

**Union Theological Seminary
in the City of New York**

Financial Statements and Uniform
Guidance Schedules Together With
Independent Auditors' Reports

June 30, 2020 and 2019

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Independent Auditors' Report

The Board of Trustees of Union Theological Seminary in the City of New York

We have audited the accompanying financial statements of Union Theological Seminary in the City of New York (the "Seminary"), 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 accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the Seminary 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 Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedules as of and for the year ended June 30, 2020 on pages 33 through 37 are presented for purposes of additional analysis and are 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2021 on our consideration of the 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 solely 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 effectiveness of the Seminary's 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.

PKF O'Connor Davies, LLP

March 15, 2021, except for the Schedule of Financial
Responsibility Composite Ratio Scores, for which the date is September 30, 2021

Union Theological Seminary in the City of New York

Statements of Financial Position

	June 30,	
	2020	2019
ASSETS		
Cash	\$ 1,072,677	\$ 854,791
Student accounts receivable - net of allowance for doubtful accounts of \$189,743 and \$158,552	122,942	118,233
Prepaid expenses and other receivables	3,890,655	4,429,353
Contributions and grants receivable, net	1,015,160	1,459,429
Student loans receivable - net of allowance for doubtful accounts of \$1,264,926 and \$1,191,728	1,241,108	1,367,482
Investments	133,163,776	130,852,310
Security deposit	1,224,167	1,224,167
Assets held in charitable remainder trusts	1,986,794	1,983,579
Beneficial interest in charitable remainder trusts	218,858	201,961
Property and equipment, net	77,151,853	18,863,061
	\$ 221,087,990	\$ 161,354,366
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 9,748,236	\$ 4,266,208
Deferred revenue	-	1,000,000
Deferred gain on sale-leaseback transaction	29,331,746	36,166,326
Lines of credit	17,824,208	10,733,207
Security deposits	73,572	89,937
Annuity payable	1,085,848	886,940
U.S. Government grants refundable	678,903	678,903
Postretirement benefits liabilities	2,177,412	1,828,316
Paycheck Protection Program loan payable	1,857,299	-
Total Liabilities	62,777,224	55,649,837
Net Assets		
Without donor restrictions	87,934,961	31,237,543
With donor restrictions	70,375,805	74,466,986
Total Net Assets	158,310,766	105,704,529
	\$ 221,087,990	\$ 161,354,366

See notes to financial statements

Union Theological Seminary in the City of New York

Statement of Activities
Year Ended June 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
OPERATING REVENUES AND RECLASSIFICATIONS			
Tuition and fees before student aid	\$ 4,848,917	\$ -	\$ 4,848,917
Contributions and grants	4,454,051	1,795,730	6,249,781
Appropriation of investment income for operating activities	2,317,718	3,493,783	5,811,501
Interest income on cash and cash equivalents	20,876	39,275	60,151
Auxiliary enterprises sales and services	3,669,038	-	3,669,038
Other revenue	3,352,999	-	3,352,999
Net assets released from restrictions	<u>6,661,207</u>	<u>(6,661,207)</u>	<u>-</u>
Total Operating Revenues Before Student Aid	25,324,806	(1,332,419)	23,992,387
Student aid applicable to tuition and fees	<u>(4,154,669)</u>	<u>-</u>	<u>(4,154,669)</u>
Net Revenue and Reclassifications	<u>21,170,137</u>	<u>(1,332,419)</u>	<u>19,837,718</u>
EXPENSES			
Instruction and research	9,709,202	-	9,709,202
Academic support	1,540,322	-	1,540,322
Library	1,408,997	-	1,408,997
Student services	790,443	-	790,443
Auxiliary enterprises	5,821,530	-	5,821,530
Institutional support	5,103,251	-	5,103,251
Fundraising	<u>1,126,320</u>	<u>-</u>	<u>1,126,320</u>
Total Expenses	<u>25,500,065</u>	<u>-</u>	<u>25,500,065</u>
Deficiency of Operating Revenues Over Operating Expenses	<u>(4,329,928)</u>	<u>(1,332,419)</u>	<u>(5,662,347)</u>
NONOPERATING ACTIVITIES			
Contributions	-	116,977	116,977
Gain recognized on sale-leaseback transaction	6,834,580	-	6,834,580
Gain recognized on sale of air rights	56,077,330	-	56,077,330
Change in value of split-interest agreements	-	(183,402)	(183,402)
Investment return on pooled investments net of appropriation for operating activities	(1,634,167)	(2,692,337)	(4,326,504)
Postretirement benefit liability adjustment other than net periodic costs	<u>(250,397)</u>	<u>-</u>	<u>(250,397)</u>
Change in Net Assets From Nonoperating Activities	<u>61,027,346</u>	<u>(2,758,762)</u>	<u>58,268,584</u>
Change in Net Assets	56,697,418	(4,091,181)	52,606,237
NET ASSETS			
Beginning of year	<u>31,237,543</u>	<u>74,466,986</u>	<u>105,704,529</u>
End of year	<u>\$ 87,934,961</u>	<u>\$ 70,375,805</u>	<u>\$ 158,310,766</u>

See notes to financial statements

Union Theological Seminary in the City of New York

Statement of Activities
Year Ended June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
OPERATING REVENUES AND RECLASSIFICATIONS			
Tuition and fees before student aid	\$ 4,963,032	\$ -	\$ 4,963,032
Contributions and grants	1,310,940	3,245,933	4,556,873
Appropriation of investment income for operating activities	2,263,051	3,357,438	5,620,489
Interest income on cash and cash equivalents	25,253	38,082	63,335
Auxiliary enterprises sales and services	5,517,410	-	5,517,410
Other revenue	1,957,809	-	1,957,809
Net assets released from restrictions	<u>8,234,215</u>	<u>(8,234,215)</u>	<u>-</u>
Total Operating Revenues Before Student Aid	24,271,710	(1,592,762)	22,678,948
Student aid applicable to tuition and fees	<u>(4,027,706)</u>	-	<u>(4,027,706)</u>
Net Revenue and Reclassifications	<u>20,244,004</u>	<u>(1,592,762)</u>	<u>18,651,242</u>
EXPENSES			
Instruction and research	9,836,001	-	9,836,001
Academic support	1,867,207	-	1,867,207
Library	1,839,229	-	1,839,229
Student services	720,767	-	720,767
Auxiliary enterprises	4,227,510	-	4,227,510
Institutional support	5,545,672	-	5,545,672
Fundraising	<u>1,460,345</u>	-	<u>1,460,345</u>
Total Expenses	<u>25,496,731</u>	-	<u>25,496,731</u>
Excess (Deficiency) of Operating Revenues Over Operating Expenses	<u>(5,252,727)</u>	<u>(1,592,762)</u>	<u>(6,845,489)</u>
NONOPERATING ACTIVITIES			
Contributions	-	161,122	161,122
Gain recognized on sale-leaseback transaction	4,841,157	-	4,841,157
Change in value of split-interest agreements	-	233,214	233,214
Investment return on pooled investments net of appropriation for operating activities	2,516	(765,544)	(763,028)
Postretirement benefit liability adjustment other than net periodic costs	<u>182,168</u>	-	<u>182,168</u>
Change in Net Assets From Nonoperating Activities	<u>5,025,841</u>	<u>(371,208)</u>	<u>4,654,633</u>
Change in Net Assets	<u>(226,886)</u>	<u>(1,963,970)</u>	<u>(2,190,856)</u>
NET ASSETS			
Beginning of year	<u>31,464,429</u>	<u>76,430,956</u>	<u>107,895,385</u>
End of year	<u>\$ 31,237,543</u>	<u>\$ 74,466,986</u>	<u>\$ 105,704,529</u>

Union Theological Seminary in the City of New York

Statement of Functional Expenses
Year Ended June 30, 2020

	Instruction and Research	Academic Support	Library	Student Services	Auxiliary Enterprises	Institutional Support	Fundraising	Total Expenses
Salary	\$ 4,449,293	\$ 655,914	\$ -	\$ 409,773	\$ 407,238	\$ 2,064,314	\$ 565,631	\$ 8,552,163
Fringe benefits and payroll tax	1,426,668	210,319	-	131,394	130,581	661,923	181,370	2,742,255
Occupancy, maintenance and utilities	341,722	333,764	948,686	35,366	2,052,097	656,034	53,048	4,420,717
Supplies	249,725	75,900	-	67,934	2,274,820	473,838	84,559	3,226,776
Library acquisitions	-	-	179,224	-	-	-	-	179,224
Hospitality and travel	620,630	52,048	-	55,257	21,058	158,395	58,817	966,205
Services	1,325,127	31,662	-	31,515	300,796	683,581	129,167	2,501,848
Student aid	536,243	35,505	-	19,584	-	3,948	-	595,280
Insurance	270,416	39,865	-	24,905	24,751	125,464	34,378	519,779
Grants to others	354,542	-	-	1,625	-	22,336	-	378,503
Interest expense	20,179	19,709	56,022	2,088	121,180	38,740	3,133	261,051
Depreciation expense	81,069	79,182	225,065	8,390	486,836	155,636	12,585	1,048,763
Other expenses	33,588	6,454	-	2,612	2,173	59,042	3,632	107,501
Total Expenses	\$ 9,709,202	\$ 1,540,322	\$ 1,408,997	\$ 790,443	\$ 5,821,530	\$ 5,103,251	\$ 1,126,320	\$ 25,500,065

