

**Financial Statements
and Supplemental Schedules**

Unitarian Universalist Association

June 30, 2015 and 2014



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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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, 2015 and 2014, 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, 2015 and 2014, 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 9, 2015
Boston, Massachusetts

UNITARIAN UNIVERSALIST ASSOCIATION

Statements of Financial Position

(in thousands)

	<i>June 30,</i>	
	<i>2015</i>	<i>2014</i>
Assets		
Cash and cash equivalents	\$ 21,664	\$ 17,797
Accounts receivable, net	2,020	2,107
Pledges receivable, net	218	2,198
Inventories, net	1,258	1,224
Other assets	1,474	1,904
Investments	80,813	106,188
Investment funds managed for others	95,114	93,797
Funds held in trust by others	44,552	46,738
Funds held in support of split-interest agreements	10,404	11,354
Loans to member congregations, net	5,543	6,335
Property and equipment, net	36,846	12,912
	<hr/>	<hr/>
Total assets	\$ 299,906	\$ 302,554
	<hr/> <hr/>	<hr/> <hr/>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 6,603	\$ 11,686
Annuity liabilities	2,211	2,401
Bank debt	11,447	12,223
Obligations under split-interest agreements	6,040	6,662
Obligations for funds managed for others	95,114	93,797
Accumulated postretirement benefit obligation	1,991	1,690
	<hr/>	<hr/>
Total liabilities	123,406	128,459
	<hr/>	<hr/>
Net assets:		
Unrestricted	59,080	50,553
Temporarily restricted	59,238	65,114
Permanently restricted	58,182	58,428
	<hr/>	<hr/>
Total net assets	176,500	174,095
	<hr/>	<hr/>
Total liabilities and net assets	\$ 299,906	\$ 302,554
	<hr/> <hr/>	<hr/> <hr/>

UNITARIAN UNIVERSALIST ASSOCIATION

Statement of Activities

(with comparative totals for 2014)

(in thousands)

	For the Years Ended June 30, 2015				2014
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Support and revenue:					
Fundraising and gifts and bequests	\$ 11,948	\$ 2,364	\$ 159	\$ 14,471	\$ 12,215
Net sales from publishing activities	7,362	-	-	7,362	6,623
Sales and administrative services	2,460	-	-	2,460	2,498
Investment return authorized for operations	5,072	-	-	5,072	3,816
Distributions from Holdeen Trusts	1,205	143	-	1,348	1,372
Other investment income	221	-	-	221	352
Rental income	692	-	-	692	-
Other income	4,949	-	-	4,949	5,696
Net assets released from restriction	1,722	(1,722)	-	-	-
Total support and revenue	35,631	785	159	36,575	32,572
Expenditures:					
Programs	26,029	-	-	26,029	25,673
General and administration	7,123	-	-	7,123	5,606
Stewardship and development	1,920	-	-	1,920	2,343
Rental expense	347	-	-	347	-
Total expenditures	35,419	-	-	35,419	33,622
Changes in net assets from operations	212	785	159	1,156	(1,050)
Nonoperating income (expense):					
Investment return, net of amounts authorized for operations	(2,387)	(2,657)	-	(5,044)	6,809
Increase (decrease) in value of funds held in support of split-interest agreements and trusts	55	(1,978)	(405)	(2,328)	4,400
Postretirement benefit plan expense	(382)	-	-	(382)	-
Gain from sale of real estate	8,323	-	-	8,323	22,157
Donation from Liberal Religious Charitable Society	2,014	(2,026)	-	(12)	9,664
Bequest income - Board restricted	276	-	-	276	-
Other income	876	-	-	876	-
Other expense	(88)	-	-	(88)	(149)
Unfunded depreciation	(372)	-	-	(372)	-
Change in net assets from nonoperating activities	8,315	(6,661)	(405)	1,249	42,881
Change in net assets	8,527	(5,876)	(246)	2,405	41,831
Net assets, beginning of year	50,553	65,114	58,428	174,095	132,264
Net assets, end of year	\$ 59,080	\$ 59,238	\$ 58,182	\$ 176,500	\$ 174,095

See accompanying notes to financial statements.

