Consolidated Financial Statements and Supplemental Schedules

Unitarian Universalist Association and Subsidiary

June 30, 2020 and 2019



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, 2020 and 2019, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended 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, 2020 and 2019, 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 2020, the Association adopted Accounting Standards Update No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* 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.

November 17, 2020 Boston, Massachusetts

Mayu Hayeman Melann P.C.

Consolidated Statements of Financial Position

June 30,

		2020		2019
Assets				
Cash and cash equivalents	\$	17,501	\$	15,271
Accounts receivable, net		6,211		2,407
Pledges receivable, net		798		1,186
Agency receivable		-		4,363
Inventories, net		1,757		1,508
Deferred charges		5,413		-
Other assets		1,538		1,356
Investments		86,828		90,469
Investment funds managed for others		111,919		108,494
Funds held in trust by others		44,075		46,110
Funds held in support of split-interest agreements		7,979		9,168
Loans to member congregations, net		3,082		3,246
Property and equipment, net	_	33,693		33,941
Total assets	\$_	320,794	\$ _	317,519
Liabilities and Net Assets				
Liabilities:				
Accounts payable and accrued expenses	\$	10,615	\$	6,137
Agency liability		-		4,363
Annuity liabilities		1,576		1,814
Bank debt		4,942		5,879
Obligations under split-interest agreements		5,062		5,637
Accumulated postretirement benefit obligation	_	1,330	_	1,422
Total liabilities		23,525	_	25,252
Minority interest in UUCEF		111,919		108,494
Net assets:				
Without donor restrictions		61,952		58,035
With donor restrictions With donor restrictions		123,398		125,738
Wild dollor restrictions	_	120,000	_	120,700
Total net assets	_	185,350	_	183,773
Total liabilities and net assets	\$ _	320,794	\$ _	317,519

Consolidated Statement of Activities

For the Year Ended June 30, 2020 (with comparative totals for 2019)

		2020		2019
	Without Donor	With Donor		
	Restrictions	Restrictions	Total	Total
Support and revenue:				
Fundraising and gifts and bequests	16,471	\$ 5,483	21,954	16,984
Net sales from publishing activities	15,635		15,635	10,750
Sales and administrative services	1,442	-	1,442	1,777
Investment return authorized for operations	4,089	-	4,089	4,499
Distributions from Holdeen Trusts	1,357	224	1,581	1,352
Other investment income	178	·	178	206
Rental income	1,819	-	1,819	1,685
Other income	5,302	_	5,302	5,850
Net assets released from restriction	4,630	(4,630)	-	-
Total support and revenue	50,923	1,077	52,000	43,103
Expenditures:				
Programs	34,115	-	34,115	31,124
General and administration	5,844	-	5,844	6,194
Stewardship and development	2,056	_	2,056	2,169
Rental expense	642	_	642	703
Total expenditures	42,657	-	42,657	40,190
Changes in net assets from operations	8,266	1,077	9,343	2,913
Nonoperating income (expense):				
Investment return, net of amounts authorized for operations	(2,826)	(1,082)	(3,908)	5,855
Investment return - debt financing	939	-	939	906
Decrease in value of funds held in support				
of split-interest agreements and trusts	(75)	(2,335)	(2,410)	(250)
Postretirement benefit plan expense	29	-	29	201
Unfunded depreciation	(705)		(705)	(664)
Change in net assets from nonoperating activities	(2,638)	(3,417)	(6,055)	6,048
Minority interest in investment (earnings) of UUCEF	(1,711)		(1,711)	(6,018)
Change in net assets	3,917	(2,340)	1,577	2,943
Net assets, beginning of year	58,035	125,738	183,773	180,830
Net assets, end of year	61,952	\$123,398_ \$	185,350	183,773

Consolidated Statement of Activities

For the Year Ended June 30, 2019

		Without Donor Restrictions		With Donor Restrictions	Total
Support and revenue:					
Fundraising and gifts and bequests	\$	12,499	\$	4,485 \$	16,984
Net sales from publishing activities	·	10,750	,	-	10,750
Sales and administrative services		1,777		_	1,777
Investment return authorized for operations		4,499		-	4,499
Distributions from Holdeen Trusts		1,121		231	1,352
Other investment income		206		-	206
Rental income		1,685		-	1,685
Other income		5,850		-	5,850
Net assets released from restriction		2,921		(2,921)	-
Total support and revenue		41,308		1,795	43,103
Expenditures:					
Programs		31,124		-	31,124
General and administration		6,194		-	6,194
Stewardship and development		2,169		-	2,169
Rental expense		703		-	703
Total expenditures		40,190			40,190
Changes in net assets from operations		1,118		1,795	2,913
Nonoperating income (expense):					
Investment return, net of amounts authorized for operations		4,623		1,232	5,855
Investment return - debt financing		906		-	906
Decrease in value of funds held in support		(00)		(400)	(050)
of split-interest agreements and trusts Postretirement benefit plan expense		(82) 201		(168)	(250) 201
Unfunded depreciation		(664)		-	
•		4,984			(664)
Change in net assets from nonoperating activities		4,904		1,004	6,048
Minority interest in investment (earnings) of UUCEF		(6,018)		<u> </u>	(6,018)
Change in net assets		84		2,859	2,943
Net assets, beginning of year		57,951		122,879	180,830
Net assets, end of year	\$	58,035	\$	125,738 \$ _	183,773