Union Theological Seminary in the City of New York

Statement of Functional Expenses
Year Ended June 30, 2019

	Instruction and Research	Academic Support	Library	Student Services	Auxiliary Enterprises	Institutional Support	Fundraising	Total Expenses
Salary	\$ 4,048,864	\$ 743,992	\$ 18,107	\$ 376,925	\$ 286,446	\$ 1,916,833	\$ 729,379	\$ 8,120,546
Fringe benefits and payroll tax	1,414,861	240,719	4,240	129,930	87,928	380,740	226,669	2,485,087
Occupancy, maintenance and utilities	646,723	529,168	1,336,308	66,245	3,070,319	1,062,919	78,938	6,790,620
Supplies	97,003	14,087	-	15,410	9,807	171,468	105,593	413,368
Library acquisitions	-	-	165,939	-	-	-	-	165,939
Hospitality and travel	693,078	65,943	-	39,462	7,538	272,420	84,284	1,162,725
Services	1,081,677	67,372	602	32,924	13,601	1,122,974	124,695	2,443,845
Student aid	668,382	-	-	-	-	1,360	-	669,742
Insurance	261,990	48,142	1,172	24,390	18,535	124,033	47,196	525,458
Grants to others	525,000	-	-	-	-	-	-	525,000
Interest expense	60,487	47,046	132,393	4,959	303,742	96,440	7,439	652,506
Depreciation expense	81,920	63,695	179,323	6,688	411,483	130,571	10,032	883,712
Bad debt expense	-	-	-	-	-	144,710	-	144,710
Other expenses	256,016	47,043	1,145	23,834	18,111	121,204	46,120	513,473
Total Expenses	\$ 9,836,001	\$ 1,867,207	\$ 1,839,229	\$ 720,767	\$ 4,227,510	\$ 5,545,672	\$ 1,460,345	\$ 25,496,731

Union Theological Seminary in the City of New York

Statements of Cash Flows

	Year Ended June 30,	
	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 52,606,237	\$ (2,190,856)
Adjustments to reconcile change in net assets to net cash from operating activities		
Net depreciation (appreciation) in fair value of investments	312,185	(3,240,103)
Postretirement benefit liability adjustments other than net periodic costs	250,397	(182,168)
Gain on sale of air rights	(56,077,330)	-
Gain and deferred gain on sale-leaseback transaction	-	(41,007,483)
Bad debt expense	80,589	144,710
Contributions restricted for permanent investment	(116,977)	(161,122)
Depreciation expense	1,048,762	883,712
Amortization of debt issuance cost	-	19,337
Change in value of split - interest agreements	183,402	(233,214)
Changes in assets and liabilities		
Student accounts receivables	(4,709)	(16,571)
Prepaid expenses and other receivables	538,698	(3,637,119)
Contributions and grants receivable	436,878	1,437,203
Security deposits	-	(1,224,167)
Assets held in charitable remainder trusts	(3,215)	(182,780)
Change in value of beneficial interest in charitable remainder trust	(16,897)	2,101
Accounts payable and accrued expenses	373,023	28,874
Deferred revenue	(1,000,000)	150,000
Deferred gain on sale-lease back transaction	(6,834,580)	36,166,326
Security deposits	(16,365)	(27,880)
Annuity payable	198,908	(57,198)
Postretirement benefits liabilities	98,699	78,025
Net Cash from Operating Activities	<u>(7,942,295)</u>	<u>(13,250,373)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Collections from student loans	92,198	146,110
Student loans issued	(39,022)	(90,472)
Endowment cash	(189,280)	(1,756,234)
Proceeds from sale of investments	26,187,424	13,191,275
Purchase of investments	(28,805,197)	(36,506,931)
Proceeds from sale-leaseback transaction	-	44,168,674
Proceeds from sale of air rights	58,482,340	-
Purchase of property and equipment	<u>(56,633,559)</u>	<u>(5,757,830)</u>
Net Cash from Investing Activities	<u>(905,096)</u>	<u>13,394,592</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for permanent investment	116,977	161,122
Proceeds from lines of credit	12,091,001	10,733,207
Payment of lines of credit	(5,000,000)	(2,000,000)
Proceeds from Paycheck Protection Program loan payable	1,857,299	-
Payment of notes payable	-	<u>(10,804,803)</u>
Net Cash from Financing Activities	<u>9,065,277</u>	<u>(1,910,474)</u>
Net Change in Cash	217,886	(1,766,255)
CASH		
Beginning of year	<u>854,791</u>	<u>2,621,046</u>
End of year	<u>\$ 1,072,677</u>	<u>\$ 854,791</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 261,052	\$ 681,559
NONCASH INVESTING AND FINANCING ACTIVITIES		
Property and equipment financed in accounts payable and accrued expenses	7,344,707	2,235,702

See notes to financial statements

Union Theological Seminary in the City of New York

Notes to Financial Statements
June 30, 2020 and 2019

1. Organization

Union Theological Seminary in the City of New York (the “Seminary” or “UTS”), a New York not-for-profit corporation, was organized in 1836 for the purpose of providing theological education. The Seminary is accredited by the Middle States Commission on Higher Education and the Association of Theological Schools. It is exempt from Federal income taxes under the provisions of Section 501(c)(3) of the United States Internal Revenue Code.

2. Summary of Significant Accounting Policies

Use of Estimates and Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) which requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Net Asset Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Net assets of the Seminary and changes thereto are classified and reported as follows:

Without donor restrictions – net assets not subject to donor-imposed stipulations, and therefore are expendable for operating purposes.

With donor restrictions – net assets subject to donor-imposed stipulations that will be met by actions of the Seminary and/or by the passage of time or net assets to be maintained permanently by the Seminary. Generally, the donors of permanently endowed assets permit the Seminary to use all or part of the income earned on related investments for general or donor-specified purposes.

Revenues, gains and losses on investments (realized and unrealized) and other revenues are reported as changes in net assets without restrictions unless their use is limited by explicit donor-imposed restrictions or by law. Expenses are reported as decreases in net assets without restrictions.

Union Theological Seminary in the City of New York

Notes to Financial Statements
June 30, 2020 and 2019

2. Summary of Significant Accounting Policies *(continued)*

Operating Measurement

The Seminary divides its Statement of Activities into operating and nonoperating activities. The operating activities of the Seminary include all income and expenses related to carrying out its educational mission. Operating activities also include investment income used to fund current operations.

Nonoperating activities include current year realized and unrealized losses on investments, including realized gain distributions from fund investments, less amounts withdrawn from endowment appreciation to fund operations. Nonoperating activities also includes new gifts to permanently restricted endowments, gains recognized on both the sale-lease back transaction and the sale of air rights, changes in present value adjustments to split-interest agreements and changes in postretirement obligations other than net periodic cost.

Fair Value of Financial Instruments

The Seminary follows U.S. GAAP guidance on *Fair Value Measurements* which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

Investments Valuation

Following is a description of the valuation methodologies used for assets measured at fair value:

Money Market Funds - The carrying values of money market funds approximate fair value due to their short term nature.

Common Stock - Investments in common stock are measured using quoted market prices in active markets.

Mutual Funds - Exchanged traded mutual funds are valued at closing market price of the market where the fund is traded. Other mutual funds are valued at the closing net asset value per share published by the mutual fund.

Hedge Funds and Commingled Trust Funds - The fair value of hedge funds and commingled trust funds has been estimated using the Net Asset Value ("NAV") as reported by the management of the respective hedge fund and commingled trust funds. U.S. GAAP guidance provides for the use of NAV as a "*Practical Expedient*" for estimating fair value of hedge funds and commingled trust funds. Pursuant to U.S. GAAP guidance, hedge funds and commingled trust funds where fair value is measured using the NAV per share as a practical expedient are not categorized within the fair value hierarchy.

Union Theological Seminary in the City of New York

Notes to Financial Statements
June 30, 2020 and 2019

2. Summary of Significant Accounting Policies *(continued)*

Private Partnership Investments

The Seminary has investments in oil and gas partnerships valued at cost of \$1,948,436 and \$2,360,305 at June 30, 2020 and 2019. There are no U.S. GAAP financial statements available for these partnerships on a fair value basis. The Seminary's management has concluded that it is not practicable to estimate the fair value of such investments and on an annual basis considers whether there are any impairment indicators that would require a write-down of the investments to the lower of cost or market. No such indicators were noted by management during the year.

The preceding valuation methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. Furthermore, although management believes these valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Investment Income Recognition

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the determination of the change in net assets.

