

**Financial Statements
and Supplemental Schedules**

Unitarian Universalist Association

June 30, 2014 and 2013



Mayer Hoffman McCann P.C.
Tofias New England Division
An Independent CPA Firm

UNITARIAN UNIVERSALIST ASSOCIATION

Financial Statements and Supplemental Schedules

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Mayer Hoffman McCann P.C.
Tofias New England Division
An Independent CPA Firm

500 Boylston Street ■ Boston, MA 02116
Tel: 617.761.0600 ■ Fax: 617.761.0601 ■ www.cbiztofias.com

Independent Auditors' Report

The Board of Trustees
Unitarian Universalist Association
Boston, Massachusetts

We have audited the accompanying financial statements of the Unitarian Universalist Association (the "Association"), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Unitarian Universalist Association as of June 30, 2014 and 2013, and the 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.

Other Matters

Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental information included in Schedules I through VII is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Mayer Hoffmann McCann P.C.

November 19, 2014
Boston, Massachusetts

UNITARIAN UNIVERSALIST ASSOCIATION

Statements of Financial Position

(in thousands)

	<i>June 30,</i>	
	<i>2014</i>	<i>2013</i>
Assets		
Cash and cash equivalents	\$ 17,797	\$ 11,298
Accounts receivable, net	2,107	1,608
Pledges receivable, net	2,198	127
Inventories	1,224	1,443
Other assets	1,904	1,774
Investments	106,188	71,507
Investment funds managed for others	93,797	78,180
Funds held in trust by others	46,738	42,291
Funds held in support of split-interest agreements	11,354	11,628
Loans to member congregations, net	6,335	6,943
Property and equipment, net	12,912	5,817
	<hr/>	<hr/>
Total assets	\$ 302,554	\$ 232,616
	<hr/> <hr/>	<hr/> <hr/>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 11,686	\$ 9,372
Annuity liabilities	2,401	2,674
Bank debt	12,223	1,744
Obligations under split-interest agreements	6,662	6,613
Obligations for funds managed for others	93,797	78,180
Accumulated postretirement benefit obligation	1,690	1,769
	<hr/>	<hr/>
Total liabilities	128,459	100,352
	<hr/>	<hr/>
Net assets:		
Unrestricted	50,553	17,119
Temporarily restricted	65,114	57,295
Permanently restricted	58,428	57,850
	<hr/>	<hr/>
Total net assets	174,095	132,264
	<hr/>	<hr/>
Total liabilities and net assets	\$ 302,554	\$ 232,616
	<hr/> <hr/>	<hr/> <hr/>

UNITARIAN UNIVERSALIST ASSOCIATION

Statements of Activities

(with comparative totals for 2013)

(in thousands)

	<i>For the Years Ended June 30,</i>				<i>2013</i>
	<i>2014</i>				
	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>	<i>Total</i>
Support and revenue:					
Fundraising and gifts and bequests	\$ 11,320	\$ 771	\$ 124	\$ 12,215	\$ 12,353
Net sales from publishing activities	6,623	-	-	6,623	6,415
Sales and administrative services	2,498	-	-	2,498	1,821
Investment return authorized for operations	3,816	-	-	3,816	4,262
Distributions from Holdeen	1,073	299	-	1,372	1,327
Other investment income	352	-	-	352	340
Other income	5,696	-	-	5,696	5,652
Net assets released from restriction	1,219	(967)	(252)	-	-
Total support and revenue	<u>32,597</u>	<u>103</u>	<u>(128)</u>	<u>32,572</u>	<u>32,170</u>
Expenditures:					
Programs	25,673	-	-	25,673	25,648
General and administration	5,606	-	-	5,606	5,578
Stewardship and development	2,343	-	-	2,343	2,030
Total expenditures	<u>33,622</u>	<u>-</u>	<u>-</u>	<u>33,622</u>	<u>33,256</u>
Changes in net assets from operations	<u>(1,025)</u>	<u>103</u>	<u>(128)</u>	<u>(1,050)</u>	<u>(1,086)</u>
Nonoperating income (expense):					
Investment return, net of amounts authorized for operations	3,187	3,622	-	6,809	2,261
Increase in value of funds held in support of split-interest agreements and trusts	144	3,177	1,079	4,400	2,171
Postretirement benefit plan income	-	-	-	-	144
Gain from sale of real estate	22,157	-	-	22,157	-
Donation from Liberal Religious Charitable Society	7,638	2,026	-	9,664	-
Other expense	(149)	-	-	(149)	-
Other releases and changes in net assets	1,482	(1,109)	(373)	-	(147)
Change in net assets from nonoperating activities	<u>34,459</u>	<u>7,716</u>	<u>706</u>	<u>42,881</u>	<u>4,429</u>
Change in net assets	33,434	7,819	578	41,831	3,343
Net assets, beginning of year	<u>17,119</u>	<u>57,295</u>	<u>57,850</u>	<u>132,264</u>	<u>128,921</u>
Net assets, end of year	\$ <u>50,553</u>	\$ <u>65,114</u>	\$ <u>58,428</u>	\$ <u>174,095</u>	\$ <u>132,264</u>

See accompanying notes to financial statements.

UNITARIAN UNIVERSALIST ASSOCIATION

Statement of Activities

For the Year Ended June 30, 2013

(in thousands)

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Support and revenue:				
Fundraising and gifts and bequests	\$ 11,539	\$ 742	\$ 72	\$ 12,353
Net sales from publishing activities	6,415	-	-	6,415
Sales and administrative services	1,821	-	-	1,821
Investment return authorized for operations	4,262	-	-	4,262
Distributions from Holdeen	1,107	220	-	1,327
Other investment income	340	-	-	340
Other income	5,652	-	-	5,652
Net assets released from restriction	1,189	(1,189)	-	-
Total support and revenue	<u>32,325</u>	<u>(227)</u>	<u>72</u>	<u>32,170</u>
Expenditures:				
Programs	25,648	-	-	25,648
General and administration	5,578	-	-	5,578
Stewardship and development	2,030	-	-	2,030
Total expenditures	<u>33,256</u>	<u>-</u>	<u>-</u>	<u>33,256</u>
Changes in net assets from operations	<u>(931)</u>	<u>(227)</u>	<u>72</u>	<u>(1,086)</u>
Nonoperating income (expense):				
Investment return, net of amounts authorized for operations	1,210	1,051	-	2,261
Increase in value of funds held in support of split-interest agreements and trusts	92	1,515	564	2,171
Postretirement benefit plan income	144	-	-	144
Other releases and changes in net assets	432	(444)	(135)	(147)
Change in net assets from nonoperating activities	<u>1,878</u>	<u>2,122</u>	<u>429</u>	<u>4,429</u>
Change in net assets	947	1,895	501	3,343
Net assets, beginning of year	<u>16,172</u>	<u>55,400</u>	<u>57,349</u>	<u>128,921</u>
Net assets, end of year	\$ <u>17,119</u>	\$ <u>57,295</u>	\$ <u>57,850</u>	\$ <u>132,264</u>

See accompanying notes to financial statements.