Statement of Functional Expenses

For the Year Ended June 30, 2020 (with comparative totals for 2019)

						2020				2019
		Programs		General and Iministration	S	tewardship and Development	'	Rental Expense	Total	Total
Personnel										
Salary/benefits	\$	10,497	\$	3,968	\$	1,487	\$	- \$	15,952	\$ 15,617
Other										
Cost of goods sold		11,878		-		-		-	11,878	9,104
Grants and scholarships		6,588		-		-		-	6,588	5,089
Insurance		1,455		20		-		114	1,589	1,214
Facilities										
Depreciation		272		133		45		244	694	691
Other		332		228		49		252	861	1,189
General operations		750		510		16		27	1,303	1,621
Travel/T&E non-staff		742		263		62		-	1,067	2,008
Publications/marketing		421		19		264		=	704	760
Consultants		466		95		38		-	599	767
Meetings/events/training		414		76		26		-	516	1,299
Professional fees		115		304		-		5	424	365
Software		64		167		49		-	280	209
Interest expense	_	121	_	61		20	_		202	 257
otal functional expenses	\$	34,115	\$	5,844	\$	2,056	\$	642	42,657	\$ 40,190

Statement of Functional Expenses

For the Year Ended June 30, 2019

		Programs		General and Administration		Stewardship and Development		Rental Expense		Total
Personnel										
Salary/benefits	\$	10,367	\$	3,792	\$	1,444	\$	14	\$	15,617
Other										
Cost of goods sold		9,104		-		-		-		9,104
Grants and scholarships		5,089		-		-		-		5,089
Travel/T&E non-staff		1,291		600		117		-		2,008
Facilities										
Depreciation		289		139		47		216		691
Other		539		293		56		301		1,189
General operations		1,070		484		12		55		1,621
Meetings/events/training		1,103		116		80		-		1,299
Insurance		1,074		28		-		112		1,214
Consultants		433		266		68		-		767
Publications/marketing		447		30		283		-		760
Professional fees		100		240		20		5		365
Interest expense		164		69		24		-		257
Software	=	54	-	137	-	18_	_	-		209
Total functional expenses	\$_	31,124	\$	6,194	\$	2,169	\$	703	\$_	40,190

Consolidated Statements of Cash Flows

For the Years Ended June 30,

(in thousands)

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ 1,577	' \$ 2,943
Adjustments to reconcile change in net assets to net cash provided by		
(used in) operating activities:	4 44	
Depreciation	1,412	,
Change in allowance for uncollectible loans to member congregations	(4.446	
Net realized and unrealized gains on investments	(1,412	
Contributions restricted for long-term investment	(164	(914)
Net change in value of funds held in support of	0.44	050
split-interest agreements and trusts	2,410	
Minority interest in investment earnings of UUCEF	1,711	6,018
Changes in assets and liabilities:	(0.00	(005)
Accounts receivable, net	(3,804	
Pledges receivable, net	388	, ,
Agency receivable	4,363	,
Inventories, net	(249	
Deferred rent	(5,413	•
Other assets	(182	
Accounts payable and accrued expenses	4,221	
Agency liability	(4,363	•
Accumulated postretirement benefit obligation	(92	(274)
Net cash used in operating activities	397	4,627
Cash flows from investing activities:		
Cost of purchases of investments	(42,887	') (21,274)
Proceeds from sales of investments	44,516	17,678
Purchases of property and equipment	(907	') (836)
Additions to loans to member congregations	(75	5) (99)
Repayments on loans to member congregations	245	869
Net cash provided by investing activities	892	(3,662)
Cash flows from financing activities:		
Repayment of bank debt	(937	') (1,616)
Capital contributions by minority partners in UUCEF	10,126	8,387
Capital withdrawals by minority partners in UUCEF	(8,412	2) (6,067)
Contributions restricted for long-term investment	164	914
Net cash provided by financing activities	941	1,618
Change in cash and cash equivalents	2,230	2,583
Cash and cash equivalents as of beginning of year	15,27	12,688
Cash and cash equivalents as of end of year	\$17,501	\$\$

Supplementary disclosures of cash flow information:

During 2020, the Association had non-cash property and equipment addition of \$257 funded through accounts payable.

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 43.6% and 45.4% ownership interest in UUCEF in 2020 and 2019, 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.

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.

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.

Notes to Consolidated Financial Statements (in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

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 \$6 and \$32 at June 30, 2020 and 2019, respectively.

Pledges Receivable

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.

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 \$28 and \$34 at June 30, 2020 and 2019, respectively.

Investments

Investments are reported at fair value. Fair value is determined as per the fair value polices 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.

Fair Value Measurements

The Association reports required types of financial instruments in accordance with the fair value standards of accounting. 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. These standards require an entity to maximize the use of observable inputs (such as quoted market prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. The fair value standards also provide for a practical expedient of fair value allowing for the use of net asset value per share ("NAV") when certain requirements are met. Items reported at fair value on a recurring basis include the Association's investment accounts and funds held in trust and in support of split-interest agreements. Nonrecurring fair values include items such as the initial recording for pledges receivable and obligations under split-interest agreements.

