



**Consolidated Financial Statements
and Supplemental Schedules**

**Unitarian Universalist Association
and Subsidiary**

June 30, 2019 and 2018



UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Consolidated Financial Statements and Supplemental Schedules

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Independent Auditors' Report

The Board of Trustees
Unitarian Universalist Association and Subsidiary
Boston, Massachusetts

We have audited the accompanying consolidated financial statements of the Unitarian Universalist Association and Subsidiary (the "Association"), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities and cash flows for the years then ended, the statement of functional expenses for the year ended June 30, 2019, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Unitarian Universalist Association as of June 30, 2019 and 2018, and the consolidated changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, in 2019, the Association adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities, Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Matters

Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplemental information included in Schedules I through III is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Maye Hoffman McCann P.C.

November 12, 2019
Boston, Massachusetts

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Consolidated Statements of Financial Position

June 30,

(in thousands)

	2019	2018
Assets		
Cash and cash equivalents	\$ 15,271	\$ 12,688
Accounts receivable, net	2,407	2,182
Pledges receivable, net	1,186	598
Agency receivable	4,363	3,056
Inventories, net	1,508	1,330
Other assets	1,356	1,265
Investments	90,469	90,419
Investment funds managed for others	108,494	100,156
Funds held in trust by others	46,110	46,248
Funds held in support of split-interest agreements	9,168	9,426
Loans to member congregations, net	3,246	3,989
Property and equipment, net	<u>33,941</u>	<u>34,482</u>
Total assets	<u>\$ 317,519</u>	<u>\$ 305,839</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 6,137	\$ 5,010
Agency liability	4,363	3,056
Annuity liabilities	1,814	1,981
Obligations under split-interest agreements	5,637	5,615
Bank debt	5,879	7,495
Accumulated postretirement benefit obligation	<u>1,422</u>	<u>1,696</u>
Total liabilities	<u>25,252</u>	<u>24,853</u>
Minority interest in UUCEF	<u>108,494</u>	<u>100,156</u>
Net assets:		
Without donor restrictions	58,035	57,951
With donor restrictions	<u>125,738</u>	<u>122,879</u>
Total net assets	<u>183,773</u>	<u>180,830</u>
Total liabilities and net assets	<u>\$ 317,519</u>	<u>\$ 305,839</u>

See accompanying notes to consolidated financial statements.

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Consolidated Statement of Activities

**For the Year Ended June 30, 2019
(with comparative totals for 2018)**

(in thousands)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Support and revenue:				
Fundraising and gifts and bequests	\$ 12,213	\$ 4,485	\$ 16,698	\$ 16,783
Net sales from publishing activities	10,750	-	10,750	8,312
Sales and administrative services	2,063	-	2,063	2,041
Investment return authorized for operations	4,499	-	4,499	4,510
Distributions from Holdeen Trusts	1,121	231	1,352	1,288
Other investment income	206	-	206	209
Rental income	1,685	-	1,685	1,648
Other income	5,850	-	5,850	5,493
Net assets released from restriction	2,921	(2,921)	-	-
Total support and revenue	41,308	1,795	43,103	40,284
Expenditures:				
Programs	31,124	-	31,124	29,018
General and administration	6,194	-	6,194	6,826
Stewardship and development	2,169	-	2,169	2,186
Rental expense	703	-	703	669
Total expenditures	40,190	-	40,190	38,699
Changes in net assets from operations	1,118	1,795	2,913	1,585
Nonoperating income (expense):				
Investment return, net of amounts authorized for operations	4,623	1,232	5,855	10,196
Investment return - debt financing	906	-	906	873
Increase (decrease) in value of funds held in support of split-interest agreements and trusts	(82)	(168)	(250)	1,317
Postretirement benefit plan expense	201	-	201	-
Unfunded depreciation	(664)	-	(664)	(741)
Change in net assets from nonoperating activities	4,984	1,064	6,048	11,645
Minority interest in investment earnings of UUCEF	(6,018)	-	(6,018)	(7,912)
Change in net assets	84	2,859	2,943	5,318
Net assets, beginning of year	57,951	122,879	180,830	175,512
Net assets, end of year	\$ 58,035	\$ 125,738	\$ 183,773	\$ 180,830

See accompanying notes to consolidated financial statements.

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Consolidated Statement of Activities

For the Year Ended June 30, 2018

(in thousands)

	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
Support and revenue:			
Fundraising and gifts and bequests	\$ 13,288	\$ 3,495	\$ 16,783
Net sales from publishing activities	8,312	-	8,312
Sales and administrative services	2,041	-	2,041
Investment return authorized for operations	4,510	-	4,510
Distributions from Holdeen Trusts	1,109	179	1,288
Other investment income	209	-	209
Rental income	1,648	-	1,648
Other income	5,493	-	5,493
Net assets released from restriction	<u>2,241</u>	<u>(2,241)</u>	<u>-</u>
Total support and revenue	<u>38,851</u>	<u>1,433</u>	<u>40,284</u>
Expenditures:			
Programs	29,018	-	29,018
General and administration	6,826	-	6,826
Stewardship and development	2,186	-	2,186
Rental expense	<u>669</u>	<u>-</u>	<u>669</u>
Total expenditures	<u>38,699</u>	<u>-</u>	<u>38,699</u>
Changes in net assets from operations	<u>152</u>	<u>1,433</u>	<u>1,585</u>
Nonoperating income (expense):			
Investment return, net of amounts authorized for operations	8,169	2,027	10,196
Investment return - debt financing	873	-	873
Increase (decrease) in value of funds held in support of split-interest agreements and trusts	(20)	1,337	1,317
Postretirement benefit plan expense	-	-	-
Bequest income - Board restricted	-	-	-
Gain on sale of real estate	-	-	-
Unfunded depreciation	<u>(741)</u>	<u>-</u>	<u>(741)</u>
Change in net assets from nonoperating activities	<u>8,281</u>	<u>3,364</u>	<u>11,645</u>
Minority interest in investment earnings of UUCEF	<u>(7,912)</u>	<u>-</u>	<u>(7,912)</u>
Change in net assets	521	4,797	5,318
Net assets, beginning of year	<u>57,430</u>	<u>118,082</u>	<u>175,512</u>
Net assets, end of year	\$ <u>57,951</u>	\$ <u>122,879</u>	\$ <u>180,830</u>

See accompanying notes to consolidated financial statements.