UNITARIAN UNIVERSALIST ASSOCIATION

Statements of Cash Flows

(in thousands)

	<i>For the Years Ended June 30,</i>	
	<i>2014</i>	<i>2013</i>
Cash flows from operating activities:		
Change in net assets	\$ 41,831	\$ 3,343
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	550	548
Gain from sale of real estate	(22,157)	-
Net realized and unrealized gains on investments	(10,340)	(5,855)
Contributions restricted for long-term investment	(124)	(72)
Net change in value of funds held in support of split-interest agreements and trusts	(4,400)	(2,171)
Changes in assets and liabilities:		
Accounts receivable, net	(499)	300
Pledges receivable, net	(2,071)	42
Inventories	219	126
Other assets	(130)	(749)
Accounts payable and accrued expenses	2,314	1,392
Accumulated postretirement benefit obligation	(79)	(182)
	<u>5,114</u>	<u>(3,278)</u>
Net cash provided by (used in) operating activities	5,114	(3,278)
Cash flows from investing activities:		
Cost of purchases of investments	(71,222)	(80,679)
Proceeds from sales of investments	31,267	74,395
Purchases of property and equipment	(8,988)	(537)
Proceeds from sales of real estate	23,500	-
Change in obligations for funds managed for others	15,617	10,999
Additions to loans to member congregations	(720)	(44)
Repayments on loans to member congregations	1,328	630
	<u>(9,218)</u>	<u>4,764</u>
Net cash provided by (used in) investing activities	(9,218)	4,764
Cash flows from financing activities:		
Repayment of bank debt	(241)	(196)
Proceeds from bank debt	10,720	-
Contributions restricted for long-term investment	124	72
	<u>10,603</u>	<u>(124)</u>
Net cash provided by (used in) financing activities	10,603	(124)
Change in cash and cash equivalents	6,499	1,362
Cash and cash equivalents as of beginning of year	<u>11,298</u>	<u>9,936</u>
Cash and cash equivalents as of end of year	\$ <u>17,797</u>	\$ <u>11,298</u>

See accompanying notes to financial statements.

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to 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's central office is at 24 Farnsworth Street in Boston, Massachusetts. Regional, District and other offices are located throughout the country. 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 chief operating officer and nine other staff group directors form the leadership council, which manages the day-to-day business of the Association.

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 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 Unitarian Universalist Common Endowment Fund (UUCEF). 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 Association congregations. UUCEF is the endowment fund which holds long-term invested assets of the Association and those of Association congregations electing to hold assets alongside the Association.

Note 2 - Summary of Significant Accounting Policies

Basis of Financial Statement Presentation

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

Unrestricted net assets – represent those assets that the Association may use at its discretion as well as accumulated unspent gains related to a trust whose income is unrestricted.

Temporarily restricted net assets – result from contributions subject to donor-imposed use or time related restrictions. Temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions in the period in which the donor-imposed stipulation is met or that the stipulated time restrictions have passed. Net appreciation (depreciation) of permanently restricted long-term investments is recognized within the temporarily restricted net asset category until such monies are available for expenditure under the Association's spending policy and a qualifying expenditure is incurred unless otherwise directed by the underlying arrangements with the donor in accordance with law. Charitable lead trusts, in which a donor establishes and funds a trust with distributions to be made to the Association over a specified period no matter what duration, are categorized as temporarily restricted net assets.

Permanently restricted net assets – result from contributions which stipulate that the resources be maintained permanently by the Association. Generally, the donors of these assets permit the Association to use or expend part or all of the returns derived from the donated assets for general or specific purposes.

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Basis of Financial Statement Presentation (Continued)

Fundraising support, gifts and bequests are reported as increases in unrestricted net assets 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 temporarily or permanently restricted support as applicable. If a restriction on a gift is fulfilled in the same time period in which the contribution is received, the contribution is reported as an unrestricted contribution. Expenses are reported as decreases in unrestricted net assets.

Amounts reported as nonoperating in the statement 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, 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, 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.

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. 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 which are not 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 \$25 and \$43 at June 30, 2014 and 2013, respectively.

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

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 allowance by 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 \$61 and \$30 at June 30, 2014 and 2013, respectively.

Investments

Investments are reported at fair value. Fair value is determined as per the fair value policies described later in this section. Interest, dividends and net gains or losses on investments are reported as increases or decreases in permanently restricted net assets if the terms of the original gift require that they be applied to the principal of a permanent endowment fund; as increases or decreases in temporarily restricted net assets if the terms of the gift and/or relevant state law impose restrictions on the current use of the income or net gains and losses; and as increases or decreases in unrestricted net assets in all other cases.

The Association provides for the opportunity for member congregations to invest their funds utilizing the professional investment management, administration and reporting capabilities. The funds are operated much like a mutual fund with the investments of the Association and member congregations being co-mingled such that each participant will share in the returns on the funds in pro-rata relationship to their units of ownership. New units are issued when new monies are to be invested, while redemptions reduce units outstanding. The net asset value per unit is adjusted monthly based on underlying changes in the fair value of investments.

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. 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, obligations under split-interest agreements and asset retirement obligations. 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

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Fair Value Measurements (Continued)

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 is met. Fair value standards also require the Association to classify its financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique or in accordance with net asset value practical expedient rules, which allow for either Level 2 or Level 3 depending on lock up and notice periods associated with underlying funds. Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

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 2 also includes investments accounted for under the net asset practical expedient with lock up periods of 90 days or less.

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. Level 3 also includes investments accounted for under the net asset value practical expedient with lock up periods greater than 90 days.

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.

