYTERIAN THEOLOGICAL SEMINARY  
 NOTES TO FINANCIAL STATEMENTS  
 YEAR ENDED MAY 31, 2019  
 (CONTINUED)

NOTE 6 - NOTES PAYABLE AND INTEREST RATE SWAP AGREEMENT

Notes payable at May 31, 2019 consist of the following:

Notes payable to a Kentucky municipality	\$ 4,775,000
Less unamortized debt issuance costs	<u>(49,385)</u>
	<u>\$ 4,725,615</u>

The notes payable are due to a Kentucky municipality that issued in September 2014, variable rate educational facilities refunding revenue bonds to fund the loan. The proceeds of the bonds were used to refinance bonds that were previously issued in 2005 and 2007. The loan agreement for the note provides that the Seminary fund all payments due under the bond issue and contains certain covenants requiring the Seminary to maintain certain financial ratios and minimum net assets. The bonds mature September, 2021. Interest and principal are payable quarterly with interest equal to 70% of the sum of the daily LIBOR rate plus 1.5%.

Principal maturities for the above bonds for the years subsequent to May 31, 2019 are as follows: 2020 - \$560,000; 2021 - \$595,000 and 2022 - \$3,620,000.

As a strategy to mitigate exposure to the risk of interest rate fluctuations, the Seminary entered into an interest rate swap agreement. This interest rate swap has been designated as a cash flow hedge of long-term debt and provides for the Seminary to receive interest from the counterparty at 70% of one-month LIBOR and to pay interest to the counterparty at a fixed rate of 2.303% on a notional amount of \$4,775,000 at May 31, 2019. The notional amount of the swap agreement amortizes at the same rate as the underlying bond series. The average rate received from the interest rate swap counterparty during 2019 was 1.6263% and the interest rate paid by the Seminary was 2.303%. The interest rate swap matures in 2024.

Under the agreement, the Seminary pays or receives the net interest amount quarterly, with the settlements included in interest expense. The agreement is recorded at fair value with subsequent changes in fair value included in net assets in the statements of activities. The valuation of the interest rate swap at May 31, 2019 resulted in a liability of \$170,932. If the agreement remains in force until maturity, the Seminary's remaining liability related to the swap will be zero.

NOTE 7 – ENDOWMENT FUNDS

The Seminary's endowment (the Endowment) consists of approximately 300 individual funds established by donors to provide annual funding for specific activities and general operations. The Endowment also includes certain net assets without donor restrictions that have been designated for endowment by the Board of Trustees.

LOUISVILLE PRESBYTERIAN THEOLOGICAL SEMINARY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MAY 31, 2019  
(CONTINUED)

NOTE 7 - ENDOWMENT FUNDS (CONTINUED)

Our Board of Trustees has interpreted the Kentucky Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At May 31, 2019, there were no such donor stipulations. As a result of this interpretation, the Seminary retains in perpetuity (a) the original value of initial and subsequent gift amounts donated to the Endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. We consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Seminary and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Seminary
- The investment policies of the Seminary

At May 31, 2019 the composition of endowment net assets by type of fund is summarized as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment fund	\$16,213,053	\$ -	\$16,213,053
Donor-restricted endowment funds –			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	36,479,135	36,479,135
Accumulated investment gains	<u>-</u>	<u>31,650,678</u>	<u>31,650,678</u>
	<u>\$16,213,053</u>	<u>\$68,129,813</u>	<u>\$84,342,866</u>

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). At May 31, 2019, funds with original gift values of \$7,779,331, fair values of \$7,089,932 and deficiencies of \$689,339 were reported in net assets with donor restrictions.

LOUISVILLE PRESBYTERIAN THEOLOGICAL SEMINARY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MAY 31, 2019  
(CONTINUED)

NOTE 7 - ENDOWMENT FUNDS (CONTINUED)

*Investing and Spending Policies*

The Seminary has adopted investment and spending policies for the Endowment that attempt to provide a predictable stream of funding for operations, while seeking to maintain the purchasing power of the endowment assets. The primary investment objective is to earn the spending rate of the Endowment plus the inflation rate as measured by the consumer price index, plus a 1% rate of return. The secondary investment objective is to constrain the volatility of the total fund through a program of broad diversification. Central to the achievement of this goal is the concept of investing in asset classes that demonstrate relatively low correlation to one another. These correlations and their impact on total fund volatility are reviewed from time to time to determine the effectiveness of the diversification program.

The Seminary has a policy of appropriating for distribution each year an amount not to exceed 6.5% of the previous twelve quarter moving average of the market value of endowment assets, subject to a maximum 5% decline in spending from the prior year.

