



**Consolidated Financial Statements  
and Supplemental Schedules**

**Unitarian Universalist Association  
and Subsidiary**

**June 30, 2017 and 2016**



# UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

## *Consolidated Financial Statements and Supplemental Schedules*

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## *Independent Auditors' Report*

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

We have audited the accompanying consolidated financial statements of the Unitarian Universalist Association and Subsidiary (the "Association"), which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Consolidated Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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



### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Unitarian Universalist Association as of June 30, 2017 and 2016, and the consolidated changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

### *Supplemental Information*

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

*Maye Hoffman McCann P.C.*

December 11, 2017  
Boston, Massachusetts

# UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

## *Consolidated Statements of Financial Position*

*(in thousands)*

	<i>June 30,</i>	
	<i>2017</i>	<i>2016</i>
<b>Assets</b>		
Cash and cash equivalents	\$ 11,864	\$ 9,554
Accounts receivable, net	1,685	2,584
Pledges receivable, net	981	582
Agency receivable	496	-
Inventories, net	1,382	1,294
Other assets	1,167	1,582
Investments	87,894	81,818
Investment funds managed for others	94,754	88,750
Funds held in trust by others	44,854	42,075
Funds held in support of split-interest agreements	9,419	9,130
Loans to member congregations, net	4,391	5,303
Property and equipment, net	<u>35,340</u>	<u>36,026</u>
<b>Total assets</b>	<b>\$ <u>294,227</u></b>	<b>\$ <u>278,698</u></b>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 5,824	\$ 6,287
Agency liability	496	-
Annuity liabilities	2,001	2,073
Bank debt	8,388	10,310
Obligations under split-interest agreements	5,491	5,218
Accumulated postretirement benefit obligation	<u>1,761</u>	<u>1,937</u>
<b>Total liabilities</b>	<b><u>23,961</u></b>	<b><u>25,825</u></b>
<b>Minority interest in UUCEF</b>	<b><u>94,754</u></b>	<b><u>88,750</u></b>
Net assets:		
Unrestricted	57,430	53,876
Temporarily restricted	59,732	52,541
Permanently restricted	<u>58,350</u>	<u>57,706</u>
<b>Total net assets</b>	<b><u>175,512</u></b>	<b><u>164,123</u></b>
<b>Total liabilities and net assets</b>	<b>\$ <u>294,227</u></b>	<b>\$ <u>278,698</u></b>

See accompanying notes to consolidated financial statements.

**UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY**

*Consolidated Statement of Activities*

*For the Year Ended June 30, 2017  
(with comparative totals for 2016)*

*(in thousands)*

	2017			2016	
	<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	\$ 13,752	\$ 3,079	\$ 43	\$ 16,874	\$ 13,411
Net sales from publishing activities	8,118	-	-	8,118	7,445
Sales and administrative services	2,618	-	-	2,618	2,276
Investment return authorized for operations	4,638	-	-	4,638	4,857
Distributions from Holdeen Trusts	1,089	218	-	1,307	1,318
Other investment income	277	-	-	277	284
Rental income	1,631	-	-	1,631	1,600
Other income	5,155	-	-	5,155	5,390
Net assets released from restriction	1,521	(1,521)	-	-	-
<b>Total support and revenue</b>	<b>38,799</b>	<b>1,776</b>	<b>43</b>	<b>40,618</b>	<b>36,581</b>
Expenditures:					
Programs	29,266	-	-	29,266	27,751
General and administration	6,880	-	-	6,880	6,263
Stewardship and development	2,019	-	-	2,019	1,867
Rental expense	667	-	-	667	626
<b>Total expenditures</b>	<b>38,832</b>	<b>-</b>	<b>-</b>	<b>38,832</b>	<b>36,507</b>
Changes in net assets from operations	(33)	1,776	43	1,786	74
Nonoperating income (expense):					
Investment return, net of amounts authorized for operations	14,033	3,374	-	17,407	(14,421)
Increase (decrease) in value of funds held in support of split-interest agreements and trusts	148	2,127	601	2,876	(2,792)
Postretirement benefit plan expense	103	-	-	103	-
Investment return - debt financing	842	-	-	842	811
Bequest income - Board restricted	90	-	-	90	-
Gain on sale of real estate	814	-	-	814	-
Other releases and changes in net assets	86	(86)	-	-	-
Unfunded depreciation	(716)	-	-	(716)	(633)
Change in net assets from nonoperating activities	15,400	5,415	601	21,416	(17,035)
Minority interest in investment (earnings) losses of UUCEF	(11,813)	-	-	(11,813)	4,584
<b>Change in net assets</b>	<b>3,554</b>	<b>7,191</b>	<b>644</b>	<b>11,389</b>	<b>(12,377)</b>
Net assets, beginning of year	53,876	52,541	57,706	164,123	176,500
<b>Net assets, end of year</b>	<b>\$ 57,430</b>	<b>\$ 59,732</b>	<b>\$ 58,350</b>	<b>\$ 175,512</b>	<b>\$ 164,123</b>