Assets Held in Charitable Remainder Trust

The Seminary receives certain gifts under charitable unitrust and gift annuity agreements. The Seminary recognizes contribution revenue at the date the assets are received or the trust is established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. These liabilities are adjusted annually for changes in the value of the assets, accretion of the discount, and other changes in the estimates of future benefits. The adjustments are recorded as change in value of split-interest agreements in the accompanying statements of activities.

Concentration of Credit Risk

The Seminary's cash balances at banks are insured by the Federal Deposit Insurance Corporation and at times the cash balances may exceed the federal insurance limit; however, the Seminary has not experienced any losses with respect to its bank balances in excess of government provided insurance.

Union Theological Seminary in the City of New York

Notes to Financial Statements
June 30, 2020 and 2019

2. Summary of Significant Accounting Policies *(continued)*

Revenue and Revenue Recognition

Revenue is recognized when earned. Student tuition and fees revenue is recorded at the established rates net of scholarships and awards provided by the Seminary. The Seminary recognizes student tuition and fees revenue in the semester that it is earned. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received.

Contributions and Grants

Unconditional contributions and grants are recorded at fair value in the accompanying financial statements at the time the unconditional promise to give is made or the asset is received, whichever is earlier. Contributions not expected to be received within one year are discounted to present value using a risk adjusted rate of interest. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contribution. Bequests are recognized as contributions at the time that the will is probated and the amount can be estimated, provided the bequest is unconditional.

Contributions of cash and other assets are reported as increases in net assets with restrictions if they are received with donor restrictions that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restriction.

Conditional promises to give, where the ultimate transfer of the assets or promise to give by the donor is contingent on a future and uncertain event, are not recorded as contributions until the condition is substantially met.

Contributions of property and equipment are recorded at fair value at the date of donation. Contributions without donor stipulations concerning the use of such long-lived assets are recorded as net assets without donor restrictions.

Auxiliary Enterprises Sales and Services

Auxiliary enterprises consist primarily of student housing, guest room revenue and property rental income arising from the leasing of the Seminary's building space. Auxiliary enterprises sales and services revenue is recognized when earned. Payments received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred. Auxiliary enterprises expenses include direct administration and general costs related to its operations.

Union Theological Seminary in the City of New York

Notes to Financial Statements
June 30, 2020 and 2019

2. Summary of Significant Accounting Policies *(continued)*

Property and Equipment

Property and equipment are stated at cost except for those assets received by gift, which are stated at appraised value at date of gift. Depreciation is computed using the straight-line method over the estimated useful life of the asset. Estimated useful lives of property and equipment are as follows:

	<u>Years</u>
Building	105
Building improvements	20
Equipment	4 to 7

Capitalized Computer Software

The Seminary capitalizes computer software developed or obtained for internal use. Capitalization begins at the application development stage, which consists of the design, coding, installation and testing of the software and interfaces. The capitalized software, once placed in service, is amortized on the straight line method over the useful life, which ranges from three to five years.

Annuities Payable

Annuities payable are created when assets are contributed to the Seminary on condition that the Seminary obligates itself to pay stipulated amounts periodically to designated beneficiaries. Annuities payable are recorded at the present value of the expected future cash payments to the beneficiaries using estimated mortality rates.

U.S. Government Grants Refundable Advances

Funds provided by the U.S. Government under the Federal Perkins Loan Program are loaned to qualified students and may be re-loaned after collection. These funds are ultimately refundable to the government and are presented in the accompanying statements of financial position as a liability.

Union Theological Seminary in the City of New York

Notes to Financial Statements
June 30, 2020 and 2019

2. Summary of Significant Accounting Policies *(continued)*

Asset Retirement Obligation

An asset retirement obligation (“ARO”) represents a legal obligation associated with the retirement of tangible long-lived asset that is incurred upon the acquisition, construction, development or normal operation of that long-lived asset. An ARO is recorded in the period in which it’s incurred and reasonably estimable. The Seminary has identified asbestos abatement as a conditional ARO. However, since the asbestos abatement costs are not estimable at June 30, 2020, no ARO has been recorded to date.

Functional Allocation of Expenses

The costs of program and supporting services activities of the Seminary have been summarized on a functional basis in the statements of activities. The statements 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. These include depreciation, interest, post-retirement benefit, pension adjustment, operation and maintenance expenses. Interest, depreciation and maintenance expenses are allocated based on the square footage used for each functional area. Post-retirement benefit and pension adjustment are added to the fringe benefits and allocated based on labor cost for each functional area. The same allocation method is used for operational expenses such as insurance and audit fees.

Expenses are reported in the statements of activities and functional expenses in categories recommended by the National Association of College and University Business Officers. The Seminary’s primary program service is instruction. Expenses reported as academic support, library, student services, student aid and auxiliary enterprises are related to this primary program service. Supporting services include expenses reported as institutional support and fundraising.

Accounting for Uncertainty in Income Taxes

The Seminary recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the Seminary had no uncertain tax positions that would require financial statement recognition or disclosure. The Seminary is no longer subject to examinations by the applicable taxing jurisdictions for the periods prior to July 1, 2017.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is March 15, 2021.

Union Theological Seminary in the City of New York

Notes to Financial Statements
June 30, 2020 and 2019

3. Liquidation and Availability of Financial Assets

The Seminary regularly monitors the availability of resources required to meet its operating needs and contractual commitments, while also striving to maximize its investment portfolio to meet short term spending needs while also preserving inter-generational equity. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Seminary considers all expenditures related to its ongoing mission-related activities as well as the conduct of services undertaken to support those activities.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statements of financial position dates, comprised of the followings:

	<u>2020</u>	<u>2019</u>
Cash	\$ 1,072,677	\$ 854,791
Student receivable, net	122,942	118,233
Contributions and grants receivable, net	1,015,160	1,459,429
Other receivables (reported in prepaid expenses and other receivables)	540,703	454,064
Investments	<u>133,163,776</u>	<u>130,852,310</u>
Total financial assets	135,915,258	133,738,827
Less amounts not available to be used within one year		
Net assets with donor restrictions	70,375,805	74,466,986
Less net assets with purpose restrictions to be met in less than a year	(843,398)	(903,188)
Board designated endowment	<u>41,879,377</u>	<u>31,237,543</u>
	<u>111,411,784</u>	<u>104,801,341</u>
Financial assets available to meet general expenditures within one year	<u>\$ 24,503,474</u>	<u>\$ 28,937,486</u>

Endowment funds consist of donor restricted endowments and funds designated by the board as endowments. Income from donor restricted endowments that is restricted for specific purposes is not available for general expenditures. Although the Seminary does not intend to spend from its board designated endowment (other than amounts appropriated per the board's appropriation approval), these amounts could be made available if necessary.

The Seminary invests cash in excess of daily requirements in short-term investment and money market funds. To help manage unanticipated liquidity needs, the Seminary has a line of credit in the amount of \$41 million which it could draw upon.

Union Theological Seminary in the City of New York

Notes to Financial Statements June 30, 2020 and 2019

4. Cash

Cash is comprised of the following as of June 30:

	2020	2019
Petty cash funds	\$ 700	\$ 700
Operating accounts	1,052,960	482,173
Student revolving loan funds	19,017	371,918
	\$ 1,072,677	\$ 854,791

5. Contributions and Grants Receivable

Contributions and grants which extend beyond one year were discounted at 2.50% and 2.03% to their fair value as of June 30, 2020 and 2019. Unconditional promises to give are expected to be collected in the following periods:

	2020	2019
Receivable in less than one year	\$ 918,315	\$ 954,339
Receivable in more than one year but within five years	155,000	599,999
	1,073,315	1,554,338
Present value discount	(4,489)	(17,193)
Allowance for uncollectibles	(53,666)	(77,716)
Net Unconditional Promises to Give	\$ 1,015,160	\$ 1,459,429

Net unconditional promises to give at June 30, 2020 and 2019 consist of and are classified within the net assets categories below:

	2020	2019
Without donor restrictions	\$ 71,171	\$ 48,594
With donor restrictions	943,989	1,410,835
	\$ 1,015,160	\$ 1,459,429

Contribution receivable from one donor accounted for approximately 47% and 74% of the total receivable before present value discount at June 30, 2020 and 2019.

Union Theological Seminary in the City of New York

Notes to Financial Statements
June 30, 2020 and 2019

6. Investments and Investment Return

Investments

Investments, at fair value or cost as of June 30, 2020 and 2019 are comprised of the following:

	2020	2019
Investments held for general operations		
Mutual funds - building account	\$ 27,260,060	\$ 21,189,284
Common stock - stock gift account	1,002,981	33,796
Total Investments Held for General Operations	28,263,041	21,223,080
Investments held in endowment		
Pooled Investments		
Money market funds	346,795	546,895
Common stock	7,861,822	10,854,472
Mutual funds	47,559,584	37,052,469
Commingled trust funds	27,361,345	36,965,518
Hedge funds	19,633,473	20,093,337
Private partnership investments, at cost	1,948,436	2,360,305
Total Pooled Investments	104,711,455	107,872,996
Endowment cash	189,280	1,756,234
Total Investments Held in Endowment	104,900,735	109,629,230
Total Investments	\$133,163,776	\$ 130,852,310

See Note 17 for fair value hierarchy of the Seminary's financial instruments.