Notes to Consolidated Financial Statements (in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Fair Value Measurements (Continued)

The fair value standards require that for each item carried at fair value that such be disclosed in accordance with the valuation methods used which fall into three categories (but for those items valued at NAV) as follows:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the Association has the ability to access at measurement date.
- Level 2 inputs are other than quoted prices included in Level 1 that are either directly or indirectly observable.
- Level 3 inputs are derived from valuation methodologies, including pricing models, discounted cash flow models and similar techniques, and are not based on market, exchange, dealer, or broker-traded transactions. In addition, Level 3 valuations incorporate assumptions and projections that are not observable in the market and significant professional judgment is required in determining the fair value assigned to such assets or liabilities.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level of input that is significant to the fair value measurement in its entirety.

It is possible that redemption rights may be restricted or eliminated by investment managers in the future in accordance with the underlying fund agreements. 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 observable inputs and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements.

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.

Notes to Consolidated Financial Statements (in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Funds Held in Trust by Others (Continued)

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.

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.

Notes to Consolidated Financial Statements (in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

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 Other Support

The Association derives revenues primarily through fundraising, publishing activities, gifts, and bequests. Revenues are reported as increases in net assets without donor restrictions unless use of the related asset is limited by donor-imposed restrictions as follows:

Gifts and bequests, 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. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows using a risk adjusted discount rate depending on the time period involved. Amortization of the discount is included in contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions. Contributions with donor-imposed restrictions that can be met through the passage of time or upon the incurring of expenses consistent with the purposes are recorded as net assets with donor restrictions and reclassified to net assets without donor restrictions when such time or purposes restriction has been satisfied.

Conditional contributions are recorded as revenue when such amounts become unconditional which generally involves the meeting of a barrier to entitlement. This can include items like meeting a matching provision, incurring specified allowable expenses in accordance with other barriers and providing progress reports before the next scheduled installment of grant receipt. Contributions received pending designation by the donor are considered with donor restrictions until known at which time such are reclassified if required.

The Association recognizes special events and fundraising revenue equal to the fair value of direct benefits to donors, and contribution income for the excess received when the event takes place.

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.

Notes to Consolidated Financial Statements (in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Revenue Recognition and Other Support (Continued)

Net sales from publishing activities is recorded upon shipment, net of commission expense, marketing and fulfillment costs charged by a third-party distributor, Penguin Random House ("the Distributor").

Beacon Press derives its revenue mainly from the sale of books via prints, e-books and audio downloads, which are recorded on a monthly basis through sales detail from the Distributor. Customers are invoiced and revenue is recognized upon shipment of prints and the download of e-books and audio downloads. Collections on all monthly sales from the Distributor are usually received 60 days following the monthly sales. Direct sales and collections from customers are handled by the Distributor.

Beacon Press also generates sales from the sale of prints through its website, licensing and royalty. Customers are invoiced and revenue is recognized upon shipment of prints. Licensing revenue is recognized as one-time performance obligations upon granting access rights to customers at which time the customer is invoiced. Revenue on royalty income is recognized on a monthly basis based on sales generated by licensees.

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 the performance obligation has been met.

Investment returns are reported as revenue based on the fair value of such investments at year end. Such returns are allocated ratably based on the relative proportion of funds invested with donor restrictions and those without donor restrictions. Investment returns allocated to net assets with donor restrictions remain in such category until appropriated by the board under the board approved spending policy unless otherwise required by the terms of the gift that they be added to the principal of the endowment.

Rental income is recorded in association with the period of occupancy to which the payment relates. Payments received in advance are deferred until earned. Lease incentives, including free rent periods and buildout allowances, are considered deferred rent and amortized on a straight-line basis over the life of the lease.

Other income consists 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.

Notes to Consolidated Financial Statements (in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Royalty Advances from Publishing Activities

Royalty advances are negotiated on a contract-by-contract basis and are recorded as other assets when paid. Payments are made over three installments: 1) upon contract signing, 2) upon acceptance of the script; and 3) upon book publication. Royalty advances are reduced after earn out through book sales. After earn out period, royalty expenses are accrued for payout. Reserves are recorded for advances if it appears that advances are not expected to be recovered from future sales within two years from publication. The Association reserves against unrealizable advances based on a systematic approach as the related publications age. The reserve was \$3,010 and \$2,930 at June 30, 2020 and 2019, respectively, against royalty advances of \$4,057 and \$3,810 at June 30, 2020 and 2019, respectively, included in other assets.

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) of the code. 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.

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 which is a tax return associated with the non-profit.

Functional Allocation of Expenses

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 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. Depreciation of plant assets and operation and maintenance of plant 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.

Notes to Consolidated Financial Statements (in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Fundraising Expenditures

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

Newly Adopted Accounting Pronouncements

Effective July 1, 2019, the Association adopted Accounting Standards Update ("ASU") No. 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made using the modified retrospective method. The contribution standard addresses inconsistency in revenue recognition when an item should be considered a contribution or accounted for under other standards. It also provides guidance as to when a contribution should be considered conditional which, for example, the case is often when funds are received under federal grants and contracts. Conditional contributions have different revenue recognition when compared to non-reciprocal transfers of resources in that amounts are reflected as earned when barriers to entitlement are overcome with any difference being recorded as deferred revenue or a receivable as applicable.

The standard was applied to transactions that were not complete or had otherwise already been recognized as of July 1, 2019. The impact related to the adoption of the new standard did not impact 2020 results.