See accompanying notes to consolidated financial statements.

**UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY**

*Consolidated Statement of Activities*

*For the Year Ended June 30, 2016*

*(in thousands)*

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Support and revenue:				
Fundraising and gifts and bequests	\$ 11,953	\$ 1,439	\$ 19	\$ 13,411
Net sales from publishing activities	7,445	-	-	7,445
Sales and administrative services	2,276	-	-	2,276
Investment return authorized for operations	4,857	-	-	4,857
Distributions from Holdeen Trusts	1,203	115	-	1,318
Other investment income	284	-	-	284
Rental income	1,600	-	-	1,600
Other income	5,390	-	-	5,390
Net assets released from restriction	1,795	(1,795)	-	-
Total support and revenue	<u>36,803</u>	<u>(241)</u>	<u>19</u>	<u>36,581</u>
Expenditures:				
Programs	27,751	-	-	27,751
General and administration	6,263	-	-	6,263
Stewardship and development	1,867	-	-	1,867
Rental expense	626	-	-	626
Total expenditures	<u>36,507</u>	<u>-</u>	<u>-</u>	<u>36,507</u>
Changes in net assets from operations	<u>296</u>	<u>(241)</u>	<u>19</u>	<u>74</u>
Nonoperating income (expense):				
Investment return, net of amounts authorized for operations	(10,063)	(4,358)	-	(14,421)
Increase (decrease) in value of funds held in support of split-interest agreements and trusts	(113)	(2,184)	(495)	(2,792)
Investment return - debt financing	811	-	-	811
Other releases and changes in net assets	(86)	86	-	-
Unfunded depreciation	(633)	-	-	(633)
Change in net assets from nonoperating activities	<u>(10,084)</u>	<u>(6,456)</u>	<u>(495)</u>	<u>(17,035)</u>
Minority interest in investment losses of UUCEF	<u>4,584</u>	<u>-</u>	<u>-</u>	<u>4,584</u>
<b>Change in net assets</b>	<b>(5,204)</b>	<b>(6,697)</b>	<b>(476)</b>	<b>(12,377)</b>
Net assets, beginning of year	<u>59,080</u>	<u>59,238</u>	<u>58,182</u>	<u>176,500</u>
<b>Net assets, end of year</b>	<b>\$ <u>53,876</u></b>	<b>\$ <u>52,541</u></b>	<b>\$ <u>57,706</u></b>	<b>\$ <u>164,123</u></b>

*See accompanying notes to consolidated financial statements.*

**UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY**

*Consolidated Statements of Cash Flows*

(in thousands)

	<i>For the Years Ended June 30,</i>	
	<i>2017</i>	<i>2016</i>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 11,389	\$ (12,377)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	1,330	1,326
Change in allowance for uncollectible loans to member congregations	-	(7)
Gain from sale of real estate	(814)	-
Net realized and unrealized (gains) losses on investments	(10,962)	4,206
Contributions restricted for long-term investment	(43)	(19)
Net change in value of funds held in support of split-interest agreements and trusts	(2,876)	2,792
Minority interest in investment (earnings) losses of UUCEF	(11,813)	4,584
Changes in assets and liabilities:		
Accounts receivable, net	899	(564)
Pledges receivable, net	(399)	(364)
Agency receivable	(496)	-
Inventories, net	(88)	(36)
Other assets	415	(108)
Accounts payable and accrued expenses	(463)	(316)
Agency liability	496	-
Accumulated postretirement benefit obligation	(176)	(54)
	<u>(13,601)</u>	<u>(937)</u>
<b>Net cash used in operating activities</b>		
<b>Cash flows from investing activities:</b>		
Cost of purchases of investments	(15,394)	(29,799)
Proceeds from sales of investments	37,911	31,811
Purchases of property and equipment	(644)	(506)
Proceeds from sales of real estate, net of expenses	814	-
Additions to loans to member congregations	-	(450)
Repayments on loans to member congregations	912	697
	<u>23,599</u>	<u>1,753</u>
<b>Net cash provided by investing activities</b>		
<b>Cash flows from financing activities:</b>		
Repayment of bank debt	(1,922)	(1,137)
Capital contributions by minority partners in UUCEF	5,932	6,164
Capital withdrawals by minority partners in UUCEF	(11,741)	(7,944)
Contributions restricted for long-term investment	43	19
	<u>(7,688)</u>	<u>(2,898)</u>
<b>Net cash used in financing activities</b>		
<b>Change in cash and cash equivalents</b>	<b>2,310</b>	<b>(2,082)</b>
Cash and cash equivalents as of beginning of year	<u>9,554</u>	<u>11,636</u>
<b>Cash and cash equivalents as of end of year</b>	<b>\$ <u>11,864</u></b>	<b>\$ <u>9,554</u></b>