Investment Return

The Seminary maintains an investment pool for substantially all of its investments. The pool is managed to achieve the maximum prudent long-term rate of return. The Seminary's Board of Trustees has authorized a policy designed to preserve the value of these investments in real terms (after inflation) and provide a predictable flow of funds to support operations. The policy permits the use of total return (dividend and interest income and net appreciation in fair value) to support operations at a spending rate of 5.3% in 2020 and 2019 based on the average fair value of pooled investments for the preceding twelve quarters.

Union Theological Seminary in the City of New York

Notes to Financial Statements
June 30, 2020 and 2019

6. Investments and Investment Return *(continued)*

Investment Return (continued)

The following summarizes the increase in cumulative return on pooled investments after appropriation for operating activities and its classification in the accompanying financial statements for the years ended June 30, 2020 and 2019:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Dividends and interest earned on pooled investments (net of investment expense)	\$ 845,180	\$ 952,002	\$ 1,797,182
Net realized/unrealized gain on investments	<u>(161,629)</u>	<u>(150,556)</u>	<u>(312,185)</u>
Total Return on Pooled Investments	683,551	801,446	1,484,997
Appropriated for operating activities	<u>(2,317,718)</u>	<u>(3,493,783)</u>	<u>(5,811,501)</u>
Decrease in Cumulative Return on Pooled Investments after Appropriations for Operating Activities	<u>\$ (1,634,167)</u>	<u>\$ (2,692,337)</u>	<u>\$ (4,326,504)</u>
	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Dividends and interest earned on pooled investments (net of investment expense)	\$ 915,944	\$ 701,414	\$ 1,617,358
Net realized/unrealized loss on investments	<u>1,349,623</u>	<u>1,890,480</u>	<u>3,240,103</u>
Total Return on Pooled Investments	2,265,567	2,591,894	4,857,461
Appropriated for operating activities	<u>(2,263,051)</u>	<u>(3,357,438)</u>	<u>(5,620,489)</u>
Decrease in Cumulative Return on Pooled Investments after Appropriations for Operating Activities	<u>\$ 2,516</u>	<u>\$ (765,544)</u>	<u>\$ (763,028)</u>

Union Theological Seminary in the City of New York

Notes to Financial Statements
June 30, 2020 and 2019

7. Beneficial Interest in Remainder Trust

The Seminary has a beneficial interest in several charitable remainder trusts established by donors. Under the terms of the trusts, distributions are made from the trusts to designated beneficiaries for the remainder of their lives. The remainder of the assets in the trusts will be transferred to the Seminary upon the deaths of such beneficiaries. The trusts are held and managed by independent trustees. As of June 30, 2020 and 2019, the value of the Seminary's estimated interest in the remainder trusts was \$218,858 and \$201,961.

8. Property and Equipment

Property and equipment consists of the following as of June 30, 2020 and 2019:

	<u>2020</u>	<u>0</u>
Land	\$ 1,346,074	\$ 1,665,987
Buildings	2,369,335	2,369,335
Building improvements	34,647,423	34,647,423
Equipment	4,289,317	4,208,181
Computer software	588,746	588,746
Construction in progress	<u>71,527,117</u>	<u>11,950,786</u>
	114,768,012	55,430,458
Accumulated depreciation	<u>(37,616,159)</u>	<u>(36,567,397)</u>
	<u>\$ 77,151,853</u>	<u>\$ 18,863,061</u>

Depreciation expense for the years ended June 30, 2020 and 2019 were \$1,048,762 and \$883,712. Depreciation expense was spread over different expense categories reported on the statement of activities as of June 30, 2020 and 2019.

Union Theological Seminary in the City of New York

Notes to Financial Statements
June 30, 2020 and 2019

9. Debt

In June 2019, the Seminary entered into a convertible line of credit in the amount of \$41 million with PNC Bank ("PNC Convertible Line of Credit"). On June 10, 2022, the then-outstanding principal amount of advances shall convert to an amortizing term loan with an expiration date of May 1, 2024. Borrowings under this line of credit bears interest at London Interbank Offered Rate ("LIBOR") plus 0.75% per annum (1.12% and 3.16% at June 30, 2020 and 2019). The interest rate changes based upon the minimum margin value of the collateral and the ratio of unrestricted liquidity to funded debt. The applicable margin varies from 0.75% to 1.25% per annum. The proceeds of the convertible line of credit will be used to (i) refinance certain of the Seminary's existing indebtedness, (ii) provide bridge financing of construction expenditures and (iii) fund general working capital purposes. As collateral for the line of credit, PNC bank. has a securities and pledge agreement equal to or exceeding 50% of the outstanding obligation. Investments with a fair value of \$29,293,330 serve as the collateral for the loan as of June 30, 2020. The outstanding balance on this line of credit was \$17,824,208 and \$10,733,207 at June 30, 2020 and 2019.

Paycheck Protection Program Loan Payable

The Seminary received a \$1,857,299 Paycheck Protection Program Loan ("PPP Loan") from the Small Business Administration in April 2020. The PPP Loan can be forgiven if the Seminary retains its current number of personnel and maintains the same working hours and pay rate for such personnel, and spends the loan proceeds on qualifying expenditures. If the Seminary does not apply for forgiveness, payments begin approximately 16 months after the loan date. As of June 30, 2020, the PPP loan is recognized as debt on the statements of financial position. The Seminary will recognize the income from the forgiveness of the PPP loan when it receives the notification of forgiveness from SBA in accordance with U.S. GAAP. If not forgiven, the PPP loan bears interest at the rate of 1% and is payable over two years beginning August 2021.

10. Property Rental

Operating leases, which are included in auxiliary enterprises sales and services in the statements of activities, arise from the leasing of the Seminary's building space having a net book value of approximately \$0 as of June 30, 2020 and 2019 to Columbia University under non-cancelable operating leases expiring at various dates through 3002. Rental income for the years ended June 30, 2020 and 2019 was \$2,835,000 and \$2,824,000.

Union Theological Seminary in the City of New York

Notes to Financial Statements
June 30, 2020 and 2019

10. Property Rental (*continued*)

Minimum rental income to be received from non-cancelable operating leases in each of the five years subsequent to June 30, 2020 and thereafter is as follows:

Years ending June 30,	
2021	\$ 2,623,000
2022	2,623,000
2023	2,623,000
2024	2,623,000
2025	2,623,000
Thereafter	<u>1,033,646,300</u>
	<u>\$ 1,046,761,300</u>

11. Sale and Leaseback Transaction

In October 2018, the Seminary entered into a sale-leaseback agreement with an unrelated party involving a real estate property with a net book value of approximately \$3.2 million. Under the arrangement, the Seminary sold and then leased back the property under a three year operating lease agreement with an annual payment of \$1,224,167 with two consecutive option periods of one year each. In addition to the annual payment, the Seminary also paid \$4 million repair credit in advance and it is being recognized as rent expense over the term of the lease. The unrecognized portion of the repair credit of \$2,861,111 and \$3,527,778 is recorded in prepaid expenses on the statements of financial position for the years ended June 30, 2020 and 2019.

The sale of the property resulted in a gain of approximately \$41.0 million which has been deferred and is being credited to revenue over the term of the related lease. The amount of the gain deferred at June 30, 2020 and 2019 was approximately \$29.3 million and \$36.2 million. Gain recognized on the statements of activities totaled approximately \$6.8 million and \$4.8 million in fiscal year 2020 and 2019.

The future lease payments approximate the following for the year ending June 30:

Years ending June 30,	
2021	\$ 1,890,834
2022	<u>709,063</u>
	<u>\$ 2,599,897</u>

Union Theological Seminary in the City of New York

Notes to Financial Statements
June 30, 2020 and 2019

12. Sale of Air Rights

On June 22, 2020, the Seminary closed on the sale of property and Zoning Floor Area (Air Rights) to a developer in the amount of \$60,727,250. As part of that transaction, the Seminary purchased condominium space from the developer for use as apartments and academic space in the building being constructed on the northwest corner of the Seminary's campus. The Seminary paid \$30,615,154 into an escrow account of June 22, 2020, which represents the full purchase price of space that is expected to be available to the Seminary in March 2023. The Seminary's affiliate, the Episcopal Divinity School (EDS), will be the eventual owner of the ground floor space and one of the 27 apartments that the Seminary has purchased. EDS paid the Seminary in full for the space on June 22, 2020 in the amount of \$11,376,300.