In addition, certain changes from adopting the new standard resulted in changes to terminology which impacted certain disclosures and presentation of amounts.

Accounting Pronouncements Effective in Future Years

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, *Revenue from Contracts with Customers*. This standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The guidance is based on the principle that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard addresses inconsistency in revenue recognition by outlining a principles-based system which requires that there be a contract with a customer, that performance obligations be identified, that transaction price be determined, that transaction price is allocated to performance obligations and that revenue be recorded when or as the performance obligations are satisfied over the contract term. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. The ASU is effective for fiscal year end June 30, 2021.

Notes to Consolidated Financial Statements (in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Accounting Pronouncements Effective in Future Years (Continued)

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which requires a lessee to recognize a right-of-use asset and a lease liability for all leases, initially measured at the present value of the lease payments, in its statement of financial position. The standard also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, on a generally straight-line basis. The guidance also expands the required quantitative and qualitative disclosures surrounding leases. The new standard will not fundamentally change the lessor accounting. However, the standard includes a narrowed definition of initial direct costs whereas only incremental costs incurred that would not have been incurred if the lease had not been executed could be capitalized and amortized over the term of the lease. The ASU is effective for fiscal year end June 30, 2022 for the Association.

Management believes that other pending accounting standards would have limited impact on the Association and, accordingly, have not outlined those standards here.

Reclassifications

Certain reclassifications have been made to the 2019 consolidated financial statements in order to conform to the current presentation. Such reclassifications had no effect on the changes in net assets.

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, 2020 and 2019, 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.

Notes to Consolidated Financial Statements (in thousands)

Note 3 - Liquidity and Availability (Continued)

		2020		2019
Financial assets at year end				
Cash and cash equivalents	\$	17,501	\$	15,271
Accounts receivable, net		6,211		2,407
Pledges receivable, net		798		1,186
Investments		86,828		90,469
Funds held in trust by others		44,075		46,110
Funds held in support of split-interest agreements, net	_	2,917	_	3,531
Total financial assets	\$_	158,330	\$_	158,974
Financial assets available to meet general expenditures at year end				
Cash and cash equivalents	\$	17,501	\$	15,271
Accounts receivable, net		6,211		2,407
Pledges receivable due within one year, net		543		1,085
Endowment spending rate distribution	_	4,242		4,417
Total financial assets available to meet general				
expenditures at year end	\$ _	28,497	\$ _	23,180

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.

At June 30, 2020 and 2019, the Association's Board of Trustees has designated approximately \$19M and \$24M, respectively, 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.

Notes to Consolidated Financial Statements (in thousands)

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, 2020 and 2019.

Pledges receivable consisted of the following as of June 30:

	2020	2019
Amounts due in:		
Less than one year	\$ 543 \$	1,085
Two to five years	 310	167
	853	1,252
Less allowance for uncollectible pledges and present value discount	 (55)	(66)
Pledges receivable, net	\$ 	1,186

At June 30, 2020, approximately \$193 of promised contributions have not been recognized in the accompanying consolidated statements of activities because the conditions on which they depend have not been met.

Note 5 - Investments

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

		2020		2019
Investments (UUA) Investment funds managed for others	\$	86,828	\$	90,469
(member congregations)	_	111,919		108,494
Total	\$ _	198,747	\$_	198,963

Notes to Consolidated Financial Statements (in thousands)

Note 6 - Fair Values of Financial Instruments

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

					stn 202	nents 0	
	_					Investments Measured at	
		Level 1		Level 2		NAV	Total
UUCEF investments							
Domestic equity	\$	49,887	\$	6,760	\$	- \$	56,647
International equity		20,768		34,119		-	54,887
Fixed income		29,257		21,857		12,008	63,122
Opportunistic		5,472		-		6,040	11,512
Private markets		-		-		9,292	9,292
Other	_		_	2,674			2,674
Total UUCEF investments		105,384		65,410		27,340	198,134
Short-term investments							
Cash and equivalents		613	_	-			613
Total investments	\$_	105,997	\$_	65,410	\$	27,340 \$	198,747
		Funds Hel	ld b	y Others a	nd .	Split-interest Ag	reements
	_				202	20	
	_	Level 1		Level 2		Level 3	Total
Funds held by others:							
Holdeen Trusts	\$	_	\$	-	\$	31,923 \$	31,923
Other trusts		-		-		12,152	12,152
	-	-	_	-		44,075	44,075
Split-interest agreements:							
Charitable gift annuity		5,694					5,694
9		5,094		_		-	•
Charitable remainder trust		4 500		-	•	693	693
Pooled income funds	-	1,592	-	-	_	-	1,592
	-	7,286	_		_	693	7,979
Total funds held by others and split-interest agreements	\$	7,286	\$	-	· \$	44,768 \$	52,054
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Notes to Consolidated Financial Statements (in thousands)