See accompanying notes to consolidated financial statements.



# UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

## *Notes to Consolidated Financial Statements (in thousands)*

### ***Note 1 - The Association's Background and History***

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

The consolidated financial statements include the results of the activities of the Unitarian Universalist Common Endowment Fund LLC "UUCEF" which is organized as a supporting organization to the Association under Section 501(c)(7) of the Internal Revenue Code. UUCEF serves as an endowment investment solution for the Association and member congregations. UUCEF provides access to professional investment management, administration and reporting. All investors share proportionately in the underlying money-management, operational and custody costs. UUCEF investors retain full ownership of their invested assets with access to their funds as outlined in the UUCEF subscription agreement. This entity was established on October 11, 2012 and funded on January 1, 2016 via the legal transfer of monies previously accounted for as a component of the Association's operations. The Association's Board of Trustees appoints the investment committee who oversees UUCEF and its related investments.

The Association is the largest owner and acts as the record keeper for UUCEF. The Association had a 48.1% and 47.9% ownership interest in UUCEF in 2017 and 2016, respectively. The interests owned by others are presented as minority interest in the consolidated financial statements.

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

### ***Note 2 - Summary of Significant Accounting Policies***

#### ***Basis of Consolidated Financial Statement Presentation***

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

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

# UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

## *Notes to Consolidated Financial Statements (in thousands)*

### *Note 2 - Summary of Significant Accounting Policies (Continued)*

#### *Basis of Consolidated Financial Statement Presentation (Continued)*

*Unrestricted net assets* – represent those assets that the Association may use at its discretion.

*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.

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

#### *Use of Estimates*

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

# UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

## *Notes to Consolidated Financial Statements (in thousands)*

### *Note 2 - Summary of Significant Accounting Policies (Continued)*

#### ***Cash and Cash Equivalents***

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

#### ***Accounts Receivable***

Accounts receivable are carried at their net realizable value. Management estimates the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible and recoveries of previously written off receivables are recorded as revenue when received. The reserve was \$47 and \$34 at June 30, 2017 and 2016, respectively.

#### ***Contributions and Pledges Receivable***

Unconditional promises to give are recorded at fair value when initially pledged. Initial recording for pledges expected to be collected in one year or more is arrived at by using the present value of a risk adjusted rate to account for the inherent risk associated with expected future cash flows. The initially recorded fair value is considered a Level 2 fair value approach. Amortization of the discount is included in gift and contribution revenue. Unconditional promises to give are periodically reviewed to estimate an allowance for doubtful collections. Management estimates the 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 \$18 and \$45 at June 30, 2017 and 2016, 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.

# UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

## *Notes to Consolidated Financial Statements (in thousands)*

### *Note 2 - Summary of Significant Accounting Policies (Continued)*

#### ***Fair Value Measurements***

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

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

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

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

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

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

#### ***Funds Held in Trust by Others***

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

# UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

## *Notes to Consolidated Financial Statements (in thousands)*

### *Note 2 - Summary of Significant Accounting Policies (Continued)*

#### *Funds Held in Trust by Others (Continued)*

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

#### *Split-Interest Agreements*

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

#### *Loans to Member Congregations*

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

#### *Property and Equipment*

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 AND SUBSIDIARY

## *Notes to Consolidated Financial Statements (in thousands)*

### *Note 2 - Summary of Significant Accounting Policies (Continued)*

#### ***Agency Receivable and Liability***

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

#### ***Revenue Recognition and Royalty Advances from Publishing Activities***

Revenue is recorded upon shipment, net of estimated returns. Sales to two customers and one customer represented approximately 55% and 27% of total revenue of Beacon Press for the years ended June 30, 2017 and 2016, respectively. Of the total amount of receivables from Beacon Press of \$897 and \$796 at June 30, 2017 and 2016, respectively, amounts due from one customer represented approximately 93% and 96% at June 30, 2017 and 2016, 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 \$2,145 and \$1,810 at June 30, 2017 and 2016, respectively, against royalty advances of \$3,041 and \$2,896 at June 30, 2017 and 2016, respectively, included in other assets.

#### ***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. UUCEF is classified under the Code as a public charity Type I supporting organization under Section 509(a)(3).

#### ***Uncertain Tax Positions***

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

# UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

## *Notes to Consolidated Financial Statements (in thousands)*

### *Note 2 - Summary of Significant Accounting Policies (Continued)*

#### ***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 consolidated statements 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.

### ***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, 2017 and 2016.

Pledges receivable consisted of the following as of June 30:

	<b><i>2017</i></b>	<b><i>2016</i></b>
Amounts due in:		
Less than one year	\$ 563	\$ 145
Two to five years	481	505
	<u>1,044</u>	<u>650</u>
Less allowance for uncollectible pledges and present value discount	<u>(63)</u>	<u>(68)</u>
<b>Pledges receivable, net</b>	<b><u>\$ 981</u></b>	<b><u>\$ 582</u></b>

# UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

## *Notes to Consolidated Financial Statements (in thousands)*

### *Note 4 - Investments*

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

	<i>2017</i>	<i>2016</i>
Investments (UUA)	\$ 87,894	\$ 81,818
Investment funds managed for others (member congregations)	<u>94,754</u>	<u>88,750</u>
<b>Total</b>	<b>\$ <u>182,648</u></b>	<b>\$ <u>170,568</u></b>

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

	<i>2017</i>	<i>2016</i>
Investment income	\$ 1,179	\$ 1,054
Net realized gain on investments	2,896	254
Net change in unrealized gain (loss) on investments	8,066	(4,460)
Less investment expenses	<u>(790)</u>	<u>(733)</u>
<b>Total return on investments</b>	<b>\$ <u>11,351</u></b>	<b>\$ <u>(3,885)</u></b>

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

	<i>2017</i>	<i>2016</i>
Investment return authorized for operations	\$ 4,638	\$ 4,857
Other investment return - operating activities	277	284
Investment return, net of amounts authorized for operations - nonoperating - unrestricted	14,033	(10,063)
Investment return - nonoperating - temporarily restricted	3,374	(4,358)
Investment return - debt financing	842	811
Minority interest in investment in UUCEF	<u>(11,813)</u>	<u>4,584</u>
<b>Total return on investments</b>	<b>\$ <u>11,351</u></b>	<b>\$ <u>(3,885)</u></b>



# UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

## *Notes to Consolidated Financial Statements (in thousands)*

### *Note 5 - Fair Values of Financial Instruments*

The following tables present financial assets at June 30, 2017 that the Association measures fair value on a recurring basis, by level, within the fair value hierarchy:

<i>Investments</i>				
<i>2017</i>				
	<i>Level 1</i>	<i>Level 2</i>	<i>Investments Measured at NAV</i>	<i>Total</i>
<b>UUCEF investments</b>				
Domestic equity	\$ 50,566	\$ 7,561	\$ -	\$ 58,127
International equity	14,095	36,155	-	50,250
Fixed income	13,471	18,257	9,470	41,198
Opportunistic	19,610	-	6,922	26,532
Private markets	-	-	3,282	3,282
Other	-	1,572	-	1,572
<b>Total UUCEF investments</b>	<b>97,742</b>	<b>63,545</b>	<b>19,674</b>	<b>180,961</b>
<b>Short-term investments</b>				
Cash and equivalents	1,687	-	-	1,687
<b>Total investments</b>	<b>\$ 99,429</b>	<b>\$ 63,545</b>	<b>\$ 19,674</b>	<b>\$ 182,648</b>