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Consolidated Statement of Functional Expenses

*For the Year Ended June 30, 2019
(with comparative totals for 2018)*

(in thousands)

	2019				2018	
	Programs	General and Administration	Stewardship and Development	Rental Expense	Total	Total
Personnel						
Salary/benefits	\$ 10,367	\$ 3,792	\$ 1,444	\$ 14	\$ 15,617	\$ 15,650
Other						
Cost of goods sold	9,104	-	-	-	9,104	7,914
Grants and scholarships	5,089	-	-	-	5,089	4,851
Travel and entertainment	1,291	600	117	-	2,008	1,688
Facilities:						
Depreciation	289	139	47	216	691	576
Other	539	293	56	301	1,189	1,231
General operations	1,070	484	12	55	1,621	1,947
Meetings/events/training	1,103	116	80	-	1,299	1,081
Insurance	1,074	28	-	112	1,214	1,431
Consultants	433	266	68	-	767	637
Publications/marketing	447	30	283	-	760	815
Professional fees	100	240	20	5	365	391
Interest expense	164	69	24	-	257	296
Software	54	137	18	-	209	191
Total functional expenses	\$ 31,124	\$ 6,194	\$ 2,169	\$ 703	\$ 40,190	\$ 38,699

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Consolidated Statements of Cash Flows

For the Years Ended June 30,

(in thousands)

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 2,943	\$ 5,318
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,377	1,350
Change in allowance for uncollectible loans to member congregations	(27)	(20)
Net realized and unrealized gains on investments	(4,791)	(7,426)
Contributions restricted for long-term investment	(914)	(573)
Net change in value of funds held in support of split-interest agreements and trusts	250	(1,317)
Minority interest in investment earnings of UUCEF	(6,018)	(7,912)
Changes in assets and liabilities:		
Accounts receivable, net	(225)	(497)
Pledges receivable, net	(588)	383
Agency receivable	(1,307)	(2,560)
Inventories, net	(178)	52
Other assets	(91)	(98)
Accounts payable and accrued expenses	1,127	(814)
Agency liability	1,307	2,560
Accumulated postretirement benefit obligation	(274)	(65)
	<u>(7,409)</u>	<u>(11,619)</u>
Net cash used in operating activities	(7,409)	(11,619)
Cash flows from investing activities:		
Cost of purchases of investments	(9,238)	(5,648)
Proceeds from sales of investments	17,678	20,991
Purchases of property and equipment	(836)	(494)
Proceeds from sales of real estate, net of expenses	-	2
Additions to loans to member congregations	(99)	-
Repayments on loans to member congregations	869	422
	<u>8,374</u>	<u>15,273</u>
Net cash provided by investing activities	8,374	15,273
Cash flows from financing activities:		
Repayment of bank debt	(1,616)	(893)
Capital contributions by minority partners in UUCEF	8,387	5,899
Capital withdrawals by minority partners in UUCEF	(6,067)	(8,409)
Contributions restricted for long-term investment	914	573
	<u>1,618</u>	<u>(2,830)</u>
Net cash provided by (used in) financing activities	1,618	(2,830)
Change in cash and cash equivalents	2,583	824
Cash and cash equivalents as of beginning of year	<u>12,688</u>	<u>11,864</u>
Cash and cash equivalents as of end of year	\$ <u>15,271</u>	\$ <u>12,688</u>

See accompanying notes to consolidated financial statements.

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 1 - The Association's Background and History

The Unitarian Universalist Association (the "Association") was formed in 1961, when the American Unitarian Association and the Universalist Church of America merged to form one entity with the purpose of creating an association of congregations in support of liberal religion. The Association is governed by a board of trustees elected by the delegates of the General Assembly. An elected president, a board-appointed treasurer, a board-appointed executive vice president and nine other staff group directors form the leadership council, which manages the day-to-day business of the Association.

The consolidated financial statements include the results of the activities of the Unitarian Universalist Common Endowment Fund LLC "UUCEF" which is organized as a supporting organization to the Association under Section 501(c)(7) of the Internal Revenue Code. UUCEF serves as an endowment investment solution for the Association and member congregations. UUCEF provides access to professional investment management, administration and reporting. All investors share proportionately in the underlying money-management, operational and custody costs. UUCEF investors retain full ownership of their invested assets with access to their funds as outlined in the UUCEF subscription agreement. The Association's Board of Trustees appoints the investment committee who oversees UUCEF and its related investments. The Association is the largest owner and acts as the record keeper for UUCEF. The Association had a 45.4% and 47.3% ownership interest in UUCEF in 2019 and 2018, respectively. The interests owned by others are presented as minority interest in the consolidated financial statements.

The primary purposes of the Association are to serve the needs of its member congregations, organize new congregations, extend and strengthen Unitarian Universalist institutions, and implement its principles. These financial statements only include the activity of the Association and UUCEF, but not of its member congregations. The activities and assets of the Association are comprised of six business segments: Current Operations, General Assembly, Group Insurance Plans, Beacon Press, Congregational Properties and Loan Fund "CPLF", and UUCEF as outlined above. The Current Operations section manages the general operations of the Association including fundraising and program activities. Group Insurance Plans "GIP" operate group insurance plans for member congregations. General Assembly is the annual gathering of Association congregational delegates organized to conduct the business of the Association. Beacon Press is the Association's trade publishing group. CPLF provides loans and loan guarantees to member congregations.

Note 2 - Summary of Significant Accounting Policies

Basis of Consolidated Financial Statement Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. All intercompany accounts and transactions have been eliminated in consolidation. Minority interest is presented below liabilities on the consolidated statements of financial position.

The accompanying consolidated financial statements are presented on the accrual basis of accounting and have been prepared to focus on the Association and UUCEF as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions.

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Basis of Consolidated Financial Statement Presentation (Continued)

Net Assets Without Donor Restrictions – represent those assets that the Association may use at its discretion not subject to donor restrictions. Net assets without donor restrictions also includes the investment in property and equipment, net of accumulated depreciation, loans to member congregations, net of related debt, quasi endowment funds, and other funds.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature that may or will be met, either by the passage of time or the events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Fundraising support, gifts and bequests are reported as increases in funds without donor restrictions unless use of the related assets is limited by donor-imposed time and/or purpose restrictions. If time and/or purpose restrictions are associated with support, these resources are accounted for as with donor restrictions. If a restriction on a gift is fulfilled in the same time period in which the contribution is received, the contribution is reported as without donor restrictions. Expenses are reported as decreases in funds without donor restrictions.

Amounts reported as nonoperating in the consolidated statements of activities include investment return net of amounts authorized for operations and other miscellaneous nonrecurring events or activities such as contributions of long-lived assets, contributions of cash or other assets that must be used to acquire long-lived assets, large one time donations, changes in value of certain split-interest agreements and trusts, postretirement benefit plan expense, gain on sale of real estate, unfunded depreciation, and other releases and changes in net assets.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates included in the financial statements relate to the allowance for doubtful accounts and pledges receivable, reserve for finished goods inventory, fair value of certain investments as well as funds held in support by others and split-interest agreements and obligations under annuities and split-interest agreements, allowance for doubtful loans, capitalization of property and equipment and useful lives of such depreciable assets, accumulated postretirement benefit obligation, the allocation of common expenses over program functions, and releases from restrictions through satisfaction of donor restrictions.

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

The Association considers highly liquid instruments with maturities of three months or less at the date of purchase to be cash equivalents. Such amounts are carried at cost plus accrued interest. Cash equivalents held by investment managers are considered part of investments given the expectation of near term reinvestment. Cash equivalents include treasury money market and money market mutual funds that are not Federally insured. The Association maintains its cash balances at several financial institutions, which, at times, may exceed federally insured limits. The Association monitors its exposure associated with cash and cash equivalents and has not experienced any losses in such accounts.

Accounts Receivable

Accounts receivable are carried at their net realizable value. Management estimates the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible and recoveries of previously written off receivables are recorded as revenue when received. The reserve was \$32 and \$52 at June 30, 2019 and 2018, respectively.

Contributions and Pledges Receivable

Unconditional promises to give are recorded at fair value when initially pledged. Initial recording for pledges expected to be collected in one year or more is arrived at by using the present value of a risk adjusted rate to account for the inherent risk associated with expected future cash flows. The initially recorded fair value is considered a Level 2 fair value approach. Amortization of the discount is included in gift and contribution revenue. Unconditional promises to give are periodically reviewed to estimate an allowance for doubtful collections. Management estimates the review of historical experience and a specific review of collection trends that differ from plans on individual accounts. Conditional promises to give are not included as support until the conditions are substantially met.