Note 6 - Fair Values of Financial Instruments (Continued)

					estr 201	nents 19	
	-					Investments Measured at	
		Level 1		Level 2		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
Total UUCEF investments		101,226		71,489		24,272	196,987
Short-term investments							
Cash and equivalents	_	1,976	_		_	<u>-</u>	1,976
Total investments	\$ _	103,202	\$_	71,489	\$	24,272 \$	198,963
		Funds H	eld	bv Others a	nd	Split-interest Ag	reements
	_			-	201	•	
		Level 1		Level 2		Level 3	Total
Funds held by others:							
Holdeen Trusts	\$	-	\$	-	- \$	34,220 \$	34,220
Other trusts	_	-		-	_	11,890	11,890_
		-		-	_	46,110	46,110
Split-interest agreements:							
Charitable gift annuity		6,582		-		-	6,582
Charitable remainder trust		-		-		715	715
Pooled income funds		1,871				_	1,871
	_	8,453			<u> </u>	715	9,168
Total funds held by others and split-interest agreements	\$	8,453	\$	_	- \$	46,825 \$	55,278
spint interest agreements	Ψ_	0,700	_Ψ_		_ Ψ	Ψ	

Notes to Consolidated Financial Statements (in thousands)

Note 6 - Fair Values of Financial Instruments (Continued)

Level 3 Roll Forward
2020

		2020						
						Charitable		
		Holdeen		Other		Remainder		
		Trusts		Trusts		Trust		Total
Beginning balance	\$	34,220	\$	11,890	\$	715	\$	46,825
Distributions		(1,645)		(455)		-		(2,100)
Sales/fees		(19)		83		-		64
Unrealized gain (loss)	-	(633)	_	634		(22)	_	(21)
Ending balance	\$ _	31,923	\$ _	12,152	\$	693	\$ _	44,768

Level 3 Roll Forward

	_				:01	9		
	_					Charitable		
		Holdeen		Other		Remainder		
		Trusts		Trusts		Trust		Total
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	\$_	34,220	\$_	11,890	\$	715	\$_	46,825

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:

Total	\$ 198,134
Illiquid	 12,478
Quarterly	5,527
Bi-Monthly	13,845
Monthly	41,484
Daily	\$ 124,800

Unfunded commitments to the investment vehicles amounted to \$5,675 and \$9,607 at June 30, 2020 and 2019, 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.

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:

	2020	2019
Mortgage loans to member congregations at interest rates from 0% to 5.81% due through 2026	\$ 3,370 \$	3,540
Less allowance for uncollectible loans	 (288)	(294)
Net loans to member congregations	\$ 3,082 \$	3,246

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:

2021	\$ 1,034
2022	239
2023	249
2024	256
2025	288
Thereafter	 1,304
Total	\$ 3,370

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.

The percentage of total loans that are in default or past due are 6% and 5% at June 30, 2020 and 2019, respectively.

Notes to Consolidated Financial Statements (in thousands)

Note 8 - Property and Equipment

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

	Estimated Useful Lives		2020	2019
Land, buildings and improvements Computer equipment Office furniture and fixtures Construction in progress	20-40 yrs 4-7 yrs 7 yrs	\$ _	37,963 \$ 2,201 2,160 397	37,312 2,094 2,151
Less accumulated depreciation Property and equipment, net		_	42,721 (9,028) 33,693 \$	41,557 (7,616) 33,941

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

During 2020, the Association entered into an agreement with a third-party to conduct repairs to its boiler for a total cost of approximately \$728. At June 30, 2020, \$397 is included in construction in progress. \$331 is expected to be incurred in fiscal 2021 at which time the boiler will be placed into service.

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 \$705 and \$664 in 2020 and 2019, respectively, and is considered unfunded and included in nonoperating expense on the consolidated statements of activities.

Note 9 - 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 balloon payment of \$3,216 due on April 1, 2022. The agreement contains certain financial and nonfinancial covenants and is collateralized by the Association's headquarters. At June 30, 2020 and 2019, the outstanding balance on the mortgage note payable was \$4,942 and \$5,879, respectively.

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

2021 2022	\$ 972 3,970
Total	\$ 4,942

Notes to Consolidated Financial Statements (in thousands)

Note 9 - Mortgage Note Payable (Continued)

Interest expense was \$202 and \$257 for the years ended June 30, 2020 and 2019, respectively. Cash paid for interest was \$198 and \$253 for the years ended June 30, 2020 and 2019, respectively.

Note 10 - Lines of Credit

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.

Line of Credit

The Association has a \$500 line of credit available with a bank of which no amounts were outstanding at June 30, 2020 and 2019. 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, 2020 and 2019. 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.

Note 11 - Federal Loan Payable

The Association applied for and received a forgivable Paycheck Protection Loan of approximately \$3,603 as provided under the Federal Coronavirus Aid, Relief and Economic Security Act and the loan was funded on April 16, 2020. Under the terms of the loan, the balance is forgivable to the extent the proceeds are used for certain qualified costs for the 24 week period through September 30, 2020 and that certain employment levels are maintained. To the extent a portion of the loan does not meet the criteria to be forgiven, such amount is due by April 15, 2022 and carries an interest rate of 1%.

Through June 30, 2020, the Association has used \$3,603 of the proceeds on qualified costs. \$3,297 of the amount has been reported as contribution in fundraising and gifts and bequests revenue and \$205 has been reported as other income and \$101 reported as accounts payable with an offsetting reduction to the federal loan payable on the statement of financial position. The \$205 and \$101 were used to cover payroll costs for UUA non-consolidated affiliates. The Association has used all of the proceeds for eligible costs and expects the entire loan to be forgiven. A formal request for forgiveness will be submitted in fiscal 2021.