UNITARIAN UNIVERSALIST ASSOCIATION

Statement of Activities

For the Year Ended June 30, 2014

(in thousands)

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Support and revenue:				
Fundraising and gifts and bequests	\$ 11,320	\$ 771	\$ 124	\$ 12,215
Net sales from publishing activities	6,623	-	-	6,623
Sales and administrative services	2,498	-	-	2,498
Investment return authorized for operations	3,816	-	-	3,816
Distributions from Holdeen Trusts	1,073	299	-	1,372
Other investment income	352	-	-	352
Other income	5,696	-	-	5,696
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>
Expenditures:				
Programs	25,673	-	-	25,673
General and administration	5,606	-	-	5,606
Stewardship and development	2,343	-	-	2,343
Total expenditures	<u>33,622</u>	<u>-</u>	<u>-</u>	<u>33,622</u>
Changes in net assets from operations	<u>(1,025)</u>	<u>103</u>	<u>(128)</u>	<u>(1,050)</u>
Nonoperating income (expense):				
Investment return, net of amounts authorized for operations	3,187	3,622	-	6,809
Increase in value of funds held in support of split-interest agreements and trusts	144	3,177	1,079	4,400
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)	-
Change in net assets from nonoperating activities	<u>34,459</u>	<u>7,716</u>	<u>706</u>	<u>42,881</u>
Change in net assets	33,434	7,819	578	41,831
Net assets, beginning of year	<u>17,119</u>	<u>57,295</u>	<u>57,850</u>	<u>132,264</u>
Net assets, end of year	\$ <u>50,553</u>	\$ <u>65,114</u>	\$ <u>58,428</u>	\$ <u>174,095</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>2015</i>	<i>2014</i>
Cash flows from operating activities:		
Change in net assets	\$ 2,405	\$ 41,831
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,067	550
Change in allowance for uncollectible loans to member congregations	(31)	-
Gain from sale of real estate	(8,323)	(22,157)
Net realized and unrealized (gains) losses on investments	368	(10,340)
Contributions restricted for long-term investment	(159)	(124)
Net change in value of funds held in support of split-interest agreements and trusts	2,328	(4,400)
Changes in assets and liabilities:		
Accounts receivable, net	87	(499)
Pledges receivable, net	1,980	(2,071)
Inventories, net	(34)	219
Other assets	430	(130)
Accounts payable and accrued expenses	(5,083)	2,314
Accumulated postretirement benefit obligation	301	(79)
	<u>(4,664)</u>	<u>5,114</u>
Net cash provided by (used in) operating activities		
Cash flows from investing activities:		
Cost of purchases of investments	(92,598)	(71,222)
Proceeds from sales of investments	116,284	31,267
Purchases of property and equipment	(28,463)	(8,988)
Proceeds from sales of real estate, net of expenses	11,785	23,500
Change in obligations for funds managed for others	1,317	15,617
Additions to loans to member congregations	(75)	(720)
Repayments on loans to member congregations	898	1,328
	<u>9,148</u>	<u>(9,218)</u>
Net cash provided by (used in) investing activities		
Cash flows from financing activities:		
Repayment of bank debt	(880)	(241)
Proceeds from bank debt	104	10,720
Contributions restricted for long-term investment	159	124
	<u>(617)</u>	<u>10,603</u>
Net cash provided by (used in) financing activities		
Change in cash and cash equivalents	3,867	6,499
Cash and cash equivalents as of beginning of year	<u>17,797</u>	<u>11,298</u>
Cash and cash equivalents as of end of year	\$ <u>21,664</u>	\$ <u>17,797</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 \$34 and \$25 at June 30, 2015 and 2014, 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 \$52 and \$61 at June 30, 2015 and 2014, 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 and obligations under split-interest agreements. These fair value standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value. In addition, the Association reports certain investments using the net asset value per share as determined by investment managers under the so called "practical expedient". The practical expedient allows net asset value per share to represent fair value for reporting purposes when

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Fair Value Measurements (Continued)

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 the straight-line basis over the expected lives of the respective assets.

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.

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Revenue Recognition and Royalty Advances from Publishing Activities

Publishing is done under a business segment called Beacon Press. Revenue is recorded upon shipment, net of estimated returns. Sales to two customers represented approximately 41% and 42% of total revenue of Beacon Press for the years ended June 30, 2015 and 2014, respectively. Of the total amount of receivables from Beacon Press of \$761 and \$663, amounts due from one customer represented approximately 97% and 98% at June 30, 2015 and 2014, respectively.

Royalty advances are negotiated on a contract-by-contract basis and are recorded as other assets when paid. As sales occur, royalty advances are reduced. 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 \$1,700 and \$1,661 at June 30, 2015 and 2014, respectively, against royalty advances of \$2,687 and \$2,718 at June 30, 2015 and 2014, respectively.

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. Rental expense related to property leased to outside parties is not allocated given that it pertains to income received from the rental property.