13. Net Assets

Net assets consist of the following as of June 30:

	2020	2019
Without Donor Restrictions		
Undesignated	\$ 46,055,584	\$ -
Board designated endowment	41,879,377	31,237,543
Total Without Donor Restrictions	\$ 87,934,961	\$ 31,237,543
With Donor Restrictions		
Permanent Endowment Funds:		
Instruction, scholarship and support	\$ 38,478,727	\$ 41,183,696
Institutional	14,805,730	11,777,358
Plant	31,550	31,550
	53,316,007	52,992,604
Unappropriated earnings of endowment funds	9,776,444	12,391,486
Total Donor Restricted Net Assets Held in Endowment	63,092,451	65,384,090
Other Donor Restricted Net Assets:		
Instruction, scholarship and support	5,386,317	7,078,388
UTS loan fund	777,233	705,908
Annuity fund	900,946	1,096,639
Beneficial interest in charitable remainder trusts	218,858	201,961
Total Other Donor Restricted Net Assets	7,283,354	9,082,896
Total With Donor Restrictions	\$ 70,375,805	\$ 74,466,986
Total Net Assets	\$ 158,310,766	\$ 105,704,529

Union Theological Seminary in the City of New York

Notes to Financial Statements
June 30, 2020 and 2019

13. Net Assets *(continued)*

Net Assets released from restrictions during the years ended June 30, which satisfied the restricted purposes specified by the donors, was as follows:

	2020	2019
Instruction, scholarship and support	\$ 6,621,574	\$ 8,171,163
UTS loan fund	39,633	63,052
	\$ 6,661,207	\$ 8,234,215

14. Pension and Postretirement Benefit Plans

Pension Plans

The Seminary maintains a defined contribution pension plan for the benefit of faculty, senior and administrative staff and employees covered under the Local 2110 bargaining agreement. The Seminary is required to make contributions in amounts ranging from 12% to 15% of annualized salary for faculty, senior and administrative staff and 8.75% for employees covered under the Local 2110 bargaining agreement. The plan is administered by the Teachers Insurance and Annuity Association. Amount charged to expense under this plan for the years ended June 30, 2020 and 2019 was \$756,574 and \$761,716.

Postretirement Benefit Plan

The Seminary provides certain medical and life insurance benefits (the "Postretirement Benefits Plan") to faculty members who meet certain eligibility requirements.

The following table provides a reconciliation of the changes in the plan's unfunded benefit obligation which as of and for the years ended June 30, 2020 and 2019 is unfunded:

	2020	2019
Change in Projected Benefit Obligation		
Beginning of year	\$ 1,828,316	\$ 1,932,459
Service cost	47,034	34,000
Interest cost	74,493	65,000
Actuarial (gain) loss	250,397	(184,168)
Benefits paid	(22,828)	(18,975)
End of year	\$ 2,177,412	\$ 1,828,316
Employer contributions	\$ 22,828	\$ 18,975
Benefit Obligation Weighted Average Assumptions		
Discount rate	3.00%	4.10%

Union Theological Seminary in the City of New York

Notes to Financial Statements
June 30, 2020 and 2019

14. Pension and Postretirement Benefit Plans (continued)

Postretirement Benefit Plan (continued)

Amount recognized as other changes in net assets for the years ended June 30 are as follows:

	<u>2020</u>	<u>2019</u>
Actuarial gain	\$ 250,397	\$ (184,168)
Amortization of actuarial gain	<u>-</u>	<u>2,000</u>
	<u>\$ 250,397</u>	<u>\$ (182,168)</u>

The amounts included in unrestricted net assets that have not yet recognized as components of net periodic benefit cost at June 30 are as follows:

	<u>2020</u>	<u>2019</u>
Net actuarial gain	\$ (178,950)	\$ (431,347)

For measurement purposes, a 5.00% and 5.50% annual rate of increase in the per capita cost of covered health care benefits was assumed for the fiscal years ended June 30, 2020 and 2019, respectfully.

The components of net periodic benefit cost are as follows for the years ended June 30:

	<u>2020</u>	<u>2019</u>
Service cost	\$ 47,034	\$ 34,000
Interest cost	74,493	65,000
Recognized actuarial gain	<u>-</u>	<u>(2,000)</u>
	<u>\$ 121,527</u>	<u>\$ 97,000</u>

The amounts expected to be amortized as components of net periodic benefit costs during fiscal 2021 is \$0.

Union Theological Seminary in the City of New York

Notes to Financial Statements
June 30, 2020 and 2019

14. Pension and Postretirement Benefit Plans *(continued)*

Postretirement Benefit Plan (continued)

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one percentage point change in assumed health care cost trend rates would have the following effects:

	1 Percentage Point Increase	1 Percentage Point Decrease
Impact of 1% Change in Health Care Trend Rates		
Effect on total service and interest cost components	\$ 127,065	\$ 101,393
Effect on the postretirement benefit obligation	2,422,120	1,966,565

Projected benefit payments are expected to be paid as follows:

Years ending June 30,	
2021	\$ 31,578
2022	37,502
2023	39,377
2024	46,533
2025	43,587
2026-2030	342,491

15. Commitments and Contingencies

The Seminary is a party to various legal actions arising from the ordinary course of its operations, the final outcome of which cannot be presently determined. Management believes that the amount of losses, if any, that may be sustained beyond existing insurance liability coverage, would not have a material effect on the accompanying financial statements.

The Seminary has entered into various construction contracts totaling approximately \$46 million for the first phase of a campus renovation that includes the replacement of the campus mechanical plant, Hastings Hall housing renovations, and façade improvement throughout campus. As of June 30, 2020 and 2019, a total of approximately \$35,674,000 and \$1,927,000 of this work is included in construction in progress. The project was substantially complete in October 2020.

Union Theological Seminary in the City of New York

Notes to Financial Statements
June 30, 2020 and 2019

16. Endowment Funds

The Seminary currently maintains various donor-restricted endowment funds whose purpose is to provide long term support for its programs. In classifying such funds for financial statement purposes as net assets with donor restrictions and net assets without donor restrictions, the Board of Trustees looks to the explicit directions of the donor. The Board has determined that, absent donor stipulations to the contrary, the provisions of State law do not impose donor restriction on the income or capital appreciation derived from the original gift and/or additional gifts.

Unless otherwise specified by the donor, the Board utilizes a spending rate (see Note 6) to determine distributions from the endowment. In most cases, a required minimum balance for each endowment must be achieved and maintained before a distribution can be made.

The Board of Trustees of the Seminary has interpreted the New York Prudent Management of Institutional Funds Act ("NYPMIFA") as requiring the preservation of the value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary, and except in those cases where the law allows appropriation for spending of the original gift amounts. As a result of this interpretation, the Board classifies as donor restricted net assets maintained in perpetuity (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations of investment returns 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. The remaining portion of the donor-restricted endowment fund that is not classified as permanent endowment funds is classified as program restricted amounts until such amounts are appropriated for expenditure by the Board in a manner consistent with the standard of prudence prescribed by NYPMIFA.

Union Theological Seminary in the City of New York

Notes to Financial Statements June 30, 2020 and 2019

16. Endowment Funds (continued)

The following is a reconciliation of the activity in the Endowment funds:

	2020			
	Without Donor Restrictions	With Donor Restrictions		Total
		Program Restricted	Permanent Endowment Funds	
Balance, July 1, 2019	\$ 44,179,210	\$ 12,391,486	\$ 53,153,013	\$ 109,723,709
Contributions and pledge collections	44,943		162,993	207,936
Interest payment on endowment loans	-	-	-	-
Investment income, net	682,819	1,029,297	-	1,712,116
Investment gain	(99,877)	(150,556)	-	(250,433)
Appropriation for expenditure	(2,317,718)	(3,493,783)	-	(5,811,501)
Liquidation of unrestricted endowment	(610,000)	-	-	(610,000)
Balance, June 30, 2020	<u>\$ 41,879,377</u>	<u>\$ 9,776,444</u>	<u>\$ 53,316,006</u>	<u>\$ 104,971,827</u>
Comprised of the following:				
Donor restricted funds	\$ -	\$ 9,776,444	\$ 53,316,006	\$ 63,092,450
Board designated funds	41,879,377	-	-	41,879,377
Undesignated	-	-	-	-
	<u>\$ 41,879,377</u>	<u>\$ 9,776,444</u>	<u>\$ 53,316,006</u>	<u>\$ 104,971,827</u>
2019				
	Without Donor Restrictions	With Donor Restrictions		Total
		Program Restricted	Permanent Endowment Funds	
Balance, July 1, 2018	\$ 44,384,850	\$ 13,065,994	\$ 52,938,952	\$ 110,389,796
Contributions and pledge collections	114,205	-	214,061	328,266
Interest payment on endowment loans	747,807	-	-	747,807
Investment income, net	534,144	792,450	-	1,326,594
Investment gain	1,274,261	1,890,480	-	3,164,741
Appropriation for expenditure	(2,263,051)	(3,357,438)	-	(5,620,489)
Liquidation of unrestricted endowment	(613,006)	-	-	(613,006)
Balance, June 30, 2019	<u>\$ 44,179,210</u>	<u>\$ 12,391,486</u>	<u>\$ 53,153,013</u>	<u>\$ 109,723,709</u>
Comprised of the following:				
Donor restricted funds	\$ -	\$ 12,391,486	\$ 53,153,013	\$ 65,544,499
Board designated funds	31,237,543	-	-	31,237,543
Undesignated	12,941,667	-	-	12,941,667
	<u>\$ 44,179,210</u>	<u>\$ 12,391,486</u>	<u>\$ 53,153,013</u>	<u>\$ 109,723,709</u>