Inventory

Inventory consists of finished goods and outside prepublication costs. Finished goods inventories, consisting primarily of books, are stated at the lower of weighted average cost or market. Outside prepublication costs related to preparing a manuscript for printing are capitalized into finished goods at the time of first printing of the book. The Association reserves against finished goods based on a systematic approach as the inventories age. The reserve was \$34 and \$17 at June 30, 2019 and 2018, respectively.

Investments

Investments are reported at fair value. Fair value is determined as per the fair value policies described later in this section. Net investment return (loss) is reported in the consolidated statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Fair Value Measurements

The Association reports certain assets and liabilities at fair value on a recurring and nonrecurring basis depending on the underlying accounting policy for the particular item. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Recurring fair value measures include the Association's investment accounts and funds held in trust and in support of split-interest agreements. Nonrecurring fair value measures include initial accounting for pledges receivable and obligations under split-interest agreements. These fair value standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value. In addition, the Association reports certain investments using the net asset value per share as determined by investment managers under the so called "practical expedient". The practical expedient allows net asset value per share to represent fair value for reporting purposes when the criteria for using this are met. Fair value standards also require the Association to classify financial instruments (except for those measured using NAV) into a three-level hierarchy, based on the priority of inputs to the valuation technique as follows:

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments which are generally included in this category include listed equity and debt securities publicly traded on a stock exchange.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that changes in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in the financial statements.

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Funds Held in Trust by Others

The Association accounts for its beneficial interests in trusts as support upon notice of it being a beneficiary of such trusts. Support is recorded at the fair value of the underlying assets of the trust given the irrevocable right to receive income/benefits from the trust assets even though the Association will never receive the principal of these trusts. The fair value of the trust assets are recorded using a Level 3 fair value approach. Changes in the fair value of the trusts are reported as increases or decreases in the related net asset category. These trusts have various purpose restrictions.

A major portion of funds held in trust by others are charitable lead trusts established by Jonathan Holdeen (the Holdeen Trusts) in which the Association has an irrevocable right to the trust income for periods of 500 or 1,000 years after which the assets revert to the Commonwealth of Pennsylvania. Under the terms of the Holdeen Trusts' instruments, the income is to be used primarily for support of the Holdeen India Program and other charities designated by the Association's Board of Trustees. Given the long-term nature of this arrangement, the beneficial interest was determined to be equal to the fair value of the assets for reporting purposes.

Split-Interest Agreements

Split-interest agreements include contributions received which require payment of an annuity to a specified beneficiary and contributions received which require payment of income earned on the investment of such contribution to a specified beneficiary over their life. Assets and obligations to beneficiaries are recorded at fair value when initially arranged and are separately managed apart from other investments of the Association. Subsequent changes in fair value of funds held in support of split-interest agreements are reported as a change in fair value of funds held in support of split-interest agreements in the period of change of value of the underlying assets. Obligations are based on the present value of the annual distribution specified in the agreements and the estimated life expectancy of the beneficiaries. Subsequent changes in the recorded amount of obligations are impacted by changes in life expectancy; however, the present value discount rate remains the same over the life of the instrument. The initially recorded fair value of the donated investments are determined based on the underlying nature of the investments received which have generally represented Level 1 measurements while the initial measurement of the related obligations are Level 2 measurements.

Loans to Member Congregations

The Association has receivables related to loans to member congregations. Interest income is recorded when received. Loans receivable are written off when deemed uncollectible. Recoveries of loans receivable previously written off are recorded as a reduction of bad debt expense. Loans receivable are considered past due if any portion of the balance due is outstanding for more than 30 days. Interest on past due amounts are recorded when received.

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment are recorded when the useful life is over one year at cost when such amounts exceed a management established capitalization threshold. In the case of donated property, such amounts are recorded at fair value at the date of gift which would normally entail a Level 3 fair value assessment as per the fair value standards elsewhere in this section. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets once placed into service.

With respect to its primary operating facility, the Association allocates costs to its activities based on operating expenses, estimated long-term funding for reserves for repair and replacement and debt service. Any excess costs of operating the facility is considered nonoperating. Such amounts represent unfunded depreciation which management has determined does not require funding given its long-term expected costs of operating this property.

Agency Receivable and Liability

Amounts received or expected to be received from donors that must be disbursed to a specific beneficiary are recorded as liabilities until paid by the Association.

Revenue Recognition and Royalty Advances from Publishing Activities and Other Support

Revenues are reported as increases in net assets without donor restrictions unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Realized and unrealized gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor-imposed restrictions on net assets, such as the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed, are reported as "net assets released from restriction" between the classes of net assets.

Revenue is recorded upon shipment, net of estimated returns. Beacon Press has a sales and distribution agreement with Penguin Random House, which expires on June 30 2022. The agreement gives Penguin Random House exclusive rights to sell and distribute Beacon titles into most markets on a global basis. Beacon Press retains rights to sell its titles to retail customers and certain categories of special sales customers. Under the sales and distribution agreement, Penguin Random House handles selling, marketing, fulfillment, and credit and collections for sale of Beacon Press titles. For the years ended June 30, 2019 and 2018, Penguin Random House handled 97% and 96% of Beacon Press net sales, respectively. Of the total amount of receivables due Beacon Press of \$1,255 and \$917 at June 30, 2019 and 2018, respectively, Penguin Random House accounted for 99% and 96% of the balances, respectively. There is one Penguin Random House customer which accounted for 44% and 43% of net sales for the years ended June 30, 2019 and 2018, respectively.

Royalty advances are negotiated on a contract-by-contract basis and are recorded as other assets when paid. As sales occur, royalty advances are reduced. Reserves are recorded for advances if it appears that advances are not expected to be recovered from future sales. The Association reserves against unrealizable advances based on a systematic approach as the related publications age. The reserve was \$2,930 and \$2,790 at June 30, 2019 and 2018, respectively, against royalty advances of \$3,810 and \$3,599 at June 30, 2019 and 2018, respectively, included in other assets.

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Revenue Recognition and Royalty Advances from Publishing Activities and Other Support (Continued)

Contributions from fundraising, including unconditional promises to give, are recognized as revenues as either without or with donor restrictions in the period verifiably committed by the donor. Contributions of assets other than cash are recorded at their estimated fair value and per the fair value policies described elsewhere in these policies.

Sales and administrative services are fees from services provided to other member congregations for the administering of various programs and registration fees derived from the annual general assembly. Revenue is recognized when performance obligation has been met.

Building rental income is recorded as revenue over time as earned.

Other income consist of revenue from group insurance plan, district share income, other publishing revenue, conference training fees and various other miscellaneous fee-based related revenue recognized as earned.

The Association procures various insurance products from third parties for the use of the Association and member congregations. Under this arrangement, the Association is centrally billed for insurance based on its needs and member congregations that elect to participate. The Association in turn invoices various participating member congregations. Billings are recorded as other income in the consolidated statements of activities. The Association does not assume insurance risk under these arrangements.