Fundraising Expenditures

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

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

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.

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, 2015 and 2014.

Pledges receivable consisted of the following as of June 30:

	<i>2015</i>	<i>2014</i>
Amounts due in:		
Less than one year	\$ 73	\$ 2,079
Two to five years	<u>168</u>	<u>139</u>
	241	2,218
Less allowance for uncollectible pledges and present value discount	<u>(23)</u>	<u>(20)</u>
Pledges receivable, net	<u>\$ 218</u>	<u>\$ 2,198</u>

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 4 - Investments

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

	<i>2015</i>	<i>2014</i>
Investments (UUA)	\$ 80,813	\$ 106,188
Investment funds managed for others (member congregations)	<u>95,114</u>	<u>93,797</u>
Total	\$ <u>175,927</u>	\$ <u>199,985</u>

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

	<i>2015</i>	<i>2014</i>
Investment income	\$ 1,351	\$ 1,240
Net realized gain on investments	2,171	2,843
Net change in unrealized gain (loss) on investments	(2,539)	7,497
Less investment fee expense	<u>(734)</u>	<u>(603)</u>
Total return on investments	\$ <u>249</u>	\$ <u>10,977</u>

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

	<i>2015</i>	<i>2014</i>
Investment return authorized for operations	\$ 5,072	\$ 3,816
Other investment return - operating activities	221	352
Investment return, net of amounts authorized for operations - nonoperating - unrestricted	(2,387)	3,187
Investment return - nonoperating - temporarily restricted	<u>(2,657)</u>	<u>3,622</u>
Total return on investments	\$ <u>249</u>	\$ <u>10,977</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, 2015 that the Association measures fair value on a recurring basis, by level, within the fair value hierarchy:

	<i>Investments</i>			
	<i>2015</i>			
UUCEF investments	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Equity securities:				
Domestic securities	\$ 41,832	\$ -	\$ -	\$ 41,832
Foreign securities	27,720	12,961	-	40,681
Fixed income funds:				
Foreign funds	19,635	21,006	-	40,641
Global asset allocation funds	18,605	17,945	-	36,550
Hedge fund of funds	-	-	13,297	13,297
Private opportunities	-	-	1,334	1,334
Community investments	-	1,537	-	1,537
Total UUCEF investments	107,792	53,449	14,631	175,872
Short-term investments				
Cash and equivalents	55	-	-	55
Total investments	\$ 107,847	\$ 53,449	\$ 14,631	\$ 175,927
	<i>Funds Held by Others and Split-interest Agreements</i>			
	<i>2015</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Funds held by others:				
Holdeen trusts	\$ -	\$ -	\$ 33,254	\$ 33,254
Other trusts	-	-	11,298	11,298
	-	-	44,552	44,552
Split-interest agreements:				
Charitable gift annuity	7,187	-	-	7,187
Charitable remainder trust	-	-	758	758
Pooled income funds	2,459	-	-	2,459
	9,646	-	758	10,404
Total funds held by others and split-interest agreements	\$ 9,646	\$ -	\$ 45,310	\$ 54,956

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, 2014 that the Association measures at 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
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
Total investments	\$ 117,305	\$ 73,506	\$ 9,174	\$ 199,985

Funds Held by Others and Split-interest Agreements

	<i>2014</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Funds held by others:				
Holdeen trusts	\$ -	\$ -	\$ 35,100	\$ 35,100
Other trusts	-	-	11,638	11,638
	<hr/>	<hr/>	<hr/>	<hr/>
	<hr/>	<hr/>	<hr/>	<hr/>
Split-interest agreements:				
Charitable gift annuity	7,631	-	-	7,631
Charitable remainder trust	-	-	937	937
Pooled income funds	2,786	-	-	2,786
	<hr/>	<hr/>	<hr/>	<hr/>
	<hr/>	<hr/>	<hr/>	<hr/>
Total funds held by others and split-interest agreements	\$ 10,417	\$ -	\$ 47,675	\$ 58,092

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>2015</i>					
	<i>Hedge Fund of Funds</i>	<i>Private Opportunities</i>	<i>Holdeen Trusts</i>	<i>Other Trusts</i>	<i>Charitable Remainder Trust</i>
Beginning balance	\$ 8,166	\$ 1,008	\$ 35,100	\$ 11,638	\$ 937
Additions/purchases	5,500	240	-	-	-
Distributions/sales	-	-	(2,209)	(500)	-
Unrealized gain (loss)	(369)	86	363	160	(179)
Ending balance	\$ 13,297	\$ 1,334	\$ 33,254	\$ 11,298	\$ 758