Union Theological Seminary in the City of New York

Notes to Financial Statements June 30, 2020 and 2019

17. Fair Value of Financial Instruments

The table below presents the balances of those assets measured at fair value on a recurring basis as of June 30, 2020 and 2019 categorized based upon the U.S. GAAP fair value hierarchy, for those investments subject to categorization within such hierarchy. See Note 2 for description of the Seminary's fair value accounting policies:

	2020			Balances as of June 30, 2020
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	
Assets				
Pooled Investments				
Money market funds	\$ 346,795	\$ -	\$ -	\$ 346,795
Common stock	7,861,822	-	-	7,861,822
Mutual funds	74,819,644	-	-	74,819,644
Commingled trust funds (1)	-	-	-	27,361,345
Hedge funds (1)	-	-	-	19,633,473
Stock Gift Account				
Common stock	1,002,981	-	-	1,002,981
Total Investments	<u>84,031,242</u>	<u>-</u>	<u>-</u>	<u>131,026,060</u> A
Assets held in charitable remainder trusts	-	1,986,794	-	1,986,794
Beneficial interest in charitable remainder trusts	-	218,858	-	218,858
	<u>\$ 84,031,242</u>	<u>\$ 2,205,652</u>	<u>\$ -</u>	133,231,712
Endowment cash				189,280 A
Private partnership investments, at cost				<u>1,948,436</u> A
				<u>\$ 135,369,428</u>

(A) Classified within investments in the accompanying statement of financial position

(1) As discussed in Note 2, investments that are measured using the practical expedient are not classified within the fair value hierarchy. The fair value amounts presented in the total column of this table are intended to permit reconciliation of the fair value hierarchy amounts presented in the balance sheet.

Union Theological Seminary in the City of New York

Notes to Financial Statements June 30, 2020 and 2019

17. Fair Value of Financial Instruments *(continued)*

	2019			Balances as of June 30, 2019
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	
Assets				
Pooled Investments				
Money market funds	\$ 546,895	\$ -	\$ -	\$ 546,895
Common stock	10,854,472	-	-	10,854,472
Mutual funds	58,241,753	-	-	58,241,753
Commingled trust funds (1)	-	-	-	36,965,518
Hedge funds (1)	-	-	-	20,093,337
Stock Gift Account				
Common stock	33,796	-	-	33,796
Total Investments	69,676,916	-	-	126,735,771 A
Assets held in charitable remainder trusts	-	1,983,579	-	1,983,579
Beneficial interest in charitable remainder trusts	-	201,961	-	201,961
	\$ 69,676,916	\$ 2,185,540	\$ -	128,921,311
Endowment cash				1,756,234 A
Private partnership investments, at cost				2,360,305 A
				\$ 133,037,850

(A) Classified within investments in the accompanying statement of financial position

(1) As discussed in Note 2, investments that are measured using the practical expedient are not classified within the fair value hierarchy. The fair value amounts presented in the total column of this table are intended to permit reconciliation of the fair value hierarchy amounts presented in the balance sheet.

There were no transfers between level 1 and level 2 of the fair value hierarchy during 2020 and 2019.

Union Theological Seminary in the City of New York

Notes to Financial Statements June 30, 2020 and 2019

17. Fair Value of Financial Instruments *(continued)*

Information regarding the investments measured at the NAV using the practical expedient at June 30, 2020 is as follows:

	See Note	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Commingled trust funds	a, d	\$ 27,361,345	\$ -	Monthly	10 days
Hedge funds	b, d	19,633,473	-	Daily, monthly, quarterly or biennially	0-90 days
Total at Fair Value		<u>\$ 46,994,818</u>	<u>\$ -</u>		
Private partnership investments, at cost	c	\$ 1,948,436	\$ -	Held until realized	N/A

a. This category includes investments in commingled trust funds. 100% of the value of this category is invested in long only foreign equities redeemable monthly.

b. This category includes hedge funds that employ a multi-strategy investment approach in both long and short equity securities, with the majority of their underlying securities classified in Level 1. Approximately 15% of the value of this category is subject to annual distribution limits of 10% of NAV. The remaining 85% is subject to no distribution limits of NAV.

c. This category includes several oil and gas partnership investments. These investments can never be redeemed with the partnerships. Instead, the nature of the investments in this category is that distributions are received through the liquidation of the underlying assets of the partnerships. Management has estimated that the underlying assets of the partnerships will be liquidated over 5 to 30 years.

d. These investments were valued using the practical expedient.

18. Investment Risks and Uncertainties

The Seminary maintains a significant and diverse investment portfolio, as detailed in Note 6. The Seminary continually monitors the performance and risks associated with these investments in order to limit market risk exposure. As the Seminary is dependent on investment return to fund a significant portion of its operations, a significant decrease in investment return may have a material impact on the financial position, changes in net assets and cash flows of the Seminary.

Union Theological Seminary in the City of New York

Notes to Financial Statements
June 30, 2020 and 2019

18. Investment Risks and Uncertainties (*continued*)

Hedge funds consist of non-traditional, not readily tradable investments. The funds, whether invested in stock or other securities, are generally not currently traded in a public market and typically are subject to restrictions on resale. Values determined by investment managers and general partners of underlying securities that are thinly traded or not traded in an active market may be based on historical cost, appraisals, a review of the investees' financial results, financial condition and prospects, together with comparisons to similar companies for which quoted market prices are available or other estimates that require varying degrees of judgment.

Investments are carried at fair value. Because of the inherent uncertainty of valuations, the estimated fair values may differ significantly from the values that would have been used had a ready market for such investments existed or had such investments been liquidated, and those differences could be material.

At June 30, 2020 and 2019, one investment represented 21% and 23% of total investments, respectively.

19. Seminary Affiliation

During fiscal year 2020 and 2019, EDS provided approximately \$2.4 million and \$1.6 million to the Seminary to support the EDS@UTS program and shared administrative services which is reported in other revenues on the statements of activities. Beginning in fiscal year 2020, the Seminary became the sole beneficiary of income from the EDS endowment, currently valued at approximately \$70 million. The Seminary records the income on a quarterly basis when received (these amounts are included in the amounts stated above). EDS maintains a separate corporate existence, governed by its own Board of Trustees, and retains sole title and control over its assets.

20. COVID-19 Pandemic

The Seminary's operations have been affected by the ongoing outbreak of the coronavirus disease (COVID-19), which was declared a pandemic by the World Health Organization in March 2020. Many countries around the world, including the United States, have significant governmental measures being implemented to control the spread of COVID-19, including temporary closures of businesses, severe restrictions on travel and the movement of people and other material limitation on the conduct of business.

Union Theological Seminary in the City of New York

Notes to Financial Statements
June 30, 2020 and 2019

20. COVID-19 Pandemic (*continued*)

The full duration and extent of the COVID-19 pandemic, related business and travel restrictions and changes to behavior intended to reduce its spread are uncertain as of the date these financial statements were available for issuance, as the pandemic continues to evolve globally. Therefore, the full extent of any adverse impact on the results of operations, financial position and cash flows cannot be reasonable estimated at this time.

* * * * *

**Union Theological Seminary
in the City of New York**

Supplementary Information

June 30, 2020

**Union Theological Seminary
in the City of New York**

Schedule of Financial Responsibility
Composite Ratio Scores
Year Ended June 30, 2020

Primary Reserve Ratio

Expendable Net Assets	\$ 38,068,082	
Total Expense	\$ 25,500,065	
		<u>1.4929</u>

Equity Ratio

Modified Net Assets	\$ 158,310,766	
Modified Assets	\$ 221,087,990	
		<u>0.7161</u>

Net Income Ratio

Change in Net Assets Without Donor Restrictions	\$ 56,697,418	
Total Revenues Without Donor Restrictions	\$ 82,197,483	
		<u>0.6898</u>

	Ratio	Strength Factor	Weight Factor	
Primary Reserve	1.4929	3.0000	40%	1.2000
Equity	0.7161	3.0000	40%	1.2000
Net Income	0.6898	3.0000	20%	<u>0.6000</u>
Total Composite Score				<u><u>3.0000</u></u>
Composite Score - Rounded				<u><u>3.0</u></u>

See Independent Auditors' Report and notes to schedule of financial responsibility composite ratio scores

**Union Theological Seminary
in the City of New York**

Schedule of Financial Responsibility
Composite Ratio Scores
(Continued)
Year Ended June 30, 2020

<u>Location</u>	<u>Expendable Net Assets</u>	<u>Amount</u>
Statement of financial position	+ Net assets without donor restrictions	\$ 87,934,961
Statement of financial position	+ Net assets with donor restrictions	70,375,805
Note 13 - Net Assets	- Net assets with donor restrictions: restricted in perpetuity	(53,316,007)
Not applicable	- Annuities	-
Note 13 - Net Assets	- Term endowments with donor restrictions	(9,776,444)
Not applicable	- Life income funds with donor restrictions	-
Not applicable	- Intangible assets	-
Statement of financial position	- Land, buildings and equipment, net of accumulated depreciation	(77,151,853)
Statement of financial position	+ Pension and postretirement health benefit obligation	2,177,412
Supplemental disclosure	+ Long-term debt, up to amount of net PP&E	17,824,208
Not applicable	- Unsecured related party receivables	-
	= Expendable Net Assets	\$ 38,068,082