Outstanding Legacies

From time to time, the Association is named as a beneficiary under various wills and trust agreements, the total realizable amounts of which are not immediately determinable. Such bequests are recorded only when there is an irrevocable right to the bequest and the value of the proceeds are determinable. Distributions from these trusts received and spent in the same year for specific purposes are recorded as income without donor restrictions. Unspent income is recorded with donor restrictions.

Income Taxes

The Association is a tax-exempt church organization as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and is generally exempt from income taxes pursuant to Section 501(a) of the Code. UUCEF is classified under the Code as a public charity Type I supporting organization under Section 509(a)(3). Certain activities of exempt organizations unrelated to their mission may generate income that is subject to federal and state taxation as unrelated business income. As the Association and UUCEF's unrelated business income is de minimis, management has concluded that disclosures related to tax provisions are not necessary.

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Uncertain Tax Positions

The Association and UUCEF account for the effect of any uncertain tax positions based on a “more likely than not” threshold to the recognition of the tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a “cumulative probability assessment” that aggregates the estimated tax liability for all uncertain tax positions. The Association and UUCEF have a number of tax positions, none of which result in an uncertainty requiring recognition. The Association and UUCEF are not currently under examination by any taxing jurisdiction. As a tax-exempt church related organization and supporting organization, the Association and UUCEF are exempt from filing certain non-profit filings. The Association and UUCEF do file a Form 990T.

Functional Expense Allocation

The costs of providing the various programs and activities and supporting services have been summarized on a functional basis in the consolidated statements of activities. The consolidated statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Depreciation of property assets and operation and maintenance of property expenses have been allocated to functional classifications based on square footage of facilities. Interest expense is allocated to functional classifications that benefited from the use of the proceeds of the debt. Rental expense related to property leased to outside parties is not allocated given that it pertains to income received from the rental property.

Fundraising Expenditures

Fundraising costs are reported as stewardship and development expense in the consolidated statements of activities.

New Accounting Pronouncement

The Association adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities, Presentation of Financial Statements of Not-for-Profit Entities*. The financial statement standard addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses, evolving to two net asset classes from what had previously been three and investment return. Prior year amounts have been reclassified in order to conform with the current year presentation.

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 3 - Liquidity and Availability

The Association strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. Financial assets in excess of daily cash requirements are invested in certificates of deposit, money market funds and other short-term investments.

As a fundraising organization, the Association receives significant contributions each year from donors, which are available to meet annual cash needs for general expenditures. The Association manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability; maintaining adequate liquid assets to fund near-term operating needs and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

The following table reflects the Association's financial assets as of June 30, 2019 and 2018, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of donor, contractual or internal board designations. Amounts not available include certain investments with redemption limitations as more fully described in Note 6 and a board designated special projects fund that is intended to fund special board initiatives not considered in the annual operating budget. In the event the need arises to utilize the board designated funds for liquidity purposes, the reserves could be drawn upon through board resolution. Amounts not available to meet general expenditures within one year also may include net assets with donor restrictions under certain circumstances.

	2019	2018
Financial assets at year end		
Cash and cash equivalents	\$ 15,271	\$ 12,688
Accounts receivable, net	2,407	2,182
Pledges receivable, net	1,186	598
Investments	90,469	90,419
Funds held in trust by others	46,110	46,248
Funds held in support of split-interest agreements, net	<u>3,531</u>	<u>3,811</u>
Total financial assets	\$ <u>158,974</u>	\$ <u>155,946</u>
Financial assets available to meet general expenditures over the next 12 months		
Cash and cash equivalents	\$ 15,271	\$ 12,688
Accounts receivable, net	2,407	2,182
Pledges receivable due within one year, net	1,085	146
Endowment spending rate distribution	<u>4,417</u>	<u>4,499</u>
Total financial assets available to meet general expenditures over the next 12 months	\$ <u>23,180</u>	\$ <u>19,515</u>

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 3 - Liquidity and Availability (Continued)

In addition to the financial assets available to meet general expenditures over the next 12 months, the Association operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. The Association is also beneficiary to several trusts which they have historically received annual distributions in an approximate amount of \$2M which are used to cover general expenditures, which management expect to also be available.

The Association Board of Trustees has designated approximately \$23M of its unrestricted resources for endowment purposes. These funds are invested for long-term appreciation and current income but remain available and may be spent at the discretion of the Board.

Note 4 - Pledges Receivable

Pledges receivable relates to amounts received as part of the campaign fundraising. The rate used to discount pledges receivable was 4% as of June 30, 2019 and 2018.

Pledges receivable consisted of the following as of June 30:

	2019	2018
Amounts due in:		
Less than one year	\$ 1,085	\$ 146
Two to five years	167	496
	1,252	642
Less allowance for uncollectible pledges and present value discount	(66)	(44)
	\$ 1,186	\$ 598

Note 5 - Investments

Investments are recorded in the consolidated statements of financial position as follows at June 30:

	2019	2018
Investments (UUA)	\$ 90,469	\$ 90,419
Investment funds managed for others (member congregations)	108,494	100,156
	\$ 198,963	\$ 190,575

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 6 - Fair Values of Financial Instruments

The following tables present financial assets at June 30, 2019 that the Association measures fair value on a recurring basis, by level, within the fair value hierarchy:

Investments				
2019				
	Level 1	Level 2	Investments Measured at NAV	Total
UUCEF investments				
Domestic equity	\$ 54,908	\$ 8,548	\$ -	\$ 63,456
International equity	15,161	40,937	-	56,098
Fixed income	25,050	20,300	10,764	56,114
Opportunistic	6,107	-	6,583	12,690
Private markets	-	-	6,925	6,925
Other	-	1,704	-	1,704
	<hr/>	<hr/>	<hr/>	<hr/>
Total UUCEF investments	101,226	71,489	24,272	196,987
Short-term investments				
Cash and equivalents	1,976	-	-	1,976
	<hr/>	<hr/>	<hr/>	<hr/>
Total investments	\$ 103,202	\$ 71,489	\$ 24,272	\$ 198,963
	<hr/>	<hr/>	<hr/>	<hr/>
Funds Held by Others and Split-interest Agreements				
2019				
	Level 1	Level 2	Level 3	Total
Funds held by others:				
Holdeen Trusts	\$ -	\$ -	\$ 34,220	\$ 34,220
Other trusts	-	-	11,890	11,890
	<hr/>	<hr/>	<hr/>	<hr/>
	<hr/>	<hr/>	<hr/>	<hr/>
	<hr/>	<hr/>	<hr/>	<hr/>
Split-interest agreements:				
Charitable gift annuity	6,582	-	-	6,582
Charitable remainder trust	-	-	715	715
Pooled income funds	1,871	-	-	1,871
	<hr/>	<hr/>	<hr/>	<hr/>
	<hr/>	<hr/>	<hr/>	<hr/>
Total funds held by others and split-interest agreements	\$ 8,453	\$ -	\$ 46,825	\$ 55,278
	<hr/>	<hr/>	<hr/>	<hr/>

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 6 - Fair Values of Financial Instruments (Continued)

The following tables present financial assets at June 30, 2018 that the Association measures at fair value on a recurring basis, by level, within the fair value hierarchy:

<i>Investments</i>				
<i>2018</i>				
	<i>Level 1</i>	<i>Level 2</i>	<i>Investments Measured at NAV</i>	<i>Total</i>
UUCEF investments				
Domestic equity	\$ 51,984	\$ 8,459	\$ -	\$ 60,443
International equity	15,093	39,058	-	54,151
Fixed income	13,445	18,376	9,468	41,289
Opportunistic	19,278	-	7,087	26,365
Private markets	-	-	5,200	5,200
Other	-	1,687	-	1,687
Total UUCEF investments	99,800	67,580	21,755	189,135
Short-term investments				
Cash and equivalents	1,440	-	-	1,440
Total investments	\$ 101,240	\$ 67,580	\$ 21,755	\$ 190,575
<i>Funds Held by Others and Split-interest Agreements</i>				
<i>2018</i>				
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Funds held by others:				
Holdeen Trusts	\$ -	\$ -	\$ 34,396	\$ 34,396
Other trusts	-	-	11,852	11,852
	-	-	46,248	46,248
Split-interest agreements:				
Charitable gift annuity	6,686	-	-	6,686
Charitable remainder trust	-	-	710	710
Pooled income funds	2,030	-	-	2,030
	8,716	-	710	9,426
Total funds held by others and split-interest agreements	\$ 8,716	\$ -	\$ 46,958	\$ 55,674

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 6 - Fair Values of Financial Instruments (Continued)

<i>Level 3 Roll Forward</i>				
<i>2019</i>				
	<i>Holdeen</i>	<i>Other</i>	<i>Charitable</i>	
	<i>Trusts</i>	<i>Trusts</i>	<i>Remainder</i>	<i>Total</i>
			<i>Trust</i>	
Beginning balance	\$ 34,396	\$ 11,852	\$ 710	\$ 46,958
Distributions	(1,690)	(456)	-	(2,146)
Sales/fees	906	518	-	1,424
Unrealized gain (loss)	608	(24)	5	589
Ending balance	\$ <u>34,220</u>	\$ <u>11,890</u>	\$ <u>715</u>	\$ <u>46,825</u>

<i>Level 3 Roll Forward</i>				
<i>2018</i>				
	<i>Holdeen</i>	<i>Other</i>	<i>Charitable</i>	
	<i>Trusts</i>	<i>Trusts</i>	<i>Remainder</i>	<i>Total</i>
			<i>Trust</i>	
Beginning balance	\$ 33,450	\$ 11,404	\$ 743	\$ 45,597
Distributions	(1,581)	(436)	-	(2,017)
Sales/fees	681	524	-	1,205
Unrealized gain (loss)	1,846	360	(33)	2,173
Ending balance	\$ <u>34,396</u>	\$ <u>11,852</u>	\$ <u>710</u>	\$ <u>46,958</u>

All trusts are invested in a diversified portfolio of stocks, bonds and mutual funds both domestic and international.

Investments have the following redemption notice periods:

Daily	\$ 136,490
Monthly	26,026
Bi-Monthly	19,259
Quarterly	6,033
Illiquid	<u>9,179</u>
Total	\$ <u>196,987</u>

Unfunded commitments to the investment vehicles amounted to \$9,607 and \$5,995 at June 30, 2019 and 2018, respectively. Funds allow for managers to limit normal redemptions under certain circumstances which could impact the ultimate availability of funds. In addition, funds in trust are controlled by outside organizations and thus are not redeemable.

Management has no intentions or plans to liquidate any net asset value per share practical expedient investments at other than net asset value per share.

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 7 - Loans to Member Congregations

Loans to member congregations for capital purposes, primarily for buildings, are as follows at June 30:

	2019	2018
Mortgage loans to member congregations at interest rates from 0% to 5.81% due through 2033	\$ 3,540	\$ 4,309
Less allowance for uncollectible loans	<u>(294)</u>	<u>(320)</u>
Net loans to member congregations	\$ <u>3,246</u>	\$ <u>3,989</u>

Loans to member congregations are written for revolving terms ranging from 1 to 7 years, with the total amortization period ranging from 15 to 25 years. Expected payments for the mortgaged loans to member congregations, reflecting the full amortization period, are as follows for the years ending June 30:

2020	\$ 481
2021	1,341
2022	937
2023	155
2024	158
Thereafter	<u>468</u>
Total	\$ <u>3,540</u>

Only a small portion of the loans are non-interest bearing, and accordingly, management determined that applying a present value to such loans would not result in a material difference in reported amounts.

Less than 6% of loans are in default or past due at June 30, 2019 and 2018.

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 8 - Property and Equipment

Property and equipment was composed of the following as of June 30:

	<i>Estimated Useful Lives</i>		2019		2018
Land, buildings and improvements	20-40 yrs	\$	37,312	\$	36,766
Computer equipment	4-7 yrs		2,094		1,815
Office furniture and fixtures	7 yrs		2,151		2,140
			41,557		40,721
Less accumulated depreciation			(7,616)		(6,239)
Property and equipment, net		\$	33,941	\$	34,482

As more fully described in Note 9, the land, building and improvements serve as collateral under a term note agreement.

Allocation of Depreciation Between Operating and Nonoperating

The Association periodically performs a facilities condition assessment to determine the annual replacement funding needed. The depreciation in excess of estimated replacement funding amounts to \$664 and \$741 in 2019 and 2018, respectively, and is considered unfunded and included in nonoperating expense on the consolidated statements of activities.

Note 9 - Bank Debt

The Association has the following bank debt at June 30:

		2019		2018
Member lending credit line	\$	-	\$	713
Mortgage note payable		5,879		6,782
Total bank debt	\$	5,879	\$	7,495

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 9 - Bank Debt (Continued)

Member Lending Credit Line

The member lending credit line is a revolving line of credit with an aggregate borrowing limit of \$4,000. The line contains certain financial covenants of which the Association is in compliance. The line has been carried forward while the Association is currently in the process of renewing the line along with obtaining an additional line of credit for tenant improvement allowance, which is expected to be finalized in the near term. The term expiration and renewal apply to the unused balance of the credit line. Draws outstanding at term expiration date will remain outstanding and payable in accordance with current agreement terms. This line of credit is used to provide mortgage loan financing to member congregations according to the existing lending standards used by the Association (see Note 7). There are no current draws taken on the line of credit.

Mortgage Note Payable

The Association has a mortgage note payable which is due in monthly installments of \$95 including principal and interest at a fixed rate of 3.60% with a final due date of April 1, 2022. The agreement contains certain financial and nonfinancial covenants and is collateralized by the Association's headquarters.

Line of Credit

The Association has a \$500 line of credit available with a bank of which no amounts were outstanding at June 30, 2019 and 2018. The line of credit bears interest at the bank's base lending rate with a floor of 3.99% during the draw period as defined by the agreement. The actual rate was 3.99% at June 30, 2019 and 2018. The line is collateralized by cash deposits. The line contains certain financial covenants of which the Association is in compliance. The line has been carried forward while the Association is currently in the process of renewing the line along with obtaining an additional line of credit for tenant improvement allowance, which is expected to be finalized in the near term.

Interest expense for the years ended June 30, 2019 and 2018 was \$257 and \$296, respectively. Cash paid for interest was \$253 and \$292 for the years ended June 30, 2019 and 2018, respectively.