Notes to Consolidated Financial Statements (in thousands)

Note 12 - Net Assets and Endowment Matters

Net Assets without Donor Restrictions

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

	2020	2019
Operating funds	\$ 14,313 \$	6,409
Designated for specific purpose	-	504
Net investment in plant	28,751	28,062
Unrestricted-quasi endowment funds	 18,888	23,060
Total net assets without donor restrictions	\$ 61,952 \$	58,035

Notes to Consolidated Financial Statements (in thousands)

Note 12 - Net Assets and Endowment Matters (Continued)

Net Assets with Donor Restrictions

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

		2020		2019
Accumulated unspent gains:				
General operating	\$	•	\$	5,486
Scholarships for ministerial students		6,105		6,741
Ministerial aid		4,246		4,510
Other programs	_	1,950		2,060
Total accumulated unspent gains	_	17,460		18,797
Endowment corpus:				
General operating		27,447		27,447
Scholarships for ministerial students		12,767		12,767
Ministerial aid		3,716		3,716
Other programs	_	6,269		4,445
Total endowment corpus		50 100		48,375
Total endowment corpus	_	50,199	-	40,373
Total endowment funds	_	67,659		67,172
Purpose restrictions:				
Building loan fund		4,613		4,613
Split-interest agreements	_	876		1,176
Total purpose restrictions	_	5,489		5,789
Time and purpose restrictions:				
Time and purpose restrictions: Funds held in trust by others for restricted purposes		44,075		46,110
Amounts restricted by donors for purpose or time		6,120		6,612
Wilton Peace Prize Fund		55		55
WIIIOH FEACE FIIZE FUNG	_	55		33
Total time and purpose restrictions	_	50,250		52,777
Total net assets with donor restrictions	\$	123,398	\$	125,738
	_		=	

Notes to Consolidated Financial Statements (in thousands)

Note 12 - Net Assets and Endowment Matters (Continued)

Net Assets with Donor Restrictions (Continued)

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

		2020	2019		
General operating	\$	501	\$	352	
Scholarships for ministerial students		63		125	
Ministerial aid		174		202	
Other programs	_	3,892		2,242	
	_				
	\$ _	4,630	\$	2,921	

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 follows the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as enacted by the Commonwealth of Massachusetts. As such, management tracks 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.

Notes to Consolidated Financial Statements (in thousands)

Note 12 - Net Assets and Endowment Matters (Continued)

Interpretation of Relevant Law (Continued)

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.

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, 2020 are as follows:

	Without Donor Restrictions	With Donor Restrictions		Total
Endowment net assets, beginning of year	\$ 23,060 \$	67,245	\$.	90,305
Investment return: Investment income (net of expenses) Net appreciation (realized and unrealized)	(38) 637	(49) 775	-	(87) 1,412
Total investment return	599	726		1,325
Contributions	555	1,825		2,380
Investment return authorized for operations (a)	(5,326)	(2,137)	-	(7,463)
Endowment net assets, end of year	\$ 18,888_ \$	67,659	\$	86,547

⁽a) Investment return authorized for operations incudes \$255 of unspent income with donor restrictions, \$2,086 contribution to BLUU endowment, and \$94 due to the Association by UUCEF at year-end 2019.

Notes to Consolidated Financial Statements (in thousands)

Note 12 - 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, 2019 are as follows:

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

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

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, 2020 and 2019.

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 5.7% annually. Actual returns in any given year may vary from this amount.

Notes to Consolidated Financial Statements (in thousands)

Note 12 - 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 13 - Leases and Other Commitments and Contingencies

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 2035. Such leases provide for various escalations for operating and real estate taxes. Rental income was \$1,819 and \$1,685 for the years ended June 30, 2020 and 2019, respectively. During 2020, the Association entered into two new separate lease agreements. The Association has agreed to fund tenant allowances of \$3,431 associated with the new leases, of which \$2,376 has been incurred and paid by June 30, 2020 through working capital. The tenant allowances are being amortized over the lease terms. Commission expenses of \$934 incurred to obtain tenants is being amortized over the lease terms as well. Both are reported as deferred charges on the consolidated statements of financial position. One of the leases has a letter of credit of \$458 with automatic renewal terms through the end of the lease term. The other lease has a letter of credit of \$2,000 with automatic renewal terms through January 13, 2023. Rental income from these new leases are reflected below in the rental income schedule.

Notes to Consolidated Financial Statements (in thousands)

Note 13 - Leases and Other Commitments and Contingencies (Continued)

Leases as Lessor (Continued)

Deferred charges consisted of the following at June 30, 2020:

Total	 \$ 5.413
Deferred rent	 1,048
Deferred leasing incentives	3,431
Deferred commissions	\$ 934

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

\$	31,001
_	20,129
	2,277
	2,238
	2,200
	2,162
\$	1,995

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:

Total	\$ 80
2023	 1
2022	24
2021	\$ 55

Rent expense was \$76 and \$87 for the years ended June 30, 2020 and 2019, 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, 2020 and 2019. 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.

Notes to Consolidated Financial Statements (in thousands)

Note 13 - Leases and Other Commitments and Contingencies (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, 2020 and 2019, 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, 2020 and 2019 were \$0 and \$4, respectively.

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 Press titles into most markets on a global basis. Under the agreement, Beacon Press retains rights to sell its titles to retail customers and certain categories of special sales customers and has post audit rights relative to sales.

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.