<u>Location</u>	<u>Total Expenses and Losses Without Donor Restrictions</u>	<u>Amount</u>
Statement of activities	= Total Expenses and Losses Without Donor Restrictions	\$ 25,500,065

<u>Location</u>	<u>Modified Net Assets</u>	<u>Amount</u>
Statement of financial position	+ Net assets without donor restrictions	\$ 87,934,961
Statement of financial position	+ Net assets with donor restrictions	70,375,805
Not applicable	- Intangible assets	-
Not applicable	- Unsecured related party receivables	-
	= Modified Net Assets	\$ 158,310,766

<u>Location</u>	<u>Modified Assets</u>	<u>Amount</u>
Statement of financial position	= Total assets	\$ 221,087,990
Not applicable	- Intangible assets	-
Not applicable	- Unsecured related party receivables	-
	= Modified Assets	\$ 221,087,990

<u>Location</u>	<u>Change in Net Assets Without Donor Restrictions</u>	<u>Amount</u>
Statement of activities	= Change in net assets without donor restrictions	\$ 56,697,418

<u>Location</u>	<u>Total Revenue and Gains Without Donor Restriction</u>	<u>Amount</u>
Statement of activities	= Total revenue without donor restrictions	\$ 21,170,137
Statement of activities	+ Total gains without donor restrictions	62,911,910
Statement of activities	+ Investment return on pooled investments net of appropriation for operating activities	(1,634,167)
Statement of activities	+ Postretirement benefit liability adjustment other than net periodic costs	(250,397)
	= Total Revenue and Gains Without Donor Restriction	\$ 82,197,483

**Union Theological Seminary
in the City of New York**

Schedule of Financial Responsibility
Composite Ratio Scores
(Continued)
Year Ended June 30, 2020

Property and equipment

1. Pre-implementation property and equipment, net of accumulated depreciation		
a. Ending balance of last financial statements - June 30, 2019	\$ 18,863,061	
b. Less: depreciation expense incurred during the current year	(1,037,172)	
Balance Pre-implementation property and equipment, net of accumulated depreciation	17,825,889	
2. Debt financed post-implementation, property and equipment net		
Long-lived assets acquired with debt subsequent to June 30, 2019		
a. Land	-	
b. Buildings	-	
c. Building improvements	-	
d. Equipment	81,136	
e. Computer software	-	
f. Less: Amount of new debt-financed assets included in construction-in-progress at beginning of year	-	
Total property and equipment, net of accumulated depreciation, acquired with debt exceeding 12 months	81,136	
3. Construction in progress - as of June 30, 2020		
a. Current year additions to construction-in-progress (amount not included in 1a)	59,576,331	
4. Post-implementation property and equipment, net of accumulated depreciation, acquired without debt		
a. Long-lived assets acquired without use of debt subsequent to June 30, 2019	-	
b. Less: Amount of new non-debt-financed assets included in construction-in-process at beginning of year	-	
c. Less: Current year depreciation and disposals	(331,503)	
d. Total property and equipment, net of accumulated depreciation acquired without debt exceeding 12 months	(331,503)	
5. Lease right-of-use asset - Pre-implementation		-
6. Total property and equipment, net of accumulated depreciation - June 30, 2020		\$ 77,151,853
Debts to be Excluded from Expendable Net Assets		
7. Pre-implementation debt (long term indebtedness):		
a. Ending balance of last financial statement - June 30, 2019	\$ -	
b. Less subsequent debt repayments, cost of issuance amortization, and premium amortization	-	
c. Balance pre-implementation debt	-	
8. Post-implementation Debt:		
a. Ending balance of last financial statement - June 30, 2019	10,733,207	
b. Debt obtained during the fiscal year ended June 30, 2020	12,091,001	
c. Less subsequent loan repayments	(5,000,000)	
d. Balance post-implementation debt	17,824,208	
9. Lease right-of-use liability - Pre-implementation		-
10. Total long term indebtedness and accrued interest - June 30, 2020		17,824,208
11. Allowable post-implementation debt used for capitalized long-term assets		
a. Land	-	
b. Buildings	-	
c. Building improvements	-	
d. Equipment	-	
e. Computer software	-	
f. Construction-in-progress	17,824,208	
Total post-implementation debt used for capitalized long-lived assets	17,824,208	
13. Unspent portion of financing loan obtained during fiscal year ended June 30, 2020		
a. Financing loan obtained during the year ended June 30, 2020 (as reflected in 8a)	12,091,001	
b. Less: Financing loan proceeds used for new construction reflected in 3a	(12,091,001)	
c. Unspent portion of financing loan obtained during the fiscal year ended June 30, 2020	-	
14. Long-term debt not for the purchase of property and equipment		-
Total reported as long-term debt, up to amount of land, buildings, and equipment, net of depreciation		\$ 17,824,208

Union Theological Seminary in the City of New York

Notes to Schedule of Financial Responsibility Composite Ratio Scores June 30, 2020

1. Background

The U.S. Department of Education requires institutions who receive Title IV program funding to submit audited financial statements to demonstrate they are maintaining the standards of financial responsibility necessary to participate in such programs. The Schedule of Financial Responsibility Composite Ratio Scores (the "Schedule") is prepared pursuant to Appendix B of 34 CFR Part 668 - Subpart L, Ratio Methodology for Private Non-Profit Institutions (the "Code").

The Schedule contains only the financial responsibility ratio scores required by the Code and is not intended to present the financial position or the results of operations of the Seminary for the year ended June 30, 2020, in accordance with accounting principles general accepted in the United States of America.

2. Financial Responsibility Composite Scores

The Schedule is a composite of three ratios derived from an institution's audited financial statements: a primary reserve ratio, an equity ratio, and a net income ratio. These ratios measure the fundamental elements of the financial health of an institution, not the educational quality of an institution. The Schedule is prepared pursuant to the Code. The composite score calculated reflects the overall relative financial health of institutions along a scale from negative 1.0 to positive 3.0.

The composite scores include the following required ratios, strength factors, and weight factors:

(a) Ratios

- i. Primary Reserve Ratio represents expendable net assets over total expenses.
- ii. Equity Ratio represents modified net assets over modified assets.
- iii. Net Income Ratio represents the change in net assets without donor restrictions over total revenue without donor restrictions.

**Union Theological Seminary
in the City of New York**

Notes to Schedule of Financial Responsibility Composite Ratio Scores
June 30, 2020
(Continued)

2. Financial Responsibility Composite Scores (continued)

(b) Strength factors

The strength factor for each ratio is calculated as follows:

i. Primary Reserve Ratio

10 x Primary Reserve Ratio result

ii. Equity Ratio

6 x Equity Ratio Result

iii. Net Income Ratio

1 + (50 x Net Income Ratio result) for positive Net Income Ratios

1 + (25 x Net Income Ratio result) for negative Net Income Ratios

If the strength factor score for any ratio is greater than or equal to 3, the strength factor score for that ratio is 3.

If the strength factor score for any ratio is less than or equal to -1, the strength factor score for that ratio is -1.

(c) Weight factors

The weight factor for each ratio is as follows:

i. Primary Reserve Ratio

40%

ii. Equity Ratio

40%

iii. Net Income Ratio

20%

**Union Theological Seminary
in the City of New York**

Uniform Guidance Schedules and Reports

Year Ended June 30, 2020

**Union Theological Seminary
in the City of New York**

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2020

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Provided to Subrecipients	Total Federal Expenditures
Department of Education			
Student Financial Assistance Cluster:			
Federal Direct Student Loans	84.268	\$ -	\$ 2,489,793
Federal Perkins Loan Program	84.038	-	820,867
Federal Work-Study Program	84.033	-	50,218
Total Student Financial Assistance Cluster		-	3,360,878
COVID-19 Higher Education Emergency Relief Fund (HEERF) Student Aid Portion	84.425E	-	3,891
COVID-19 HEERF Institutional Portion	84.425F	-	24,124
COVID-19 HEERF Fund for the Improvement of Postsecondary Education (FIPSE) Formula Grant	84.425N	-	44,446
		-	72,461
Total Expenditures of Federal Awards		\$ -	\$ 3,433,339

**Union Theological Seminary
in the City of New York**

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2020

1. Basis of Presentation

The Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of Union Theological Seminary in the City of New York (the "Seminary"), under programs of the Federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Seminary, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Seminary.

2. Summary of Significant Account Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

The Seminary has elected not to use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance.

4. Federal Direct Student Loans

The Seminary is responsible only for the performance of certain administrative duties with respect to the Federal Direct Student Loans and, accordingly, these loans are not included in the Seminary's basic financial statements. It is not practical to determine the balance of loans outstanding to students of the Seminary under this program as of June 30, 2020.