Changes in endowment net assets for the year ended May 31, 2019 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 20,367,878	\$ 66,778,399	\$ 87,146,277
Investment return, net	652,812	572,107	1,224,919
Contributions	-	932,932	932,932
Appropriation of endowment assets for expenditure:			
Spending policy	(4,336,600)	(419,082)	(4,755,682)
Capital fund raising expenses & equipment	(206,123)		(206,123)
Other expenses	(453,606)		(453,606)
Transfers from annuity funds		265,457	265,457
Transfers to create board designated endowments	<u>188,692</u>	<u>-</u>	<u>188,692</u>
Endowment net assets, end of year	<u>\$ 16,213,053</u>	<u>\$ 68,129,813</u>	<u>\$ 84,342,866</u>

LOUISVILLE PRESBYTERIAN THEOLOGICAL SEMINARY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MAY 31, 2019

NOTE 8 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following:

Subject to expenditure for a specified purpose -	
Professorships and educational programs	\$ 114,500
Scholarships and student aid	141,117
Plant acquisitions and maintenance	71,678
Other purposes	118,085
	<u>445,380</u>
Subject to the passage of time -	
Life income funds	<u>96,787</u>
Endowments -	
Subject to appropriation and expenditure when a specified event occurs:	
Available for general institutional support	12,949,010
Professorships and educational programs	10,293,087
Scholarships and student aid	7,753,100
Plant acquisitions and maintenance	614,310
Other purposes	41,171
	<u>31,650,678</u>
Perpetual funds income to be used for:	
General institutional support	10,276,223
Professorships and educational programs	10,433,802
Scholarships and student aid	15,227,174
Plant acquisitions and maintenance	1,124,938
Other purposes	106,397
Underwater endowments	(689,399)
	<u>36,479,135</u>
Others perpetual in nature -	
Beneficial interests in perpetual trusts and split-interest agreements to be used for:	
General institutional support	1,624,191
Professorships and educational programs	129,773
Scholarships and student aid	172,421
Student loan funds	423,812
	<u>2,350,197</u>
 TOTAL NET ASSETS WITH DONOR RESTRICTIONS	 <u>\$ 71,022,177</u>

LOUISVILLE PRESBYTERIAN THEOLOGICAL SEMINARY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MAY 31, 2019  
(CONTINUED)

NOTE 9 – LIQUIDITY AND AVAILABILITY

The Seminary regularly monitors liquidity required to meet operating needs and other commitments, while striving to maximize the investment of its available funds. The Seminary has various sources of liquidity at its disposal, including substantial amounts of cash and cash equivalents as well as marketable securities. See Note 3 for a breakdown of these assets.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Seminary considers all expenditures related to its ongoing activities of teaching, research, and student services as well as conduct of services undertaken to support those activities to be general expenditures.

In addition to financial assets available to meet general expenditures over the next twelve months, the Seminary operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor restricted funds.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year comprise the following:

Cash	\$ 664,425
Short-term investments	9,219,886
Accounts receivable	104,687
Long-term investments	80,117,605
Less endowment assets with donor restrictions	<u>(68,128,813)</u>
	<u>\$ 21,977,790</u>

NOTE 10 - RETIREMENT PLANS

The Seminary contributes to defined contribution retirement plans covering substantially all of its employees. Contributions were 11% of compensation of all employees covered, which amounted to \$433,269 for the year ended May 31, 2019.

NOTE 11 - SUPPLEMENTAL CASH FLOWS INFORMATION

Noncash investing and financing activities:	
Gifts of life insurance policies, cash surrender value	\$ 3,632
Interest paid	\$ 173,477

LOUISVILLE PRESBYTERIAN THEOLOGICAL SEMINARY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MAY 31, 2019  
(CONTINUED)

NOTE 11 - SUPPLEMENTAL CASH FLOWS INFORMATION (CONTINUED)

Following is a reconciliation of cash, cash equivalents and restricted cash reported within the statement of financial position to the sum of corresponding amounts within the statement of cash flows:

Cash	\$ 664,425
Cash, refundable deposits	<u>72,481</u>
	\$ <u>736,906</u>

NOTE 12 - RELATED PARTY TRANSACTIONS

The Seminary is related through common mission goals with Louisville Presbyterian Furlough Home, Inc., a non-profit charitable organization whose building is located on the Seminary's campus. The Seminary leases the land to the Furlough Home for one dollar per year under an agreement that renews automatically unless four years advance notice is given by the Seminary.

The Furlough Home also has advanced funds to the Seminary for investment in the Seminary's long-term investment portfolio. These funds are commingled with the Seminary's investments with dividends, interest and capital gains allocated on a pro-rata basis determined by reference to market value of units acquired when funds are placed in the commingled investment portfolio. Funds advanced to the Seminary for investment are reflected as a liability (agency funds) in the statement of financial position.

The Seminary also provides certain administrative and maintenance services for the Furlough Home. For the year ended May 31, 2019, the Seminary received approximately \$9,000 for such services.