Expected payments for the bank debt are as follows for the years ending June 30:

2020	\$	937
2021		972
2022		<u>3,970</u>
Total	\$	<u><u>5,879</u></u>

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 10 - Net Assets and Endowment Matters

Net Assets without Donor Restrictions

Net assets without donor restrictions consisted of the following as of June 30:

	2019	2018
Operating funds	\$ 6,409	\$ 6,630
Designated for specific purpose	504	-
Net investment in plant	28,062	26,987
Unrestricted-quasi endowment funds	<u>23,060</u>	<u>24,334</u>
Total net assets without donor restrictions	\$ <u>58,035</u>	\$ <u>57,951</u>

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 10 - Net Assets and Endowment Matters (Continued)

Net Assets with Donor Restrictions

Net assets with donor restrictions consisted of the following as of June 30:

	2019	2018
Accumulated unspent gains:		
General operating	\$ 5,486	\$ 5,346
Scholarships for ministerial students	6,741	6,654
Ministerial aid	4,510	4,444
Other programs	2,060	1,833
Total accumulated unspent gains	18,797	18,277
Endowment corpus:		
General operating	27,447	27,391
Scholarships for ministerial students	12,767	12,851
Ministerial aid	3,716	3,612
Other programs	4,445	3,533
Total endowment corpus	48,375	47,387
Total endowment funds	67,172	65,664
Purpose restrictions:		
Building loan fund	4,613	4,613
Split-interest agreements	1,176	1,206
Total purpose restrictions	5,789	5,819
Time and purpose restrictions:		
Funds held in trust by others for restricted purposes	46,110	46,247
Amounts restricted by donors for purpose or time	6,612	5,094
Wilton Peace Prize Fund	55	55
Total time and purpose restrictions	52,777	51,396
Total net assets with donor restrictions	\$ 125,738	\$ 122,879

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 10 - Net Assets and Endowment Matters (Continued)

Net assets released from net assets with donor restrictions were as follows for the years ended June 30:

	2019	2018
General operating	\$ 352	\$ 603
Scholarships for ministerial students	125	142
Ministerial aid	202	204
Other programs	<u>2,242</u>	<u>1,292</u>
	<u>\$ 2,921</u>	<u>\$ 2,241</u>

From time to time on further review of donor restrictions, management may make net asset reclasses based on donor intent.

Endowment

The Association's endowment consists of a number of individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

A significant portion of the endowment funds are held via trust that contains special provisions which provides for a member of management to be the trustee under the trust. The trust allows for investment return generated from the permanently restricted portion of the trusts to be considered unrestricted given the discretion provided to the trustee to utilize such funds as needed. Notwithstanding this flexibility, management has determined it would be prudent to label it as without donor restrictions within that category of stewardship that it believes is merited by these funds.

In addition, the trust contains provisions that if the Association declares bankruptcy, terminates or liquidates its existence or ceases to operate as a charitable or educational organization that such funds would no longer be available to the Association.

Interpretation of Relevant Law

The Board of Trustees of the Association has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), Chapter 180A of the general laws of the Commonwealth of Massachusetts, as requiring the preservation of the historic dollar value of the original gifts to donor-restricted endowment funds absent explicit donor stipulations to the contrary. The Association retains in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, if any. Collectively, these amounts are referred to as the historic dollar value of the fund.

Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Association in a manner consistent with the standard of prudence prescribed by UPMIFA.

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 10 - Net Assets and Endowment Matters (Continued)

Interpretation of Relevant Law (Continued)

In accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Association and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Association
- (7) The investment policies of the Association

Changes in endowment net assets and those functioning as endowment net assets for the fiscal year ended June 30, 2019 are as follows:

	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
Endowment net assets, beginning of year	\$ <u>24,335</u>	\$ <u>65,664</u>	\$ <u>89,999</u>
Investment return:			
Investment income (net of expenses)	126	143	269
Net appreciation (realized and unrealized)	<u>2,211</u>	<u>2,581</u>	<u>4,792</u>
Total investment return	2,337	2,724	5,061
Contributions	300	989	1,289
Investment return authorized for operations (a)	<u>(3,912)</u>	<u>(2,132)</u>	<u>(6,044)</u>
Endowment net assets, end of year	\$ <u>23,060</u>	\$ <u>67,245</u>	\$ <u>90,305</u>

(a) Investment return authorized for operations includes \$731 of unspent income with donor restrictions net of \$73 due to the Association which is eliminated on the Association's books.

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 10 - Net Assets and Endowment Matters (Continued)

Changes in endowment net assets and those functioning as endowment net assets for the fiscal year ended June 30, 2018 are as follows:

	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
Endowment net assets, beginning of year	\$ 24,168	\$ 63,496	\$ 87,664
Investment return:			
Investment income (net of expenses)	29	31	60
Net appreciation (realized and unrealized)	3,632	3,794	7,426
Total investment return	3,661	3,825	7,486
Contributions	590	573	1,163
Investment return authorized for operations (b)	(4,085)	(2,230)	(6,315)
Endowment net assets, end of year	\$ 24,334	\$ 65,664	\$ 89,998

(b) Investment return authorized for operations includes \$432 of unspent income with donor restrictions and a \$500 contribution to BLUU endowment fund.

Funds with Deficiencies

From time to time, certain donor-restricted funds may have fair values less than the amount required to be maintained by donors by law (underwater endowments). These deficits resulted from unfavorable market fluctuations that generally occurred shortly after the investment of newly established endowments, and authorized distributions that was deemed prudent. The Association has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under the law. There were no funds with deficiencies as of June 30, 2019 and 2018.

Return Objectives and Risk Parameters

The Association has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Association must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that match or exceed a custom benchmark weighted by asset class while assuming a moderate level of investment risk. The Association expects its endowment funds, over time, to provide an average rate of return of approximately 6.4% annually. Actual returns in any given year may vary from this amount.

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 10 - Net Assets and Endowment Matters (Continued)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Association relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Association targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Association's spending policy determines the amount made available for expenditure from the Association's endowment in a fiscal year using a calculation based on a weighted average of the prior year's spending adjusted for inflation (weighted at 70%), and 4.5% of the trailing four-quarter average market value of the endowment as of the previous December (weighted at 30%). However, the spending rate must be at least 4% and not more than 6% of the trailing four-quarter average market value of the endowment as of the previous December. Spending from new gifts will be calculated at the effective spending policy rate as approved by the Board of Trustees.

Authorized spending can be adjusted annually based on Board of Trustees determination for specific purpose.

In establishing this policy, the Association considered the long-term expected return on its endowment. Accordingly, over the long term, the Association expected the current spending policy to allow its endowment to maintain its value adjusted for inflation. This was consistent with the Association's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts.

Note 11 - Leases and Other Commitments

Leases as Lessor

A portion of the Association's headquarters facility is leased to unrelated entities under operating lease agreements that expire at various times through 2020. Such leases provide for various escalations for operating and real estate taxes. Rental income was \$1,685 and \$1,648 for the years ended June 30, 2019 and 2018, respectively. Subsequent to year end, the Association entered into two separate lease agreements. The Association will incur tenant allowance of \$3,431 associated with the new leases, which will be funded through a new line of credit and amortized over the lease terms. Commission expenses of \$934 incurred to obtain tenants will be amortized over the lease terms as well. Rental income from these new leases are reflected below in the rental income schedule.

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 11 - Leases and Other Commitments (Continued)

Leases as Lessor (Continued)

Future rental income under these non-cancelable leases is as follows for the years ending June 30:

2020	\$	676
2021		1,998
2022		2,164
2023		2,202
2024		2,241
Thereafter		<u>22,286</u>
Total	\$	<u>31,567</u>

Leases as Lessee

The Association leases certain office equipment under operating lease agreements. Future minimum rental payments required under operating leases are as follows as of June 30:

2020	\$	75
2021		55
2022		24
2023		<u>1</u>
Total	\$	<u>155</u>

Rent expense was \$87 and \$88 for the years ended June 30, 2019 and 2018, respectively.