Funds Held in Trust by Others

The Association accounts for its beneficial interests in perpetual 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 and perpetual right to receive income/benefits from the trust assets; however, 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 and have been recorded in permanently restricted net assets. Changes in the fair value of the trusts are reported as increases or decreases in permanently restricted net assets. 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

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Funds Held in Trust by Others (Continued)

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 while 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

Land, buildings, improvements, furniture and fixtures, and equipment are stated at cost at the date of acquisition or improvement at fair market value at the date of donation in the case of gifts. Fair value of donated property and equipment is effectively recorded using a Level 3 market approach when applicable. Minor renovations and repairs are charged to operations and maintenance as incurred. Depreciation of property and equipment is computed on a straight-line basis over the expected lives of the respective assets.

Revenue Recognition and Royalty Advances from Publishing Activities

Revenue is recorded upon shipment, net of estimated returns.

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. Write-offs of advances are recorded when 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 \$1,661 and \$1,525 at June 30, 2014 and 2013, respectively.

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

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.

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.

Uncertain Tax Positions

The Association accounts 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 has a number of tax positions, none of which result in an uncertainty requiring recognition. The Association is not currently under examination by any taxing jurisdiction. As a tax-exempt church related organization, the Association is exempt from filing certain non-profit filings, and accordingly, there are no returns currently open for examination.

Functional Expense Allocation

Costs have been allocated to functional classifications based on percentage of effort, usage, square footage and other criteria. Accordingly, costs and expenses have been allocated to the benefiting function using various assumptions and estimates.

Fundraising Expenditures

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

Group Insurance Plan

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. The Association does not assume insurance risk under these arrangements.

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Conditional Asset Retirement Obligations

The Association applies the principles of accounting for conditional asset retirement obligations to its retirement obligations. Under these principles, the obligation to perform asset retirement activity may be unconditional even though uncertainty exists about the timing and/or method of settlement. Accordingly, the Association is required to recognize a liability for the fair value of conditional asset retirement obligations if the fair value of the liability is reasonably estimated. The Association has recorded a liability of \$586 for the year ended June 30, 2013, for its estimated asset retirement obligations, which is included in accrued expenses. The conditional asset liability was written off in 2014 when the underlying assets were sold.

Note 3 - 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, 2014 and 2013.

Pledges receivable consisted of the following as of June 30, 2014 and 2013:

	<i>2014</i>	<i>2013</i>
Amounts due in:		
Less than one year	\$ 2,079	\$ 48
Two to five years	<u>139</u>	<u>99</u>
	2,218	147
Less allowance for uncollectible pledges and present value discount	<u>(20)</u>	<u>(20)</u>
Pledges receivable, net	\$ <u>2,198</u>	\$ <u>127</u>

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 4 - Investments

Investments as of June 30, 2014 and 2013 are recorded in the statement of financial position as follows:

	<i>2014</i>	<i>2013</i>
Investments (UUA)	\$ 106,188	\$ 71,507
Investment funds managed for others (member congregations)	<u>93,797</u>	<u>78,180</u>
Total	\$ <u>199,985</u>	\$ <u>149,687</u>

Total investment return from working capital investments, long-term investments and restricted cash consisted of the following for the years ended June 30, 2014 and 2013:

	<i>2014</i>	<i>2013</i>
Investment income	\$ 1,240	\$ 1,637
Net realized gain on investments	2,843	1,734
Net change in unrealized gain on investments	7,497	4,121
Less investment fee expense	<u>(603)</u>	<u>(629)</u>
Total return	\$ <u>10,977</u>	\$ <u>6,863</u>

Following is a reconciliation of total investment return to amounts reported in the statement of activities for the years ended June 30, 2014 and 2013:

	<i>2014</i>	<i>2013</i>
Investment return authorized for operations	\$ 3,816	\$ 4,262
Other investment return - operating activities	352	340
Investment return, net of amounts authorized for operations - nonoperating - unrestricted	3,187	1,210
Investment return - nonoperating - temporarily restricted	<u>3,622</u>	<u>1,051</u>
Total return	\$ <u>10,977</u>	\$ <u>6,863</u>

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 5 - Fair Values of Financial Instruments

The following tables present financial assets at June 30, 2014 that the Association measures fair value on a recurring basis, by level, within the fair value hierarchy:

	<i>Investments</i>			
	<i>2014</i>			
UUCEF investments	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Equity securities:				
Domestic securities	\$ 34,910	\$ -	\$ -	\$ 34,910
Foreign securities	24,036	18,339	-	42,375
Fixed income funds:				
Domestic funds	12,265	17,488	-	29,753
Foreign funds	5,196	-	-	5,196
Global asset allocation funds	17,730	36,170	-	53,900
Hedge fund of funds	-	-	8,166	8,166
Private opportunities	-	-	1,008	1,008
Community investments	-	1,509	-	1,509
	<hr/>	<hr/>	<hr/>	<hr/>
Total UUCEF investments	94,137	73,506	9,174	176,817
	<hr/>	<hr/>	<hr/>	<hr/>
Short-term investments				
Cash and equivalents	55	-	-	55
Domestic fixed income funds	23,113	-	-	23,113
	<hr/>	<hr/>	<hr/>	<hr/>
Total short-term investments	23,168	-	-	23,168
	<hr/>	<hr/>	<hr/>	<hr/>
Total investments	\$ 117,305	\$ 73,506	\$ 9,174	\$ 199,985
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 5 - Fair Values of Financial Instruments (Continued)

Split-interest Agreements and Funds Held by Others

2014

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Split-interest agreements:				
Charitable gift annuity	\$ 7,631	\$ -	\$ -	\$ 7,631
Charitable remainder trust	-	-	937	937
Pooled income funds	2,786	-	-	2,786
	<u>10,417</u>	<u>-</u>	<u>937</u>	<u>11,354</u>
Funds held by others:				
Holdeen trusts	-	-	35,100	35,100
Outside trusts	-	-	11,638	11,638
	<u>-</u>	<u>-</u>	<u>46,738</u>	<u>46,738</u>
Total split-interest agreements and funds held by others	\$ <u>10,417</u>	\$ <u>-</u>	\$ <u>47,675</u>	\$ <u>58,092</u>

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 5 - Fair Values of Financial Instruments (Continued)

The following tables present financial assets at June 30, 2013 that the Association measures at fair value on a recurring basis, by level, within the fair value hierarchy:

	<i>Investments</i>			
	<i>2013</i>			
UUCEF investments	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Equity securities:				
Domestic securities	\$ 30,768	\$ -	\$ -	\$ 30,768
Foreign securities	17,301	11,927	-	29,228
Fixed income funds:				-
Domestic funds	10,359	14,908	-	25,267
Foreign funds	4,303	7,138	-	11,441
Global asset allocation funds	15,099	28,850	-	43,949
Hedge fund of funds	-	-	7,394	7,394
Community investments	-	1,585	-	1,585
	<hr/>	<hr/>	<hr/>	<hr/>
Total UUCEF investments	77,830	64,408	7,394	149,632
Short-term investments				
Cash and equivalents	55	-	-	55
	<hr/>	<hr/>	<hr/>	<hr/>
Total investments	\$ 77,885	\$ 64,408	\$ 7,394	\$ 149,687

Split-interest Agreements and Funds Held by Others

	<i>2013</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Split-interest agreements:				
Charitable gift annuity	\$ 7,296	\$ -	\$ -	\$ 7,296
Charitable remainder trust	-	-	1,599	1,599
Pooled income funds	2,733	-	-	2,733
	<hr/>	<hr/>	<hr/>	<hr/>
	10,029	-	1,599	11,628
Funds held by others:				
Holdeen trusts	-	-	31,722	31,722
Outside trusts	-	-	10,569	10,569
	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	42,291	42,291
Total split-interest agreements and funds held by others	\$ 10,029	\$ -	\$ 43,890	\$ 53,919

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 5 - Fair Values of Financial Instruments (Continued)

The Association owns interests in each alternative investment fund rather than in the securities underlying each fund, and therefore it is generally required to consider such investments as Level 2 or 3 for purposes of applying the fair value measurement standard, even though the underlying securities may not be difficult to value or may be readily marketable. Also, because of the use of net asset valuation as a practical expedient to estimate fair value, the level in the fair value hierarchy in which each fund's fair value measurement is classified is based primarily on the Association's ability to redeem interest in the fund at or near the date of the statement of financial position. Accordingly, the inputs or methodology used for valuing or classifying investments for financial reporting purposes are not necessarily an indication of the risk associated with investing in those investments or a reflection on the liquidity of each fund's underlying assets and liabilities.

The investments in Levels 2 and 3 are substantially valued using net asset value as a practical expedient.

<i>Level 3 Roll Forward</i>				
<i>2014</i>				
	<i>Hedge & Private Opportunities</i>	<i>Holdeen Trusts</i>	<i>Outside Trusts</i>	<i>Charitable Remainder Trust</i>
Beginning balance	\$ 7,394	\$ 31,722	\$ 10,569	\$ 1,599
Additions/purchases	1,060	-	-	-
Distributions/sales	(52)	(1,704)	(418)	(731)
Unrealized gain	772	5,082	1,487	69
Ending balance	\$ 9,174	\$ 35,100	\$ 11,638	\$ 937

<i>Level 3 Roll Forward</i>				
<i>2013</i>				
	<i>Hedge Fund of Funds</i>	<i>Holdeen Trusts</i>	<i>Outside Trusts</i>	<i>Charitable Remainder Trust</i>
Beginning balance	\$ 6,716	\$ 30,274	\$ 10,009	\$ 1,507
Additions/purchases	-	-	-	-
Distributions/sales	-	(1,504)	(413)	-
Unrealized gain	678	2,952	973	92
Ending balance	\$ 7,394	\$ 31,722	\$ 10,569	\$ 1,599

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 5 - Fair Values of Financial Instruments (Continued)

The Association invests in certain entities that calculate net asset value per share in accordance with guidance relative to investment companies, and these investments are reported at fair value based on the net asset value per share as reported by the investee. These investments are measured at fair value using Level 2 or Level 3 inputs. Investments are categorized as Level 2 instruments when the Association has the ability to redeem its investment in the entity at net asset value per share at year-end or within 90 days of year-end. Investments are categorized as Level 3 instruments when the Association cannot redeem its investment within 90 days of year-end. A summary of the significant categories of such investments and their attributes is as follows as of June 30, 2014:

	<i>Fair Value</i>	<i>Unfunded Commitments</i>	<i>Redemption Frequency (if Currently Eligible)</i>	<i>Redemption Notice Period</i>
	<i>(in thousands)</i>			
Global asset allocation funds	\$ 36,170	\$ -	Monthly	5 days; prior month
Foreign equity securities	18,339	-	Monthly/Bi-monthly	1 day; 10 days
Hedge fund-of-funds	8,166	-	Quarterly	Max w/d = 50%
Domestic fixed income funds	17,488	-	Bi-monthly	30 days
Private opportunities fund	1,008	1,003	10 Years	Liquidation at end of fund term
Community investments	<u>1,509</u>	<u>-</u>	1-5 Years	Not applicable
	<u><u>\$ 82,680</u></u>	<u><u>\$ 1,003</u></u>		

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.

Fair values of financial instruments for which the Association did not elect the fair value option include cash and cash equivalents, accounts receivable, pledges receivable, loans to member congregations, accounts payable, obligations under split-interest agreements, annuity liabilities and bank debt. Management believes the carrying value approximates fair value for items of short-term nature. For other instruments, management concluded that the cost of obtaining such fair value information outweighed the benefit to be derived. The fair values of such instruments have been derived, in part, by management's assumptions under Level 2 fair value methods. Different assumptions could significantly affect these estimated fair values. Accordingly, the net realizable values could be materially different from the estimated fair value. In addition, the estimates are only indicative of the value of individual financial instruments and should not be considered an indication of the fair value of the Association. 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

Notes to Financial Statements (in thousands)

Note 6 - Loans to Member Congregations

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

	<i>2014</i>		<i>2013</i>
Mortgage loans to member congregations at interest rates from 0% to 5.25% due through 2035	\$ 6,713	\$	7,318
Less allowance for uncollectible loans	<u>(378)</u>		<u>(375)</u>
Net	\$ <u>6,335</u>	\$	<u>6,943</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 at June 30, 2014:

2015	\$	633
2016		394
2017		363
2018		374
2019		362
Thereafter		<u>4,587</u>
Total	\$	<u>6,713</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.