<i>Level 3 Roll Forward</i>					
<i>2014</i>					
	<i>Hedge Fund of Funds</i>	<i>Private Opportunities</i>	<i>Holdeen Trusts</i>	<i>Other 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	\$ 8,166	\$ 1,008	\$ 35,100	\$ 11,638	\$ 937

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 5 - Fair Values of Financial Instruments (Continued)

A summary of the significant categories of such investments and their attributes is as follows as of June 30, 2015:

	<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	\$ 17,945	\$ -	Monthly	5 days; prior month
Foreign securities	12,961	-	Monthly/Bi-monthly	1 day; 10 days
Hedge fund of funds	13,297	-	Quarterly	Max w/d = 50%/3 yr lock up
Foreign fixed income funds	21,006	-	Bi-monthly	30 days
Private opportunities fund	1,334	523	10 Years	Liquidation at end of fund term
Community investments	<u>1,537</u>	<u>-</u>	1-5 Years	Not applicable
	<u><u>\$ 68,080</u></u>	<u><u>\$ 523</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>2015</i>	<i>2014</i>
Mortgage loans to member congregations at interest rates from 0% to 5.25% due through 2035	\$ 5,890	\$ 6,713
Less allowance for uncollectible loans	<u>(347)</u>	<u>(378)</u>
Net loans to member congregations	\$ <u>5,543</u>	\$ <u>6,335</u>

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

2016	\$	546
2017		340
2018		350
2019		337
2020		323
Thereafter		<u>3,994</u>
Total	\$	<u>5,890</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, 2015 and 2014, 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>	
2015	\$	4	\$	176	\$	180	\$	5,710	\$	5,890
2014	\$	5	\$	181	\$	186	\$	6,527	\$	6,713

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:

	<i>Estimated Useful Lives</i>		<i>2015</i>		<i>2014</i>
Land, buildings and improvements	20-40 yrs	\$	35,621	\$	13,486
Computer equipment	4 yrs		1,935		1,614
Office furniture and fixtures	7 yrs		2,056		1,954
			39,612		17,054
Less accumulated depreciation			(2,766)		(4,142)
Property and equipment, net		\$	36,846	\$	12,912

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 used the proceeds to purchase the 24 Farnsworth Street building in January 2015. The Association was granted a license to use the sold Beacon Street and Mount Vernon Place buildings through June 30, 2014 and July 31, 2014, respectively, at no cost to the Association. In June 2015, the Association received an additional \$660 contingency payment related to the sale of the 25 Beacon Street property all of which was reported as a gain on sale.

In August 2014, the Association sold its building at 41 Mount Vernon Street, Boston for \$11,500. The Association used the proceeds to invest in the endowment. The net gain on sale after sale expenses and write-off of undepreciated assets was \$7,663. The mortgage note associated with this property was paid off as part of the sale.

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. During the year ended June 30, 2014, \$7,264 of leasehold improvements, \$974 of furniture and fixtures and \$616 of technology/telephone infrastructure equipment were capitalized as part of this construction. An additional \$2,517 of building improvements, \$86 of furniture and fixtures and \$17 of technology/telephone infrastructure equipment were capitalized during the year ended June 30, 2015. The construction was financed by a \$10,000 term loan.

Purchase of Real Estate

In January 2015, the Association purchased the 24 Farnsworth Street building for \$25,496. The purchase was funded by the proceeds from the sale of its prior property holdings in Boston. The purchase price was allocated to land for \$10,963 and building for \$14,533. The building is being depreciated over forty years. The land valuation was based on the local tax assessor's valuation.

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 7 - Property and Equipment (Continued)

Purchase of Real Estate (Continued)

The Association occupies the first three floors of the building as its primary office and leases the top three floors to two tenants under long-term lease agreements, expiring in 2019 and 2020. Rental income was \$692 in fiscal year 2015.

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

2016	\$	1,411
2017		1,430
2018		1,454
2019		1,473
2020		<u>644</u>
Total	\$	<u><u>6,412</u></u>

Consistent with the Association's policy, during fiscal year 2015, the Association performed a facilities condition assessment as part of the building purchase and determined that over a 9 year period \$496 represented the annual replacement funding needed. The excess depreciation of \$372 is considered unfunded and included in nonoperating.