Guarantees

The Association guarantees certain loans extended by various lending institutions to member congregations. The outstanding guarantees were \$579 on loans totaling \$1,158 for June 30, 2019 and 2018. The loan guarantees were extended to the member congregations through the Association's loan guarantee program. The Association's policy is to guarantee 50% of the outstanding loan principal up to a maximum guarantee of \$450. The Association determined the value of these guarantees was not significant given its experience.

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 11 - Leases and Other Commitments (Continued)

Insurance

The Association operates a self-funded medical health insurance program for Association employees and the employees of congregations and affiliates. The Association is administrator and sponsor of the plan. The Trustees of the plan determine premiums to be charged and use a service organization to process benefit payments. In the event that assets accumulated in the trust are insufficient to cover the expected benefit payments, the Association has provided the plan with a guarantee to satisfy any unfunded obligations of the trust. As of June 30, 2019 and 2018, the plan was sufficiently funded to cover all actuarially determined obligations. The Association maintains stop loss insurance coverage that will pay claims for an individual once a \$500 calendar year threshold is reached, up to an unlimited lifetime maximum. The Association has determined the value of this guarantee to not be a significant obligation given the funded status of the plan.

Employment Related Agreements

The Association has employment contracts with key employees, which extend over multiple fiscal years that contain provisions for payments when they retire.

Legal

The Association is subject to various claims and legal proceedings that may arise in the ordinary course of its business activities. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the financial condition of the Association.

Other Commitments

The Association acts as agent for certain donors that wish to donate funds to the Association for distribution to an outside organization. Occasionally, these funds are held at the Association pending final distribution determination by the donor and are accounted for in cash and accounts payable. Agency funds held at the Association as of June 30, 2019 and 2018 were \$4 and \$8, respectively.

Black Lives UU (BLUU)

Black Lives UU is an organization for which the Association provided fiscal sponsorship and operating funding. During the fiscal years ended June 30, 2017, 2018 and 2019, activity related to the Association's fiscal sponsorship of the BLUU was recorded on the books and records of the Association. In the fiscal year ended June 30, 2019, BLUU received its nonprofit status and separated substantially all of its books and records from the Association.

In October 2016, the Board of the Association approved a long-term \$5,300 funding commitment to BLUU. During the years ended June 30, 2017 through June 30, 2019, the Association provided a total of \$1,300 of funding against this commitment. As of the fiscal year ended June 30, 2019, the Association had raised \$2,712 for BLUU which is recorded with net assets with donor restrictions on the Association's books. Subsequent to year end, the remaining \$4,000 commitment was funded through \$2,712 of fundraising contributions and an additional \$1,288 contribution from the Association's cash and cash equivalents and investments in the Unitarian Universalist Common Endowment Fund (UUCEF).

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 11 - Leases and Other Commitments (Continued)

Black Lives UU (BLUU) (Continued)

In addition to the long-term funding commitment, the Association's agreement with BLUU incorporated a minimum of \$225 per calendar year to BLUU for transitional operating funds through the earlier of fulfillment of the \$5,300 commitment or December 31, 2021. The fiscal sponsorship, funding commitment and transition provisions were defined in a memorandum of understanding between BLUU and the Association signed May 17, 2018.

Note 12 - Agency Agreement

The Association, along with five other related organizations, entered into an agreement with the Unitarian Universalist Congregation at Shelter Rock (UUCSR) whereby UUCSR will make \$4,500 in grants available as a match equal to the greater of \$1 or 10% of the gift pledge amount (maximum of \$10) for every new legacy gift pledge received from January 1, 2017 to June 30, 2020 to any UU member organization. Matching grants of \$137 and \$4,363 payable to the Association (recorded in pledge receivables) and related organizations, respectively, were accrued at June 30, 2019 and \$151 and \$3,056 payable to the Association and related organizations, respectively, were accrued at June 30, 2018. Matching grants will be paid out from July 1, 2019 to June 30, 2020.

Note 13 - Benefit Plans

The Association has a qualified defined contribution retirement plan covering all employees who have satisfied initial age and hour requirements. The Association makes a pension contribution of 11% of employee salary (plus housing allowance for ministers) for all employees who participate in the plan upon completing one year of employment. Employees may make additional voluntary contributions to the plan up to the established IRS limits. Contributions to the plan are fully vested immediately. Retirement plan costs were \$1,064 and \$1,087 for the years ended June 30, 2019 and 2018, respectively.

The Association provides a healthcare retirement plan (the Plan) to certain employees retired prior to 2002, as well as to certain active employees who were over age 45 on April 1, 2002. The measurement date used to determine benefit measures for the Plan is June 30.

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 13 - Benefit Plans (Continued)

The following table presents the Plan's funded status at June 30:

	2019	2018
Changes in benefit obligation:		
Benefit obligation at beginning of year	\$ 1,696	\$ 1,761
Service cost	2	2
Interest cost	35	72
Benefits paid	(152)	(139)
Actuarial loss	(159)	-
	1,422	1,696
Change in plan assets:		
Employer contribution	152	139
Benefits paid	(152)	(139)
	-	-
Fair value of plan assets at end of year	-	-
Accumulated postretirement benefit obligation	\$ 1,422	\$ 1,696

Assumptions used to determine the benefit obligation are as follows as of June 30:

	2019	2018
Discount rate	3.00%	3.25%
Rate of increase in healthcare costs	5.70%	5.70%

The ultimate healthcare cost trend rate assumption of 4.70% Pre-65 and 4.50% Post-65 used to calculate the benefit obligation is expected to be reached by 2091 for Pre-65 and 2083 for Post-65. In addition, updated mortality tables were used in 2019 to measure obligations.

A one-percentage-point change in assumed healthcare cost trend rates would have the following effects as of June 30, 2019:

	One- Percentage- Point Increase	One- Percentage- Point Decrease
Effects on total service and interest cost components for 2019	\$ 60	\$ 50
Effects on year-end 2019 accumulated postretirement benefit obligation	\$ 1,529	\$ 1,328

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 13 - Benefit Plans (Continued)

The expected future benefit payments are as follows for the years ending June 30:

2020	\$	133
2021		130
2022		126
2023		122
2024		118
2025-2028		501
Total	\$	1,130

The expected benefits are based on the same assumptions used to measure the Association's benefit obligation at June 30, 2019 and 2018.

Net periodic postretirement benefit cost reported as expense in the consolidated statements of activities included the following components for the years ended June 30:

	2019		2018
Service cost	\$ 2	\$	2
Interest cost	35		72
Net periodic benefit cost	\$ 37	\$	74

The ultimate healthcare cost trend rate assumption of 4.50% used to calculate the net periodic postretirement benefit cost is expected to be reached by 2083.