At June 30, 2014 and 2013, the following amounts were past due under loans to member congregations:

<i>June 30,</i>	<i>Loans Past Due</i>		<i>Loans in Default</i>		<i>Total Past Due/Default</i>		<i>Current</i>		<i>Total Receivable</i>	
2014	\$	5	\$	181	\$	186	\$	6,527	\$	6,713
2013	\$	22	\$	176	\$	198	\$	7,122	\$	7,318

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 7 - Property and Equipment

Property and equipment was composed of the following as of June 30, 2014 and 2013:

	<i>Estimated Useful Lives</i>		<i>2014</i>		<i>2013</i>
Land, buildings and improvements	15-50 yrs	\$	13,486	\$	11,023
Computer equipment	4 yrs		1,614		1,488
Office furniture and fixtures	1-10 yrs		1,954		854
			17,054		13,365
Less accumulated depreciation			(4,142)		(7,548)
Property and equipment, net		\$	12,912	\$	5,817

Sale of Real Estate

In March 2014, the Association sold its primary office buildings at 25 Beacon Street and 6 and 7 Mount Vernon Place, Boston for \$23,500. The net gain on sale after sale expenses and write-off of the undepreciated assets was \$22,157. The Association plans to use the proceeds to purchase the 24 Farnsworth Street building in accordance with its one-time right to purchase on January 1, 2015. The Association was granted a license to use the sold Beacon Street and Mt. Vernon Place buildings through June 30, 2014 and July 31, 2014, respectively, at no cost to the Association. The Association has relocated its primary office to, and is currently leasing space at the Farnsworth Street building.

Construction of Office Space

During the year ended June 30, 2014, the Association engaged in a construction project to build out the leased office space at 24 Farnsworth Street. \$7,264 of leasehold improvements, \$974 of furniture and fixtures and \$616 of technology/telephone infrastructure equipment were capitalized as part of this construction. The construction was financed by a \$10,000 term loan. A portion of the construction project was supported by a construction contract with a general contractor at a guaranteed maximum price of \$5,777. During 2014, \$4,645 was expended against this contract.

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 8 - Bank Debt

The Association has the following bank debt at June 30, 2014 and 2013:

	<i>2014</i>	<i>2013</i>
Member lending credit line	\$ 2,156	\$ 1,511
Term note payable	10,000	-
Mortgage note	<u>67</u>	<u>233</u>
Total bank debt	\$ <u>12,223</u>	\$ <u>1,744</u>

Member Lending Credit Line

The member lending credit line is a revolving line of credit with an aggregate borrowing limit of \$4,000 (\$6,000 at June 30, 2013). The line contains certain financial covenants and expires on December 31, 2015, at which time it will be reviewed for renewal. 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. Draws on the line of credit bear interest at various rates between 3.09% and 5.25%, and mature at various dates through April 14, 2019.

Term Note Payable

In February 2014, the Association executed a \$10,000 term note payable agreement. This term note payable is being used for leasehold improvements, furniture, fixtures, and equipment relating to the leased property at 24 Farnsworth Street. The agreement contains certain financial and nonfinancial covenants and is collateralized by certain of the Association's securities held in the UUCEF endowment fund. \$10,000 was outstanding as of June 30, 2014. Draws on the line bear interest at 3.40% and are payable monthly in installments of \$99 for principal and interest starting in September 2014 with a final due date of February 7, 2019.

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 8 - Bank Debt (Continued)

Line of Credit

The Association has a \$500 line of credit available with a bank of which no amounts were outstanding at June 30, 2014 and 2013. 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 line is collateralized by cash deposits. The line contains certain financial covenants and expires on December 31, 2015 at which time it will be reviewed for renewal.

Mortgage Note

The Association has a mortgage note which bears interest at a fixed rate per annum equal to 3.99%. The mortgage note is payable quarterly with equal principal installments of \$33 plus interest with a final due date of any remaining principal at December 31, 2014. The agreement contains financial and nonfinancial covenants and is collateralized by the Association's real estate mortgages on 41 Mount Vernon Street, Boston, Massachusetts.

The Association was in compliance with its debt covenants at June 30, 2014 and 2013.

Interest expense for the years ended June 30, 2014 and 2013 was \$95 and \$83, respectively. Capitalized interest was \$22 for the year ended June 30, 2014. Cash paid for interest was \$117 and \$83 for the years ended June 30, 2014 and 2013, respectively.

Expected payments for the bank debt are as follows at June 30, 2014:

2015	\$	1,135
2016		939
2017		1,431
2018		991
2019		<u>7,727</u>
Total	\$	<u><u>12,223</u></u>

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 9 - Net Assets and Endowment Matters

Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following as of June 30, 2014 and 2013:

	<i>2014</i>	<i>2013</i>
Accumulated unspent gains:		
Unrestricted	\$ <u>6,197</u>	\$ <u>6,108</u>
Purpose restrictions:		
Split-interest agreements	1,674	1,876
Building loan fund	201	201
Scholarships for ministerial students	8,800	7,132
Ministerial aid	7,284	7,697
Other programs	<u>1,921</u>	<u>895</u>
Total	<u>19,880</u>	<u>17,801</u>
Time and purpose restrictions:		
Funds held in trust by others - Holdeen trusts	35,100	31,722
Amounts restricted by donors for programs	<u>3,937</u>	<u>1,664</u>
Total	<u>39,037</u>	<u>33,386</u>
Total	\$ <u><u>65,114</u></u>	\$ <u><u>57,295</u></u>

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 9 - Net Assets and Endowment Matters (Continued)

Temporarily Restricted Net Assets (Continued)

Net assets released from temporarily restricted net assets were as follows for the years ended June 30, 2014 and 2013:

	2014	2013
Ministerial programs	\$ <u>967</u>	\$ <u>1,189</u>

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

Permanently Restricted Net Assets

Permanently restricted net assets as of June 30, 2014 and 2013 consisted of the following:

	2014	2013
Restricted as to purpose:		
General operating	\$ 27,101	\$ 27,315
Scholarships for ministerial students	11,613	11,613
Building loan fund	4,412	4,412
Other programs	2,206	2,491
Ministerial aid	1,338	1,338
Funds held in trust by others for restricted purposes	11,638	10,569
Split-interest agreement	65	57
Wilton Peace Prize Fund	<u>55</u>	<u>55</u>
Total	\$ <u>58,428</u>	\$ <u>57,850</u>

During the year ended June 30, 2014, the Association received permission from a donor to release \$252 of previously permanently restricted funds to unrestricted due to the original restricted purpose being no longer applicable.

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 9 - Net Assets and Endowment Matters (Continued)

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 permanently restricted and unrestricted net assets is a trust that under the following circumstances could result in termination of the trust and the return of such funds: the Association declares bankruptcy; terminates or liquidates its existence or ceases to operate as a religious, charitable or educational organization.