Notes to Consolidated Financial Statements (in thousands)

Note 13 - Leases and Other Commitments and Contingencies (Continued)

Black Lives UU (BLUU) (Continued)

In October 2016, the Board of the Association approved a long-term \$5,300 funding commitment to BLUU. \$1,300 of the initial commitment was funded by the Association prior to June 30, 2019. As of the fiscal year ended June 30, 2019, the Association had raised \$2,712 for BLUU which was recorded with net assets with donor restrictions on the Association's books. During 2020, the remaining \$4,000 commitment was funded with \$1,914 of the amount raised and \$2,086 from the Association's endowment. An endowment fund was established in the Unitarian Universalist Common Endowment Fund (UUCEF) for the \$4,000. Subsequent to year end, the Association transferred \$753 to its endowment and expects to transfer the remaining \$163 when the funds are received.

Coronavirus Pandemic

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic. Management is currently unable to accurately forecast the future financial impact on the Association resulting from the pandemic which, among other things, could impact donor contributions and rental income.

Note 14 - 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 and related organizations, respectively, were paid out as of June 30, 2020.

Note 15 - 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 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. Expenses under this plan were \$1,110 and \$1,064 for the years ended June 30, 2020 and 2019, 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.

Notes to Consolidated Financial Statements (in thousands)

Note 15 - Benefit Plans (Continued)

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

		2020	2019
Changes in benefit obligation:			
Benefit obligation at beginning of year	\$	1,422	\$ 1,696
Service cost		-	2
Interest cost		41	35
Benefits paid		(133)	(152)
Actuarial loss	_		(159)
Benefit obligation at end of year	_	1,330	1,422
Change in plan assets:			
Employer contribution		166	152
Benefits paid	_	(166)	(152)
Fair value of plan assets at end of year	_		
Accumulated postretirement benefit obligation	\$ _	1,330	\$1,422

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

	2020	2019
Discount rate	3.00%	3.00%
Rate of increase in healthcare costs	5.80%	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 2020 to measure obligations.

A one-percentage-point change in assumed healthcare cost trend rates would have the following effects as of June 30, 2020:

	One- Percentage- oint Increase	One- Percentage- Point Decrease		
Effects on total service and interest cost components for 2020	\$ 44	\$ 38		
Effects on year-end 2020 accumulated postretirement benefit obligation	\$ 1,440	\$ 1,233		

Notes to Consolidated Financial Statements (in thousands)

Note 15 - Benefit Plans (Continued)

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

Total	\$	1,077
2026-2030	_	469
2025		112
2024		118
2023		122
2022		126
2021	\$	130

The expected benefits are based on the same assumptions used to measure the Association's benefit obligation at June 30, 2020 and 2019.

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

	2	020	2019
Service cost	\$	- \$	2
Interest cost		41	35
Net periodic benefit cost	\$	41 \$	37

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.

Notes to Consolidated Financial Statements (in thousands)

Note 16 - Program Expenses

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

		2020	2019
Costs of goods sold and publishing expenses	\$	12,026	\$ 9,247
Ministries and faith development		9,328	7,445
Congregational life		5,626	5,889
Communications		2,305	2,559
Other programs		2,210	3,370
International programs		1,862	1,963
Justice Organizing Strategy	_	758	651
Total	\$ _	34,115	\$ 31,124

Note 17 - 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 \$1,303 and \$1,621 at June 30, 2020 and 2019, respectively, which represents 3% and 4% of total expenses, respectively.

Note 18 - Concentrations

For the years ended June 30, 2020 and 2019, Penguin Random House handled 98% and 97% of Beacon Press net sales, respectively. Of the total amount of receivables due Beacon Press of \$4,958 and \$1,255 at June 30, 2020 and 2019, respectively, Penguin Random House accounted for 100% and 99% of the balances, respectively. There is one Penguin Random House customer which accounted for 49% and 44% of net sales for the years ended June 30, 2020 and 2019, respectively.

Note 19 - Related Party

A member of the Board made a long-term pledge contribution of \$750 to the Association during the year ended June 30, 2020. \$250 was collected during 2020 with \$500 recorded in pledges receivable.

Note 20 - Subsequent Events

The Association has evaluated subsequent events through November 17, 2020, the date the consolidated financial statements were authorized to be issued.



Supplemental Schedule of Assets by Business Segment

June 30, 2020

		Current		General Assembly	li	Group nsurance Plan	Beacon Press		CPLF	UUCEF	Eliminations	Total
Assets:												
Cash and cash equivalents	\$	10,225	\$		\$	1,772 \$	4,193	\$	1,556 \$	-	\$ (245) \$	17,501
Accounts receivable, net		1,253		-		-	4,958		1,002	-	(1,002)	6,211
Pledges receivable, net		798		-		-	-		-	-	-	798
Inventories, net		534		-		-	1,223		-	-	-	1,757
Deferred charges		5,413		-		-	-		-	-	-	5,413
Other assets		234		-		-	1,278		-	26	-	1,538
Investment in UUCEF		84,245		-		-	2,305		-	198,689	(86,547)	198,692
Investments		55		-		-	-		-	-	-	55
Funds held in trust by others		44,075		-		-	-		-	-	-	44,075
Funds held in support of split-interest												
agreements		7,979		-		-	-		-	-	-	7,979
Loans to member congregations, net		-		-		-	_		3,082	-	-	3,082
Property and equipment, net		33,671		-		-	22		-	-	-	33,693
Amounts due from other business segments	_	288				<u> </u>	_	_	<u> </u>		(288)	
Total assets	\$	188,770	\$_		\$_	1,772 \$	13,979	\$_	5,640 \$	198,715	\$ (88,082) \$	320,794