5. Federal Perkins Loan Program

The Federal Perkins Loan Program is administered directly by the Seminary and balances and transactions relating to this program are included in the Seminary's basic financial statements. There were no new loans made during the year ended June 30, 2020. The balances of loans outstanding at June 30, 2020 are \$782,481.

**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***

Independent Auditors' Report

**Board of Trustees
Union Theological Seminary in the City of New York**

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 Union Theological Seminary in the City of New York (the "Seminary"), 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 March 15, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the 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.

Compliance and Other Matters

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

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PKF O'Connor Davies, LLP

March 15, 2021

Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditors' Report

Board of Trustees

Union Theological Seminary in the City of New York

Report on Compliance for Each Major Federal Program

We have audited Union Theological Seminary in the City of New York's (the "Seminary") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Seminary's major federal programs for the year ended June 30, 2020. The Seminary's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 the 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 the Seminary's compliance.

Opinion on Each Major Federal Program

In our opinion, the Seminary complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2020-001 and 2020-002. Our opinion on each major federal program is not modified with respect to these matters.

The Seminary's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Seminary's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the 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 of compliance, we considered the 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 Seminary's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we did identify certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2020-001 to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2020-002 to be a significant deficiency.

The Seminary's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Seminary's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly we express no opinion on the response.

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.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Seminary as of and for the year ended June 30, 2020, and have issued our report thereon dated March 15, 2021, 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 is presented for purposes of additional analysis as required by the Uniform Guidance 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

PKF O'Connor Davies, LLP

September 30, 2021

**Union Theological Seminary
in the City of New York**

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2020

Section I – Summary of Auditors’ Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? ___yes no

Significant deficiency(ies) identified? ___yes none reported

Noncompliance material to financial statements noted? ___yes no

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified? yes ___ no

Significant deficiency(ies) identified? yes ___ none reported

Type of auditors’ report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes ___ no

Identification of major federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
	Student Financial Assistance Cluster:
84.268	Federal Direct Student Loans
84.038	Federal Perkins Loan Program
84.033	Federal Work-Study Program

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? yes ___ no

**Union Theological Seminary
in the City of New York**

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2020

Section II – Financial Statement Findings

During our audit, we noted no material findings for the year ended June 30, 2020.

Section III – Federal Award Findings and Questioned Costs

2020-001 Special Tests – Gramm-Leach-Bliley Act

CFDA Number: 84.268 / 84.038 / 84.033

Name of Program or Cluster: Student Financial Aid Cluster

Agency: Department of Education

Criteria:

The Gramm-Leach-Bliley Act (Public Law 106-102) requires financial institutions to explain their information-sharing practices to their customers and to safeguard sensitive data. Under an institution's Program Participation Agreement with the U.S. Department of Education and the Gramm-Leach-Bliley Act, schools must protect student financial aid information, with particular attention to information provided to institutions by the U.S. Department of Education or otherwise obtained in support of the administration of federal student financial aid programs. Institutions are required to perform a risk assessment that addresses the three required areas noted in 16 CFR 314.4 (b), which are (1) employee training and management; (2) information systems, including network and software design, as well as information processing, storage, transmission and disposal; and (3) detecting, preventing and responding to attacks, intrusions, or other systems failures. In addition, for all risks identified, the Seminary must address each risk with a documented safeguard.

Condition:

We noted that the Seminary did not have a formalized policy to perform a risk assessment that addresses the required areas noted in 16 CFR 314.4 (b).

Cause:

Management has not implemented formal written policies or documented their risk assessments to comply with the Program Participation Agreement and Gramm-Leach-Bliley Act.

Effect:

The Seminary is not in compliance with the Seminary's Program Participation Agreement and the Gramm-Leach-Bliley Act.

Questioned Costs:

None.

Repeat Finding:

Yes, see prior year finding 2019-001.

**Union Theological Seminary
in the City of New York**

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2020

Section III – Federal Award Findings and Questioned Costs (continued)

2020-001 Special Tests – Gramm-Leach-Bliley Act (continued)

Recommendation:

We recommend that the Seminary develop and implement policies and procedures to monitor compliance with the Gramm-Leach-Bliley Act as well as take appropriate measures to comply with the Seminary's Program Participation Agreement and the Gramm-Leach-Bliley Act.

Views of Responsible Officials:

See Corrective Action Plan attached.

2020-002 Special Tests – Enrollment Reporting

CFDA Number: 84.268

Name of Program or Cluster: Federal Direct Student Loans (Student Financial Aid Cluster)

Agency: Department of Education

Criteria:

Institutions are required to report enrollment information under the Federal Pell Grant Program and Federal Direct Student Loans via the National Student Loan Data System ("NSLDS"). Institutions must complete and return within 15 days the Enrollment Reporting roster file placed in their Student Aid Internet Gateway mailboxes sent by the U.S. Department of Education via NSLDS.

In addition, institutions are required to report student enrollment changes within 30 days of the change in enrollment, unless the institution expects to submit its next enrollment report to the U.S. Department of Education within the next 60 days.

Condition/Context:

We noted that one of four Enrollment Reporting Rosters were not returned within the 15 period as required. In addition, we noted two of four student enrollment status updates were not reported within 30 days, and one of four student enrollment status updates were not accurately reported. These submissions were inaccurate and/or delayed due to staffing constraints which resulted in a delay in the performance of enrollment reporting procedures.

Cause:

Due to a vacancy in the Registrar position through December 2019, one individual performed the duties of both the Registrar position, as well as that of Assistant Dean for Academic Administration. As a result, periodic delays occurred in enrollment reporting processes.

Effect:

The Seminary is not in compliance with enrollment reporting requirements.

Questioned Costs:

None.

Repeat Finding:

No.

**Union Theological Seminary
in the City of New York**

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2020

Section III – Federal Award Findings and Questioned Costs (continued)

2020-002 Special Tests – Enrollment Reporting (continued)

Recommendation:

We recommend that the Seminary enhance existing policies to comply with enrollment reporting requirements. This policy should include a method for ensuring both timely enrollment updates as well as accuracy of the data reported.

Views of Responsible Officials:

See Corrective Action Plan attached.

**Union Theological Seminary
in the City of New York**

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2020

2019-001 Special Tests

CFDA Number: 84.268 / 84.038 / 84.033

Name of Program or Cluster: Student Financial Aid Cluster

Agency: Department of Education

Criteria:

The Gramm-Leach-Bliley Act requires financial institutions to explain their information-sharing practices to their customers and to safeguard sensitive data. Under an institution's Program Participation Agreement with the Department of Education and the Gramm-Leach-Bliley Act, schools must protect student financial aid information, with particular attention to information provided to institutions by the Department of Education or otherwise obtained in support of the administration of federal student financial aid programs.

Condition/Context:

We noted that the Seminary did not have a formal written policy or perform the required risk assessments to address student information security.

Cause:

Management has not implemented formal written policies or documented their risk assessments to comply with the Program Participation Agreement and Gramm-Leach-Bliley Act.

Effect:

The Seminary is not in compliance with the Seminary's Program Participation Agreement and the Gramm-Leach-Bliley Act.

Questioned Costs:

None.

Repeat Finding:

No.

Recommendation:

We recommend that the Seminary develop and implement a policy to comply with the Seminary's Program Participation Agreement and the Gramm-Leach-Bliley Act.

Current Status:

This finding has not been corrected. See current year finding 2020-001.



MEMO

Date: September 30, 2021

To: U.S. Department of Education

From: Maureen Harrigan, Interim Vice President for Finance and Operations

Subject: Union Theological Seminary in the City of New York
Corrective Action Plan

Finding 2020-001 Special Test –Gramm-Leach-Bliley Act

CFDA Number: None

Program or Cluster Name: Student Financial Assistance Cluster

Agency: U.S. Department of Education

On May 7, 2021, an outside consulting firm completed a GLBA risk assessment with UTS. The school carefully reviewed the findings for improvement actions. We are committed to developing an IT strategic plan as part of our FY 2023 budget development. The plan includes hardware and software migrations; process improvements needed to strengthen our IT management and security; and periodic reviews and reassessments of our data security and GLBA practices. UTS is also re-introducing periodic FERPA/data security training as part of our post-COVID back to campus practice.

Finding 2020-002 Special Test – Enrollment Reporting

CFDA Number: 84.063/84.268



Program or Cluster Name: Federal Direct Student Loans (Student Financial Assistance Cluster)

Agency: U.S. Department of Education

The Registrar and Assistant Dean acknowledge the late submissions and emphasize a vacancy in the Registrar's office during the Fall 2019 semester when the inaccuracies were reported. The office is committed to implementing usage of the National Student Clearinghouse (NSC) for enrollment reporting to the NSLDS. This allows for a more systematic approach of date submissions related to

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enrollment reporting, and also allows for timely, proper and accurate reporting consistent with what is expected in enrollment updates and changes.”

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Maureen Harrigan, Interim Vice President for Finance & Operations	Date
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Yulia Ivanova, Controller	Date