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 classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, if any. Collectively, these amounts are referred to as the historic dollar value of the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated 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

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 9 - 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, 2014 are as follows:

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Endowment net assets, beginning of year	\$ <u>8,662</u>	\$ <u>21,832</u>	\$ <u>42,758</u>	\$ <u>73,252</u>
Investment return:				
Investment income (net of expenses)	58	79	-	137
Net appreciation (realized and unrealized)	<u>4,325</u>	<u>6,015</u>	<u>-</u>	<u>10,340</u>
Total investment return	4,383	6,094	-	10,477
Contributions	7,638	-	124	7,762
Investment return authorized for operations	(1,583)	(4,336)	(251)	(6,170)
Other net asset transfers	<u>1,482</u>	<u>(1,109)</u>	<u>(373)</u>	<u>-</u>
Endowment net assets, end of year	\$ <u>20,582</u>	\$ <u>22,481</u>	\$ <u>42,258</u>	\$ <u>85,321</u>

Endowment net asset composition by type of fund consists of the following at June 30, 2014:

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Donor-imposed endowment funds	\$ -	\$ 22,481	\$ 42,258	\$ 64,739
Unrestricted quasi endowment funds	<u>20,582</u>	<u>-</u>	<u>-</u>	<u>20,582</u>
Total endowed net assets	\$ <u>20,582</u>	\$ <u>22,481</u>	\$ <u>42,258</u>	\$ <u>85,321</u>

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 9 - 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, 2013 are as follows:

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Endowment net assets, beginning of year	\$ <u>7,288</u>	\$ <u>21,323</u>	\$ <u>42,737</u>	\$ <u>71,348</u>
Investment return:				
Investment income (net of expenses)	198	324	-	522
Net appreciation (realized and unrealized)	<u>2,209</u>	<u>3,646</u>	<u>-</u>	<u>5,855</u>
Total investment return	2,407	3,970	-	6,377
Contributions	-	127	72	199
Investment return authorized for operations	(1,377)	(3,131)	(17)	(4,525)
Other net asset transfers	<u>344</u>	<u>(457)</u>	<u>(34)</u>	<u>(147)</u>
Endowment net assets, end of year	\$ <u><u>8,662</u></u>	\$ <u><u>21,832</u></u>	\$ <u><u>42,758</u></u>	\$ <u><u>73,252</u></u>

Endowment net asset composition by type of fund consists of the following at June 30, 2013:

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Donor-imposed endowment funds	\$ (140)	\$ 21,832	\$ 42,758	\$ 64,450
Unrestricted quasi endowment funds	<u>8,802</u>	<u>-</u>	<u>-</u>	<u>8,802</u>
Total endowed net assets	\$ <u><u>8,662</u></u>	\$ <u><u>21,832</u></u>	\$ <u><u>42,758</u></u>	\$ <u><u>73,252</u></u>

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 9 - Net Assets and Endowment Matters (Continued)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Association to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$0 and \$140 as of June 30, 2014 and 2013, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

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 7% annually. Actual returns in any given year may vary from this amount.

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 5.5% 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 4.5% and not more than 6.25% of the trailing four-quarter average market value of the endowment as of the previous December.

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.

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 10 - Leases and Other Commitments

Leases

The Association leases certain office equipment and office space under lease agreements classified as operating leases. The office leases provide for various escalations for operating costs and real estate taxes.

During 2013, the Association entered into a 10-year office rental lease ending on August 31, 2023, for three of six floors at 24 Farnsworth Street, Boston, Massachusetts ("Farnsworth"). The Association moved to this new space in May 2014. The Association has a one-time right to purchase the Farnsworth building and property on the fifth business day following January 1, 2015, which it expects to exercise. The Association plans to use the proceeds from the sale of its former headquarters properties to purchase the Farnsworth building.

Future minimum rental payments required under operating leases and office rental agreements that have initial or remaining noncancelable terms in excess of one year as of June 30, 2014 are:

2015	\$	1,731
2016		1,605
2017		1,636
2018		1,668
2019		1,708
Thereafter		<u>7,539</u>
Total	\$	<u><u>15,887</u></u>

Rental expense charged to operations was \$396 and \$219 for the years ended June 30, 2014 and 2013, respectively. Rent expense capitalized was \$1,126 and \$0 for the years ended June 30, 2014 and 2013, respectively. Given the intent to purchase, the Association recorded the rent as paid.

Guarantees

The Association guarantees certain loans extended by various lending institutions to member congregations. The outstanding guarantees were \$479 and \$929 as of June 30, 2014 and 2013, respectively, on loans totaling \$967 and \$2,067, respectively. The loan guarantees were obtained by the member congregations via 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.

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 10 - 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, 2014 and 2013, 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 \$200 calendar year threshold is reached, up to a lifetime maximum of \$2,000. In addition, aggregate protection is provided for incurred claims in a calendar year that exceed 125% of expected claims up to a maximum of \$1,000 per year.

Employment Related Agreements

The Association has an outstanding loan receivable from an employee in the amount of \$200 as of June 30, 2014 and 2013. The loan is due in full upon departure, and interest of 5% is paid annually. In addition, 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, 2014 and 2013 were \$5,640 and \$3,876, respectively.

Note 11 - Benefit Plans

The Association has a qualified defined contribution retirement plan covering all employees who have satisfied initial age and hours requirements. The Association makes a pension contribution of 11% of employee salary for all employees who have elected to 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 \$878 and \$856 for the years ended June 30, 2014 and 2013, 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

Notes to Financial Statements (in thousands)

Note 11 - Benefit Plans (Continued)

The following table presents the Plan's funded status at June 30, 2014 and 2013:

	<i>2014</i>	<i>2013</i>
Changes in benefit obligation:		
Benefit obligation at beginning of year	\$ 1,769	\$ 1,951
Service cost	2	4
Interest cost	65	96
Actuarial gain	-	(126)
Benefits paid	<u>(146)</u>	<u>(156)</u>
 Benefit obligation at end of year	 <u>1,690</u>	 <u>1,769</u>
Change in plan assets:		
Employer contribution	146	156
Benefits paid	<u>(146)</u>	<u>(156)</u>
 Fair value of plan assets at end of year	 <u>-</u>	 <u>-</u>
 Accrued postretirement benefit obligation	 \$ <u>1,690</u>	 \$ <u>1,769</u>

Assumptions used to determine the benefit obligation as of June 30, 2014 and 2013 are as follows:

	<i>2014</i>	<i>2013</i>
Discount rate	4.00%	4.00%
Rate of increase in healthcare costs	5.70	6.50

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.