Supplemental Schedule of Liabilities and Net Assets by Business Segment

June 30, 2020

		Current	General Assembly	Group Insurance Plan	Beacon Press	CPLF	UUCEF	Eliminations	Total
Liabilities:									
Accounts payable and accrued expenses	\$	7,270 \$	-	\$ - \$	3,806 \$	- \$	141	\$ (602) \$	10,615
Annuity liabilities		1,576	-	-	-	-	-	-	1,576
Bank debt		4,942	-	-	-	-	-	-	4,942
Obligations under split-interest agreements Accumulated postretirement benefit		5,062	-	-	-	-	-	-	5,062
obligation		1,330	-	-	-	-	-	-	1,330
Amounts due to (from) other business									
segments	_	387	245	<u> </u>	288	(95)	108	(933)	
Total liabilities	_	20,567	245	<u> </u>	4,094	(95)	249	(1,535)	23,525
Minority interest in UUCEF	_						111,919		111,919
Net assets:									
Without donor restrictions		49,604	(245)	1,772	9,613	1,122	86,547	(86,461)	61,952
With donor restrictions	_	118,599	-	<u> </u>	272	4,613	-	(86)	123,398
Total net assets	_	168,203	(245)	1,772	9,885	5,735	86,547	(86,547)	185,350
Total liabilities and net assets	\$_	188,770 \$		\$\$	13,979 \$	5,640 \$	198,715	\$ (88,082) \$	320,794

Supplemental Schedule of Unrestricted Activities by Business Segment

For the Year Ended June 30, 2020

		Current	General Assembly	Group Insurance Plan	Beacon Press	CPLF	UUCEF	Eliminations	Total
Operating:									
Support and revenue:									
Fundraising and gifts and bequests	\$	16,436 \$	_	\$ - \$	35 \$	- \$	- \$	- \$	16,471
Net sales from publishing activities		785	-	· - ·	14,850	- '	- '	- '	15,635
Sales and administrative services		1,515	796	-	, <u>-</u>	-	_	(869)	1,442
Investment return authorized for operations		4,070	-	-	-	19	_	-	4,089
Distributions from Holdeen Trusts		1,357	_	_	_	_	_	-	1,357
Other investment income		-	-	-	27	151	_	-	178
Rental income		1,819	_	_	_	_	_	-	1,819
Other income		3,077	53	1,972	500	-	_	(300)	5,302
Net assets released from restriction		4,456	_	· -	174	-	_	-	4,630
Total support and revenue	_	33,515	849	1,972	15,586	170	_	(1,169)	50,923
Expenses:									
Board and volunteer leadership		304							304
Organizing strategy		758	-	-	-	-	-	-	758
International		1,862	-	-	-	-	-	-	1,862
		5.626	-	-	•	-	-	-	5.626
Congregational life		-,	-	4.000	-	-	-	(520)	-,
Ministry and faith development		7,884	-	1,982	-	-	-	(538)	9,328
UU Funding Program and Crisis Relief Communications		1,414 2,305	-	-	-	-	-	-	1,414 2,305
			-	-	-	-	-	(200)	,
Cost of goods sold and publishing expenses		515	-	-	11,811	-	-	(300)	12,026
Administration		1,841	-	-	-	-	-	-	1,841
Stewardship and development		2,056	-	-	-	-	-	-	2,056
Information technology services		1,533	-	-	-	-	-	-	1,533
Internal services		1,948	-	-	-	-	-	-	1,948
Rental expense		642	700	-	-	-	-	-	642
General assembly		-	796	-	-	470	-	(400)	796
Expenses associated with investment pools		-	-	-	-	176	-	(160)	16
Interest expense	_	202			- -		-		202
Total expenses	_	28,890	796	1,982	11,811	176_	-	(998)	42,657
Increase (decrease) in unrestricted net assets from operations	_	4,625	53	(10)	3,775	(6)		(171)	8,266
Nonoperating:									
Investment income		(3,040)	-	-	43	-	3,037	(2,866)	(2,826)
Increase in value of funds held in support of split-interest agreements and trusts		(75)	-	-	-	-	-	-	(75)
Postretirement benefit plan expense		29	-	-	-	-	-	-	29
Investment return - debt financing		939	-	-	-	-	-	-	939
Bequest income - Board restricted		-	-	-	-	-	-	-	-
Gain on sale of real estate		-	-	-	-	-	-	-	-
Other releases and changes in net assets		(705)	-	-	-	-	-	-	(705)
Unfunded depreciation	_	(705)				<u> </u>			(705)
Total increase (decrease) in net assets from nonoperating activities	_	(2,852)		<u>-</u>	43		3,037	(2,866)	(2,638)
Minority interest in investment (earnings) of UUCEF	_	(1,711)			<u> </u>	<u> </u>			(1,711)
Increase (decrease) in unrestricted net assets	\$_	62 \$	53	\$ (10) \$ _	3,818 \$	(6) \$	3,037 \$	(3,037) \$	3,917