Note 8 - Bank Debt

The Association has the following bank debt at June 30:

	<i>2015</i>	<i>2014</i>
Member lending credit line	\$ 2,144	\$ 2,156
Term note payable	9,303	10,000
Mortgage note	<u>-</u>	<u>67</u>
Total bank debt	\$ <u><u>11,447</u></u>	\$ <u><u>12,223</u></u>

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 and expires on December 31, 2016, 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 February 25, 2020.

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 8 - Bank Debt (Continued)

Term Note Payable

In February 2014, the Association executed a \$10,000 term note payable agreement. The term note proceeds were used for building improvements, furniture, fixtures, and equipment relating to the 24 Farnsworth Street property. The agreement was modified in April 2015. The note is payable in monthly installments of \$95 including principal and interest of 3.60% starting in May 2015 with a final due date of April 1, 2022. The agreement contains certain financial and nonfinancial covenants and is collateralized by the Association's 24 Farnsworth Street property.

Line of Credit

The Association has a \$500 line of credit available with a bank of which no amounts were outstanding at June 30, 2015 and 2014. 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 rate was 3.99% at June 30, 2015 and 2014. The line is collateralized by cash deposits. The line contains certain financial covenants and expires on December 31, 2016 at which time it will be reviewed for renewal.

Mortgage Note

The Association had a mortgage note which bore interest at a fixed rate per annum equal to 3.99%. The mortgage note was payable quarterly with equal principal installments of \$33 plus interest and was paid off in its entirety at December 31, 2014. The agreement contained financial and nonfinancial covenants and was collateralized by the Association's real estate mortgage on 41 Mount Vernon Street, Boston, Massachusetts.

The Association was in compliance with its debt covenants at June 30, 2015 and 2014.

Interest expense for the years ended June 30, 2015 and 2014 was \$430 and \$95, respectively. Capitalized interest was \$0 and \$22 for the years ended June 30, 2015 and 2014, respectively. Cash paid for interest was \$430 and \$117 for the years ended June 30, 2015 and 2014, respectively.

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

2016	\$	1,139
2017		1,361
2018		921
2019		2,082
2020		1,003
Thereafter		<u>4,941</u>
Total	\$	<u><u>11,447</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:

	<i>2015</i>	<i>2014</i>
Accumulated unspent gains:		
General operating	\$ 5,131	\$ 6,197
Scholarships for ministerial students	7,713	8,800
Ministerial aid	6,680	7,284
Other programs	1,887	1,921
Total accumulated unspent gains	21,411	24,202
Purpose restrictions:		
Split-interest agreements	1,546	1,674
Building loan fund	201	201
Total purpose restrictions	1,747	1,875
Time and purpose restrictions:		
Funds held in trust by others - Holdeen trusts	33,254	35,100
Amounts restricted by donors for programs	2,826	3,937
Total time and purpose restrictions	36,080	39,037
Total temporarily restricted net assets	\$ 59,238	\$ 65,114

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:

	<i>2015</i>	<i>2014</i>
Ministerial programs	\$ <u>1,722</u>	\$ <u>967</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 consisted of the following as of June 30:

	<i>2015</i>	<i>2014</i>
Endowment funds:		
General operating	\$ 27,209	\$ 27,101
Scholarships for ministerial students	11,614	11,613
Other programs	2,217	2,206
Ministerial aid	<u>1,377</u>	<u>1,338</u>
Total endowment funds	42,417	42,258
Building loan fund	4,412	4,412
Funds held in trust by others for restricted purposes	11,298	11,638
Split-interest agreement	-	65
Wilton Peace Prize Fund	<u>55</u>	<u>55</u>
Total permanently restricted net assets	\$ <u>58,182</u>	\$ <u>58,428</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.

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.

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 9 - Net Assets and Endowment Matters (Continued)

Endowment (Continued)

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, 2015 are as follows:

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Endowment net assets, beginning of year	\$ <u>20,582</u>	\$ <u>22,481</u>	\$ <u>42,258</u>	\$ <u>85,321</u>
Investment return:				
Investment income (net of expenses)	107	105	-	212
Net appreciation (realized and unrealized)	<u>(193)</u>	<u>(169)</u>	<u>-</u>	<u>(362)</u>
Total investment return	(86)	(64)	-	(150)
Contributions	8,609	1,736	159	10,504
Investment return authorized for operations	<u>(2,253)</u>	<u>(2,742)</u>	<u>-</u>	<u>(4,995)</u>
Endowment net assets, end of year	\$ <u>26,852</u>	\$ <u>21,411</u>	\$ <u>42,417</u>	\$ <u>90,680</u>

Endowment net asset composition by type of fund consists of the following at June 30, 2015:

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Donor-imposed endowment funds	\$ -	\$ 21,411	\$ 42,417	\$ 63,828
Unrestricted quasi endowment funds	<u>26,852</u>	<u>-</u>	<u>-</u>	<u>26,852</u>
Total endowed net assets	\$ <u>26,852</u>	\$ <u>21,411</u>	\$ <u>42,417</u>	\$ <u>90,680</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, 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)

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 are reported in unrestricted net assets. There were no funds with deficiencies as of June 30, 2015 and 2014.