A one-percentage-point change in assumed healthcare cost trend rates would have the following effects as of June 30, 2014:

	<i>One- Percentage- Point Increase</i>	<i>One- Percentage- Point Decrease</i>
Effects on total service and interest cost components for 2014	\$ 76	\$ 64
Effects on year-end 2014 accumulated postretirement benefit obligation	1,846	1,557

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 11 - Benefit Plans (Continued)

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

2015	\$	148
2016		147
2017		144
2018		142
2019		138
2020-2024		620

The expected benefits are based on the same assumptions used to measure the Association's benefit obligation at June 30, 2014 and 2013.

Net periodic postretirement benefit cost reported as expense in the statement of activities included the following components:

	<i>2014</i>	<i>2013</i>
Service cost	\$ 2	\$ 4
Interest cost	68	95
Amortization of (gain) loss	<u>(3)</u>	<u>20</u>
Net periodic benefit cost	\$ <u>67</u>	\$ <u>119</u>

Assumptions used to determine the net periodic postretirement benefit cost as of June 30, 2014 and 2013 are as follows:

	<i>2014</i>	<i>2013</i>
Discount rate	4.00%	5.00%
Rate of increase in healthcare costs	6.50	8.00

The ultimate healthcare cost trend rate assumption of 4.70% used to calculate the net periodic postretirement benefit cost is expected to be reached by 2092.

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 12 - Programs Expenses

The Association's programs expenses and costs in 2014 and 2013 were as follows:

	<i>2014</i>	<i>2013</i>
Costs of goods sold and publishing expenses	\$ 6,218	\$ 6,204
Ministry and faith development	5,880	5,895
Congregational life	5,457	5,365
Other programs	4,438	4,391
Communications	2,438	2,387
Multicultural growth & witness	<u>1,242</u>	<u>1,406</u>
Total	\$ <u>25,673</u>	\$ <u>25,648</u>

Note 13 - Donation from Liberal Religious Charitable Society

During 2014, the Liberal Religious Charitable Society decided to dissolve their non-profit organization and turn over their \$9,664 in assets to the Association on an unrestricted basis. The Association intends to invest these funds in the UUCEF and to draw from these funds in accordance with its spending policy. At June 30, 2014, \$7,638 had been received and recorded as unrestricted income. The remaining \$2,026 has been recorded as a pledge receivable. The majority of these funds were received in July 2014 as the Liberal Religious Charitable Society investment redemption requirements were met, investments sold, and proceeds remitted to the Association.

Note 14 - Subsequent Events

The Association has evaluated subsequent events through November 19, 2014, the date the financial statements were authorized to be issued.

In August 2014, the Association sold its building at 41 Mount Vernon Street, Boston for \$11,500. The Association plans to use the proceeds to invest in the endowment. The net gain on sale after sale expenses and write-off of undepreciated assets was \$8,010. The mortgage note was paid off as part of the sale.

On November 4, 2014, the Association exercised its one-time right to purchase the 24 Farnsworth Street building on January 8, 2015. The Association intends to fund the purchase price for the building from proceeds that are held from the sale of its prior property holdings in Boston of which the proceeds are currently held in investments. The purchase and use of such proceeds will utilize a significant portion of the funds from the prior sales.

The UUCEF has established a limited liability company (LLC) to hold its assets and received an IRS 501(a)(3) tax exemption determination letter for the entity. The UUCEF plans to execute new LLC subscription agreements with investors and transfer assets to the LLC in fiscal year 2015.

Supplemental Schedules

UNITARIAN UNIVERSALIST ASSOCIATION

Supplemental Schedule of Assets by Business Segment

June 30, 2014

(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>
Current assets:								
Cash and cash equivalents	\$ 8,304	\$ 399	\$ 1,374	\$ 1,968	\$ 776	\$ 4,976	\$ -	\$ 17,797
Investments	23,165	-	-	59	-	176,817	(56)	199,985
Accounts receivable, net	1,444	-	-	663	-	-	-	2,107
Pledges receivable, net	2,198	-	-	-	-	-	-	2,198
Inventories	395	-	-	829	-	-	-	1,224
Amounts due from other business segments	(14)	-	-	-	1,000	-	(986)	-
Other current assets	556	-	-	-	-	91	-	647
Total current assets	36,048	399	1,374	3,519	1,776	181,884	(1,042)	223,958
Funds held in trust by others	46,738	-	-	-	-	-	-	46,738
Funds held in support of split-interest agreements	11,354	-	-	-	-	-	-	11,354
Other assets	200	-	-	-	-	-	-	200
Loans to member congregations, net	-	-	-	-	6,335	-	-	6,335
Property and equipment, net	12,900	-	-	12	-	-	-	12,912
Royalty advances	-	-	-	1,057	-	-	-	1,057
Total assets	\$ 107,240	\$ 399	\$ 1,374	\$ 4,588	\$ 8,111	\$ 181,884	\$ (1,042)	\$ 302,554

UNITARIAN UNIVERSALIST ASSOCIATION

Supplemental Schedule of Liabilities and Net Assets by Business Segment

June 30, 2014

(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>
Current liabilities:								
Accounts payable and accrued expenses	\$ 9,259	\$ -	\$ -	\$ 1,455	\$ 6	\$ 2,702	\$ (1,736)	\$ 11,686
Current portion of annuity liabilities	320	-	-	-	-	-	-	320
Current portion of bank debt	779	-	-	-	356	-	-	1,135
Amounts due to (from) other business segments	-	-	-	-	-	-	-	-
	980	-	-	(14)	(44)	64	(986)	-
Total current liabilities	11,338	-	-	1,441	318	2,766	(2,722)	13,141
Bank debt	9,288	-	-	-	1,800	-	-	11,088
Annuity liability and deferred revenue	2,081	-	-	-	-	-	-	2,081
Assets held in trust for others	6,662	-	-	-	-	93,797	-	100,459
Accumulated postretirement benefit obligation	1,690	-	-	-	-	-	-	1,690
Total liabilities	31,059	-	-	1,441	2,118	96,563	(2,722)	128,459
Net assets:								
Unrestricted	23,795	399	1,374	3,023	1,380	20,582	-	50,553
Temporarily restricted	40,628	-	-	83	201	22,481	1,721	65,114
Permanently restricted	11,758	-	-	41	4,412	42,258	(41)	58,428
Total net assets	76,181	399	1,374	3,147	5,993	85,321	1,680	174,095
Total liabilities and net assets	\$ 107,240	\$ 399	\$ 1,374	\$ 4,588	\$ 8,111	\$ 181,884	\$ (1,042)	\$ 302,554