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 14 - Program Expenses

The Association's program expenses and costs were as follows for the years ended June 30:

	2019	2018
Costs of goods sold and publishing expenses	\$ 9,247	\$ 7,933
Ministries and faith development	7,445	6,305
Congregational life	5,889	5,610
Other programs	3,370	4,017
Communications	2,559	2,367
International programs	1,963	1,593
Justice Organizing Strategy	<u>651</u>	<u>1,193</u>
Total	\$ <u>31,124</u>	\$ <u>29,018</u>

Note 15 - General Operations Expense

The Association has categorized certain expenses as general operations within the consolidated statement of functional expenses. The expense represents a large number of varied accounts which include BLUU general expenses, office supplies, IT services, equipment rental, warehousing, committee expense, etc. These accounts generally have relatively small individual balances which totaled \$1,621 and \$1,947 at June 30, 2019 and 2018, respectively, which represents 4% and 5% of total expenses, respectively.

Note 16 - Subsequent Events

The Association has evaluated subsequent events through November 12, 2019, the date the consolidated financial statements were authorized to be issued.

Two of the Association's previously independent regional operations merged into the Association as of July 1, 2016. Final legal dissolution for one of the districts within these two regions occurred in August 2019 with estimated transfer of assets of \$164 expected to be completed in 2020. Final dissolution and transfer of assets of the remaining districts within these two regions is expected in 2020. At June 30, 2019, the estimated increase in net assets from the merger of these districts is expected to be approximately \$3,023.

Supplemental Schedules

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Supplemental Schedule of Assets by Business Segment

June 30, 2019

(in thousands)

	Current	General Assembly	Group Insurance Plan	Beacon Press	CPLF	UUCEF	Eliminations	Total
Assets:								
Cash and cash equivalents	\$ 9,026	\$ -	\$ 1,820	\$ 3,312	\$ 1,411	\$ -	\$ (298)	\$ 15,271
Accounts receivable, net	1,152	-	-	1,255	1,002	-	(1,002)	2,407
Pledges receivable, net	1,186	-	-	-	-	-	-	1,186
Agency receivable	4,363	-	-	-	-	-	-	4,363
Inventories, net	507	-	-	1,001	-	-	-	1,508
Other assets	208	-	-	1,123	-	25	-	1,356
Investment in UUCEF	88,583	-	-	1,726	-	198,977	(90,378)	198,908
Investments	55	-	-	-	-	-	-	55
Funds held in trust by others	46,110	-	-	-	-	-	-	46,110
Funds held in support of split-interest agreements	9,168	-	-	-	-	-	-	9,168
Loans to member congregations, net	-	-	-	-	3,246	-	-	3,246
Property and equipment, net	33,906	-	-	35	-	-	-	33,941
Amounts due from other business segments	207	-	-	-	-	-	(207)	-
Total assets	\$ 194,471	\$ -	\$ 1,820	\$ 8,452	\$ 5,659	\$ 199,002	\$ (91,885)	\$ 317,519

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Supplemental Schedule of Liabilities and Net Assets by Business Segment

June 30, 2019

(in thousands)

	<i>Current</i>	<i>General Assembly</i>	<i>Group Insurance Plan</i>	<i>Beacon Press</i>	<i>CPLF</i>	<i>UUCEF</i>	<i>Eliminations</i>	<i>Total</i>
Liabilities:								
Accounts payable and accrued expenses	\$ 4,427	\$ -	\$ -	\$ 2,181	\$ 1	\$ 130	\$ (602)	\$ 6,137
Agency liability	4,363	-	-	-	-	-	-	4,363
Annuity liabilities	1,814	-	-	-	-	-	-	1,814
Bank debt	5,879	-	-	-	-	-	-	5,879
Obligations under split-interest agreements	5,637	-	-	-	-	-	-	5,637
Accumulated postretirement benefit obligation	1,422	-	-	-	-	-	-	1,422
Amounts due to (from) other business segments	410	298	-	207	(83)	73	(905)	-
Total liabilities	23,952	298	-	2,388	(82)	203	(1,507)	25,252
Minority interest in UUCEF	-	-	-	-	-	108,494	-	108,494
Net assets:								
Without donor restrictions	49,504	(298)	1,820	5,795	1,128	90,305	(90,219)	58,035
With donor restrictions	121,015	-	-	269	4,613	-	(159)	125,738
Total net assets	170,519	(298)	1,820	6,064	5,741	90,305	(90,378)	183,773
Total liabilities and net assets	\$ 194,471	\$ -	\$ 1,820	\$ 8,452	\$ 5,659	\$ 199,002	\$ (91,885)	\$ 317,519

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY
Supplemental Schedule of Unrestricted Activities by Business Segment

For the Year Ended June 30, 2019

(in thousands)

	Current	General Assembly	Group Insurance Plan	Beacon Press	CPLF	UUCEF	Eliminations	Total
Operating:								
Support and revenue:								
Fundraising and gifts and bequests	\$ 12,213	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,213
Net sales from publishing activities	916	-	-	9,834	-	-	-	10,750
Sales and administrative services	1,666	1,198	-	-	-	-	(801)	2,063
Investment return authorized for operations	4,480	-	-	-	19	-	-	4,499
Distributions from Holdeen Trusts	1,121	-	-	-	-	-	-	1,121
Other investment income	-	-	-	27	179	-	-	206
Rental income	1,685	-	-	-	-	-	-	1,685
Other income	3,607	-	1,832	711	-	-	(300)	5,850
Net assets released from restriction	2,718	-	-	203	-	-	-	2,921
Total support and revenue	28,406	1,198	1,832	10,775	198	-	(1,101)	41,308
Expenses:								
Board and volunteer leadership	748	-	-	-	-	-	-	748
Justice Organizing Strategy	651	-	-	-	-	-	-	651
International	1,963	-	-	-	-	-	-	1,963
Congregational life	5,889	-	-	-	-	-	-	5,889
Ministry and faith development	6,388	-	1,518	-	-	-	(461)	7,445
UU Funding Program and Crisis Relief	1,864	-	-	-	-	-	-	1,864
Communications	2,559	-	-	-	-	-	-	2,559
Cost of goods sold and publishing expenses	532	-	-	9,015	-	-	(300)	9,247
Administration	2,474	-	-	-	-	-	-	2,474
Stewardship and development	2,169	-	-	-	-	-	-	2,169
Information technology services	1,593	-	-	-	-	-	-	1,593
Internal services	1,048	-	-	-	-	-	-	1,048
Rental expense	703	-	-	-	-	-	-	703
General assembly	-	1,506	-	-	-	-	-	1,506
Expenses associated with investment pools	-	-	-	-	233	-	(160)	73
Interest expense	235	-	-	-	23	-	-	258
Total expenses	28,816	1,506	1,518	9,015	256	-	(921)	40,190
Increase (decrease) in net assets without donor restrictions from operations	(410)	(308)	314	1,760	(58)	-	(180)	1,118
Nonoperating:								
Investment income	4,355	-	-	88	-	11,079	(10,899)	4,623
Investment return - debt financing	906	-	-	-	-	-	-	906
Increase in value of funds held in support of split-interest agreements and trusts	(82)	-	-	-	-	-	-	(82)
Postretirement benefit plan expense	201	-	-	-	-	-	-	201
Unfunded depreciation	(664)	-	-	-	-	-	-	(664)
Total decrease in net assets from nonoperating activities	4,716	-	-	88	-	11,079	(10,899)	4,984
Minority interest in investment earnings of UUCEF	(6,018)	-	-	-	-	-	-	(6,018)
Increase (decrease) in net assets without donor restrictions	\$ (1,712)	\$ (308)	\$ 314	\$ 1,848	\$ (58)	\$ 11,079	\$ (11,079)	\$ 84