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.

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. Spending from new gifts will be calculated at the effective spending policy rate as approved by the Board of Trustees.

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. This lease terminated in January 2015 in conjunction with the Association’s purchase of the Farnsworth building and property.

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

2016	\$	93
2017		85
2018		<u>26</u>
Total	\$	<u><u>204</u></u>

Rental expense charged to operations was \$1,078 and \$396 for the years ended June 30, 2015 and 2014, respectively. Rent expense capitalized was \$0 and \$1,126 for the years ended June 30, 2015 and 2014, 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 as of June 30, 2015 and 2014 on loans totaling \$967 for both years. 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. The Association determined the value of these guarantees were not significant given its experience.

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, 2015 and 2014, 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 an outstanding loan receivable from an employee in the amount of \$200 as of June 30, 2015 and 2014 included in other assets. Interest of 5% is paid annually. \$100 was paid on the loan in July 2015, and the remainder is due on January 15, 2016. 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, 2015 and 2014 were \$1,651 and \$5,640, 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 \$859 and \$878 for the years ended June 30, 2015 and 2014, 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:

	<i>2015</i>	<i>2014</i>
Changes in benefit obligation:		
Benefit obligation at beginning of year	\$ 1,690	\$ 1,769
Service cost	2	2
Interest cost	68	65
Actuarial loss	352	-
Benefits paid	<u>(121)</u>	<u>(146)</u>
Benefit obligation at end of year	<u>1,991</u>	<u>1,690</u>
Change in plan assets:		
Employer contribution	121	146
Benefits paid	<u>(121)</u>	<u>(146)</u>
Fair value of plan assets at end of year	<u>-</u>	<u>-</u>
Accumulated postretirement benefit obligation	\$ <u>1,991</u>	\$ <u>1,690</u>

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

	<i>2015</i>	<i>2014</i>
Discount rate	3.75%	4.00%
Rate of increase in healthcare costs	5.50	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 2015 to measure obligations.

A one-percentage-point change in assumed healthcare cost trend rates would have the following effects as of June 30, 2015:

	<i>One- Percentage- Point Increase</i>	<i>One- Percentage- Point Decrease</i>
Effects on total service and interest cost components for 2015	\$ 76	\$ 64
Effects on year-end 2015 accumulated postretirement benefit obligation	2,167	1,835

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:

2016	\$	149
2017		150
2018		151
2019		150
2020		149
2021-2025		706

The expected benefits are based on the same assumptions used to measure the Association's benefit obligation at June 30, 2015 and 2014.

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

	<i>2015</i>	<i>2014</i>
Service cost	\$ 2	\$ 2
Interest cost	68	68
Amortization of gain	<u>(3)</u>	<u>(3)</u>
Net periodic benefit cost	\$ <u>67</u>	\$ <u>67</u>

Assumptions used to determine the net periodic postretirement benefit cost as of June 30, 2015 and 2014 are as follows:

	<i>2015</i>	<i>2014</i>
Discount rate	3.75%	4.00%
Rate of increase in healthcare costs	5.70	6.50

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 were as follows for the years ending June 30:

	<i>2015</i>	<i>2014</i>
Costs of goods sold and publishing expenses	\$ 6,672	\$ 6,218
Ministry and faith development	5,851	5,880
Congregational life	5,413	5,457
Other programs	4,571	4,438
Communications	2,305	2,438
Multicultural growth & witness	1,217	1,242
	<hr/>	<hr/>
Total	\$ 26,029	\$ 25,673

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 was recorded as a pledge receivable at June 30, 2014 of which \$2,014 was received in 2015 and the \$12 balance was written off to fees.

Note 14 - Subsequent Events

The Association has evaluated subsequent events through November 9, 2015, the date the financial statements were authorized to be issued.

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 2016.