The Seminary is also related through common educational and mission goals with Presbyterian Homes & Services of Kentucky, Inc. and its supporting organization, Presbyterian Homes & Services Foundation, Inc. (jointly referred to as Presbyterian Homes). Presbyterian Homes has entered into a lease agreement with the Seminary for use of the Gardencourt Carriage House, located on the grounds of the Seminary, as its corporate offices through March, 2028, for one dollar per year. Under the lease agreement, Presbyterian Homes was responsible for a \$1.1 million renovation of the building and pays all insurance, utilities, property taxes and maintenance costs during the term of the lease. The Seminary retains title to all improvements.

NOTE 13 - COMMITMENTS

At May 31, 2019, the Seminary was committed under various contracts with alternative investment managers to fund approximately \$6,500,000 of capital calls for private equity investments. These capital calls will occur over the term of the respective agreements, which is generally no more than a ten-year period. As these capital calls are made, funds will be reallocated from investments in other securities.

ADDITIONAL INFORMATION

INDEPENDENT AUDITOR'S REPORT ON SCHEDULE OF  
EXPENDITURES OF FEDERAL AWARDS

To the Board of Trustees of  
Louisville Presbyterian Theological Seminary

We have audited the financial statements of Louisville Presbyterian Theological Seminary as of and for the year ended May 31, 2019, and have issued our report thereon dated September 12, 2019, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

*Hamilton, Thomas & Co., PLLC*

September 12, 2019



LOUISVILLE PRESBYTERIAN THEOLOGICAL SEMINARY  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 YEAR ENDED MAY 31, 2019

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Expenditures
Student Financial Assistance Cluster:		
U.S. Department of Education –		
Federal Work-Study Program	84.033	\$ 30,434
Federal Perkins Loans	84.038	376,425
Federal Direct Student Loans	84.268	<u>417,625</u>
Total Expenditures of Federal Awards		<u>\$824,484</u>

Notes to Schedule of Expenditures of Federal Awards:

Note 1 - Basis of Presentation - The accompanying schedule of expenditures of federal awards includes the federal grant activity of Louisville Presbyterian Theological Seminary and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Federal Perkins Loan - The Seminary administers a Federal Perkins Loan Program (CFDA# 84.038) funded by the U.S. Department of Education. At May 31, 2019, the loans receivable balance for the program totaled \$346,393. Total program disbursements under the program for the year ended May 31, 2019, are as follows:

Loan balance at May 31, 2018	\$376,425
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Note 3 - Other Federal Loans - The Federal Direct Student Loans (CFDA# 84.268) are also received directly by students of the Seminary during the audit period. These loans are disbursed by the federal government.

**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 Board of Trustees of  
Louisville Presbyterian Theological Seminary

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Louisville Presbyterian Theological Seminary (a nonprofit organization), which comprise the statement of financial position as of May 31, 2019, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 12, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Louisville Presbyterian Theological Seminary's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Louisville Presbyterian Theological Seminary's internal control. Accordingly, we do not express an opinion on the effectiveness of the Seminary's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

**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*  
(CONTINUED)**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Louisville Presbyterian Theological Seminary's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**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.

*Hamilton, Thomas & Co., PLLC*

September 12, 2019

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Trustees of  
Louisville Presbyterian Theological Seminary

**Report on Compliance for Each Major Program**

We have audited Louisville Presbyterian Theological Seminary's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Louisville Presbyterian Theological Seminary's major federal programs for the year ended May 31, 2019. Louisville Presbyterian Theological Seminary's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Louisville Presbyterian Theological Seminary's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Louisville Presbyterian Theological Seminary's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Louisville Presbyterian Theological Seminary's compliance.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE  
(CONTINUED)**

**Opinion on Each Major Federal Program**

In our opinion, Louisville Presbyterian Theological Seminary complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended May 31, 2019.

**Report on Internal Control Over Compliance**

Management of Louisville Presbyterian Theological Seminary is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered Louisville Presbyterian Theological Seminary's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Louisville Presbyterian Theological Seminary's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

September 12, 2019

*Hamilton, Thomas & Co., PLLC*

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LOUISVILLE PRESBYTERIAN THEOLOGICAL SEMINARY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED MAY 31, 2019

SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion on whether the basic financial statements of Louisville Presbyterian Theological Seminary were prepared in accordance with GAAP.
2. No instances of noncompliance material to the financial statements of Louisville Presbyterian Theological Seminary, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
3. The auditor's report on compliance for the major federal award programs for Louisville Presbyterian Theological Seminary expresses an unmodified opinion on all major federal programs.
4. The audit disclosed no findings that are required to be reported in accordance with 2 CFR section 200.516(a) of the Uniform Guidance.
5. The programs tested as major programs included:
  - Federal Work-Study Program (CFDA No. 84.033)
  - Federal Perkins Loans (CFDA No. 84.038)
  - Federal Direct Student Loans (CFDA No. 84.268)
6. The threshold for distinguishing Types A and B programs was \$750,000.
7. Louisville Presbyterian Theological Seminary was determined to be a low-risk auditee.

FINDINGS - FINANCIAL STATEMENT AUDIT

None

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

PRIOR AUDIT FINDINGS

There are no prior findings to report the status of.