UNITARIAN UNIVERSALIST ASSOCIATION
Supplemental Schedule of Unrestricted Activities by Business Segment

For the Year Ended June 30, 2014

(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>
Operating:								
Support and revenue:								
Fundraising and gifts and bequests	\$ 11,120	\$ -	\$ -	\$ 200	\$ -	\$ -	\$ -	\$ 11,320
Net sales from publishing activities	993	-	-	5,630	-	-	-	6,623
Sales and administrative services	1,655	1,604	-	-	-	-	(761)	2,498
Investment return authorized for operations	3,795	-	-	-	21	(1,583)	1,583	3,816
Distributions from Holdeen	1,073	-	-	-	-	-	-	1,073
Other investment income	39	-	-	4	309	-	-	352
Other income	4,084	-	1,427	285	-	-	(100)	5,696
Net assets released from restriction	1,219	-	-	-	-	-	-	1,219
Total support and revenue	23,978	1,604	1,427	6,119	330	(1,583)	722	32,597
Expenses:								
Board and volunteer leadership	568	-	-	-	-	-	-	568
Multicultural growth & witness	1,242	-	-	-	-	-	-	1,242
International	1,367	-	-	-	-	-	-	1,367
Congregational life	5,457	-	-	-	-	-	-	5,457
Ministry and faith development	4,864	-	1,387	-	-	-	(371)	5,880
UU Funding Program	1,207	-	-	-	-	-	-	1,207
Crisis Relief Program	401	-	-	-	-	-	-	401
Communications	2,438	-	-	-	-	-	-	2,438
Cost of goods sold and publishing expenses	294	-	-	6,024	-	-	(100)	6,218
Administration	1,628	-	-	-	-	-	-	1,628
Stewardship and development	2,343	-	-	-	-	-	-	2,343
Information technology services	1,419	-	-	-	-	-	-	1,419
Internal services	1,874	-	-	-	-	-	-	1,874
General assembly	-	1,463	-	-	-	-	-	1,463
Expenses associated with investment pools	-	-	-	-	275	-	(237)	38
Interest expense	-	-	-	-	79	-	-	79
Total expenses	25,102	1,463	1,387	6,024	354	-	(708)	33,622
Increase (decrease) in unrestricted net assets from operations	(1,124)	141	40	95	(24)	(1,583)	1,430	(1,025)
Nonoperating:								
Investment income	234	-	-	-	-	4,383	(1,430)	3,187
Increase in value of funds held in support of split-interest agreements and trusts	144	-	-	-	-	-	-	144
Postretirement benefit plan income	-	-	-	-	-	-	-	-
Proceeds from sale of real estate	22,157	-	-	-	-	-	-	22,157
Acquisition of Liberal Religious Charitable Society	-	-	-	-	-	7,638	-	7,638
Other expense	(149)	-	-	-	-	-	-	(149)
Other releases and changes in net assets	-	-	-	-	-	1,482	-	1,482
Total decrease in net assets from nonoperating activities	22,386	-	-	-	-	13,503	(1,430)	34,459
Increase (decrease) in unrestricted net assets	\$ 21,262	\$ 141	\$ 40	\$ 95	\$ (24)	\$ 11,920	\$ -	\$ 33,434

UNITARIAN UNIVERSALIST ASSOCIATION

*Supplemental Schedule of Unitarian Universalist Common Endowment
Fund (UUCEF) Assets and Liabilities*

June 30, 2014

(in thousands)

Assets:		
Cash and cash equivalents	\$	4,976
Investments in securities		176,817
Other current assets		<u>91</u>
Total assets	\$	<u><u>181,884</u></u>
Liabilities:		
Distributions payable	\$	336
Uninvested principal		2,169
Accounts payable and accrued expenses		<u>261</u>
Total liabilities		2,766
Net UUCEF funds (equivalent to \$7.5036 per unit based on 23,870,979.2501 outstanding shares)		<u>179,118</u>
Total liabilities and net UUCEF funds	\$	<u><u>181,884</u></u>

UNITARIAN UNIVERSALIST ASSOCIATION

*Supplemental Schedule of UUCEF Operations**For the Year Ended June 30, 2014**(in thousands)*

Investment income	\$ <u>1,892</u>
Expenses:	
Investment manager fees	901
Consultant and other expenses	346
UUA administrative fees	327
Audit fees	<u>27</u>
Total expenses	<u>1,601</u>
Net investment income	<u>291</u>
Realized and unrealized gain from investments:	
Net realized gain from investments sold	6,062
Net change in unrealized appreciation	<u>15,822</u>
Net realized and unrealized gain from investments	<u>21,884</u>
Net increase in UUCEF funds from operations	\$ <u><u>22,175</u></u>

UNITARIAN UNIVERSALIST ASSOCIATION

*Supplemental Schedule of UUCEF Changes in Net Assets**For the Year Ended June 30, 2014**(in thousands)*

Increase in net UUCEF funds from operations:	
Net investment income	\$ 291
Net realized gain from investments sold	6,062
Net change in unrealized appreciation	<u>15,822</u>
Net increase in net UUCEF funds from operations	22,175
Distributions to participants	(1,307)
Net increase in net UUCEF funds from participant transactions	<u>6,818</u>
Net increase in net UUCEF funds	27,686
Net UUCEF funds:	
Beginning of year	<u>151,432</u>
End of year	\$ <u><u>179,118</u></u>

UNITARIAN UNIVERSALIST ASSOCIATION

*Supplemental Schedule of UUCEF Financial Highlights**For the Year Ended June 30, 2014**(For a unit of participation outstanding throughout the year)**(in thousands)*

Selected per unit data:

Net asset value - beginning of year	\$ 6.9213
Net investment income	0.0131
Net realized and unrealized gain from investments	<u>0.9891</u>
 Total from investment operations	 7.9235
 Distributions to participants	 <u>(0.4199)</u>
 Net asset value - end of year	 \$ <u><u>7.5036</u></u>
 Total return (%) (a)	 14.70%
Ratio of expenses to net assets (%)	0.98%

- (a) The UUCEF rate of return is calculated by the Association's investment consultant in accordance with the Global Investment Performance Standards (GIPS) which take into account intra-period cash flows, distributions and the relative weighting of asset classes.