Supplemental Schedules

UNITARIAN UNIVERSALIST ASSOCIATION

Supplemental Schedule of Assets by Business Segment

June 30, 2015

(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>
Assets:								
Cash and cash equivalents	\$ 5,478	\$ 644	\$ 1,441	\$ 2,371	\$ 1,702	\$ 10,028	\$ -	\$ 21,664
Accounts receivable, net	1,218	-	41	761	-	-	-	2,020
Pledges receivable, net	218	-	-	-	-	-	-	218
Inventories, net	538	-	-	720	-	-	-	1,258
Other assets	449	-	-	988	-	37	-	1,474
Investments	55	-	-	59	-	175,872	(59)	175,927
Funds held in trust by others	44,552	-	-	-	-	-	-	44,552
Funds held in support of split-interest agreements	10,404	-	-	-	-	-	-	10,404
Loans to member congregations, net	-	-	-	-	5,543	-	-	5,543
Property and equipment, net	36,744	-	-	12	-	90	-	36,846
Amounts due from other business segments	15	-	-	-	800	-	(815)	-
Total assets	\$ 99,671	\$ 644	\$ 1,482	\$ 4,911	\$ 8,045	\$ 186,027	\$ (874)	\$ 299,906

UNITARIAN UNIVERSALIST ASSOCIATION

Supplemental Schedule of Liabilities and Net Assets by Business Segment

June 30, 2015

(in thousands)

	<i>Current</i>	<i>General Assembly</i>	<i>Group Insurance Plan</i>	<i>Beacon Press</i>	<i>CPLF</i>	<i>UUCEF</i>	<i>Eliminations</i>	<i>Total</i>
Liabilities:								
Accounts payable and accrued expenses	\$ 4,754	\$ -	\$ -	\$ 1,642	\$ 7	\$ 200	\$ -	\$ 6,603
Annuity liabilities	2,211	-	-	-	-	-	-	2,211
Bank debt	9,303	-	-	-	2,144	-	-	11,447
Obligations under split-interest agreements	6,040	-	-	-	-	-	-	6,040
Obligations for funds managed for others	-	-	-	-	-	95,114	-	95,114
Accumulated postretirement benefit obligation	1,991	-	-	-	-	-	-	1,991
Amounts due to (from) other business segments	556	-	-	15	(20)	33	(584)	-
Total liabilities	24,855	-	-	1,657	2,131	95,347	(584)	123,406
Net assets:								
Unrestricted	25,902	644	1,482	3,130	1,301	26,852	(231)	59,080
Temporarily restricted	37,561	-	-	83	201	21,411	(18)	59,238
Permanently restricted	11,353	-	-	41	4,412	42,417	(41)	58,182
Total net assets	74,816	644	1,482	3,254	5,914	90,680	(290)	176,500
Total liabilities and net assets	\$ 99,671	\$ 644	\$ 1,482	\$ 4,911	\$ 8,045	\$ 186,027	\$ (874)	\$ 299,906

UNITARIAN UNIVERSALIST ASSOCIATION
Supplemental Schedule of Unrestricted Activities by Business Segment

For the Year Ended June 30, 2015

(in thousands)

	Current	General Assembly	Group Insurance Plan	Beacon Press	CPLF	UUCEF	Eliminations	Total
Operating:								
Support and revenue:								
Fundraising and gifts and bequests	\$ 11,809	\$ -	\$ -	\$ 139	\$ -	\$ -	\$ -	\$ 11,948
Net sales from publishing activities	1,123	-	-	6,239	-	-	-	7,362
Sales and administrative services	1,578	1,665	-	-	-	-	(783)	2,460
Investment return authorized for operations	5,050	-	-	-	22	(2,254)	2,254	5,072
Distributions from Holdeen Trusts	1,205	-	-	-	-	-	-	1,205
Other investment income	(83)	-	-	6	298	-	-	221
Rental income	692	-	-	-	-	-	-	692
Other income	3,398	-	1,505	246	-	-	(200)	4,949
Net assets released from restriction	1,722	-	-	-	-	-	-	1,722
Total support and revenue	26,494	1,665	1,505	6,630	320	(2,254)	1,271	35,631
Expenses:								
Board and volunteer leadership	550	-	-	-	-	-	-	550
Multicultural growth and witness	1,217	-	-	-	-	-	-	1,217
International	1,770	-	-	-	-	-	-	1,770
Congregational life	5,413	-	-	-	-	-	-	5,413
Ministry and faith development	4,824	-	1,390	-	-	-	(363)	5,851
UU Funding Program	1,320	-	-	-	-	-	-	1,320
Crisis Relief Program	60	-	-	-	-	-	-	60
Communications	2,305	-	-	-	-	-	-	2,305
Cost of goods sold and publishing expenses	349	-	-	6,523	-	-	(200)	6,672
Administration	1,211	-	-	-	-	-	-	1,211
Stewardship and development	1,920	-	-	-	-	-	-	1,920
Information technology services	1,443	-	-	-	-	-	-	1,443
Internal services	3,758	-	-	-	-	-	-	3,758
Rental expense	347	-	-	-	-	-	-	347
General assembly	-	1,421	-	-	-	-	-	1,421
Expenses associated with investment pools	-	-	-	-	304	-	(237)	67
Interest expense	-	-	-	-	94	-	-	94
Total expenses	26,487	1,421	1,390	6,523	398	-	(800)	35,419
Increase (decrease) in unrestricted net assets from operations	7	244	115	107	(78)	(2,254)	2,071	212
Nonoperating:								
Investment income	-	-	-	-	-	(86)	(2,301)	(2,387)
Increase in value of funds held in support of split-interest agreements and trusts	55	-	-	-	-	-	-	55
Postretirement benefit plan expense	(382)	-	-	-	-	-	-	(382)
Gain from sale of real estate	1,728	-	-	-	-	6,595	-	8,323
Acquisition of Liberal Religious Charitable Society	-	-	-	-	-	2,014	-	2,014
Bequest income - Board restricted	276	-	-	-	-	-	-	276
Other income	876	-	-	-	-	-	-	876
Other expense	(88)	-	-	-	-	-	-	(88)
Unfunded depreciation	(372)	-	-	-	-	-	-	(372)
Total decrease in net assets from nonoperating activities	2,093	-	-	-	-	8,523	(2,301)	8,315
Increase (decrease) in unrestricted net assets	\$ 2,100	\$ 244	\$ 115	\$ 107	\$ (78)	\$ 6,269	\$ (230)	\$ 8,527

UNITARIAN UNIVERSALIST ASSOCIATION

*Supplemental Schedule of Unitarian Universalist Common Endowment
Fund (UUCEF) Assets and Liabilities**June 30, 2015**(in thousands)*

Assets:

Cash and cash equivalents	\$ 10,028
Investments in securities	175,872
Other current assets	37
Other assets	<u>90</u>

Total assets	\$ <u><u>186,027</u></u>
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Liabilities:

Accounts payable and accrued expenses	\$ <u>233</u>
 Total liabilities	 233

Net UUCEF funds (equivalent to \$7.4957 per unit based on 24,715,240.6840 outstanding shares)	<u>185,794</u>
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Total liabilities and net UUCEF funds	\$ <u><u>186,027</u></u>
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UNITARIAN UNIVERSALIST ASSOCIATION

*Supplemental Schedule of UUCEF Operations**For the Year Ended June 30, 2015**(in thousands)*

Investment income	\$ <u>2,270</u>
Expenses:	
Investment manager fees	1,050
Consultant and other expenses	399
UUA administrative fees	367
Audit fees	<u>29</u>
Total expenses	<u>1,845</u>
Net investment income	<u>425</u>
Realized and unrealized gain from investments:	
Net realized gain from investments sold	4,325
Net change in unrealized depreciation	<u>(4,940)</u>
Net realized and unrealized loss from investments	<u>(615)</u>
Net decrease in UUCEF funds from operations	\$ <u><u>(190)</u></u>

UNITARIAN UNIVERSALIST ASSOCIATION

*Supplemental Schedule of UUCEF Changes in Net Assets**For the Year Ended June 30, 2015**(in thousands)*

Increase in net UUCEF funds from operations:	
Net investment income	\$ 425
Net realized gain from investments sold	4,325
Net change in unrealized depreciation	<u>(4,940)</u>
Net decrease in net UUCEF funds from operations	(190)
Net increase in net UUCEF funds from participant transactions	<u>6,866</u>
Net increase in net UUCEF funds	6,676
Net UUCEF funds:	
Beginning of year	<u>179,118</u>
End of year	<u><u>\$ 185,794</u></u>

UNITARIAN UNIVERSALIST ASSOCIATION

*Supplemental Schedule of UUCEF Financial Highlights**For the Year Ended June 30, 2015**(For a unit of participation outstanding throughout the year)**(in thousands)*

Selected per unit data:

Net asset value - beginning of year	\$ 7.5036
Net investment income	0.0170
Net realized and unrealized loss from investments	<u>(0.0249)</u>
Net asset value - end of year	\$ <u>7.4957</u>

Total return (%) (a)	-0.10%
Ratio of expenses to net assets (%)	0.99%

- (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.