<i>Funds Held by Others and Split-interest Agreements</i>				
<i>2017</i>				
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
<b>Funds held by others:</b>				
Holdeen Trusts	\$ -	\$ -	\$ 33,450	\$ 33,450
Other trusts	-	-	11,404	11,404
	-	-	44,854	44,854
<b>Split-interest agreements:</b>				
Charitable gift annuity	6,542	-	-	6,542
Charitable remainder trust	-	-	743	743
Pooled income funds	2,134	-	-	2,134
	8,676	-	743	9,419
<b>Total funds held by others and split-interest agreements</b>	<b>\$ 8,676</b>	<b>\$ -</b>	<b>\$ 45,597</b>	<b>\$ 54,273</b>

# UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

## *Notes to Consolidated Financial Statements (in thousands)*

### *Note 5 - Fair Values of Financial Instruments (Continued)*

The following tables present financial assets at June 30, 2016 that the Association measures at fair value on a recurring basis, by level, within the fair value hierarchy:

<i>Investments</i>				
<i>2016</i>				
	<i>Level 1</i>	<i>Level 2</i>	<i>Investments Measured at NAV</i>	<i>Total</i>
<b>UUCEF investments</b>				
Domestic equity	\$ 44,074	\$ 3,276	\$ -	\$ 47,350
International equity	11,801	25,902	-	37,703
Fixed income	18,680	20,991	-	39,671
Opportunistic	17,806	-	11,702	29,508
Private markets	-	-	3,099	3,099
Other	-	1,617	-	1,617
	<b>92,361</b>	<b>51,786</b>	<b>14,801</b>	<b>158,948</b>
<b>Total UUCEF investments</b>				
<b>Short-term investments</b>				
Cash and equivalents	11,620	-	-	11,620
	<b>103,981</b>	<b>51,786</b>	<b>14,801</b>	<b>170,568</b>
<b>Total investments</b>	<b>\$ 103,981</b>	<b>\$ 51,786</b>	<b>\$ 14,801</b>	<b>\$ 170,568</b>

<i>Funds Held by Others and Split-interest Agreements</i>				
<i>2016</i>				
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
<b>Funds held by others:</b>				
Holdeen Trusts	\$ -	\$ -	\$ 31,272	\$ 31,272
Other trusts	-	-	10,803	10,803
	<b>-</b>	<b>-</b>	<b>42,075</b>	<b>42,075</b>
<b>Split-interest agreements:</b>				
Charitable gift annuity	6,108	-	-	6,108
Charitable remainder trust	-	-	714	714
Pooled income funds	2,308	-	-	2,308
	<b>8,416</b>	<b>-</b>	<b>714</b>	<b>9,130</b>
<b>Total funds held by others and split-interest agreements</b>	<b>\$ 8,416</b>	<b>\$ -</b>	<b>\$ 42,789</b>	<b>\$ 51,205</b>

# UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

## *Notes to Consolidated Financial Statements (in thousands)*

### *Note 5 - Fair Values of Financial Instruments (Continued)*

<i>Level 3 Roll Forward</i>				
<i>2017</i>				
	<i>Holdeen</i>	<i>Other</i>	<i>Charitable</i>	<i>Total</i>
	<i>Trusts</i>	<i>Trusts</i>	<i>Remainder</i>	
			<i>Trust</i>	
Beginning balance	\$ 31,271	\$ 10,803	\$ 713	\$ 42,787
Distributions	(1,593)	(454)	-	(2,047)
Sales/fees	709	472	-	1,181
Unrealized gain	3,063	583	30	3,676
<b>Ending balance</b>	<b>\$ 33,450</b>	<b>\$ 11,404</b>	<b>\$ 743</b>	<b>\$ 45,597</b>

<i>Level 3 Roll Forward</i>				
<i>2016</i>				
	<i>Holdeen</i>	<i>Other</i>	<i>Charitable</i>	<i>Total</i>
	<i>Trusts</i>	<i>Trusts</i>	<i>Remainder</i>	
			<i>Trust</i>	
Beginning balance	\$ 33,254	\$ 11,298	\$ 758	\$ 45,310
Distributions	(1,594)	(497)	-	(2,091)
Sales/fees	729	334	-	1,063
Unrealized loss	(1,117)	(332)	(44)	(1,493)
<b>Ending balance</b>	<b>\$ 31,272</b>	<b>\$ 10,803</b>	<b>\$ 714</b>	<b>\$ 42,789</b>

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

Investments measured at NAV have the following redemption notice periods:

Weekly	\$ 9,470
Quarterly	6,120
Illiquid	<u>4,084</u>
<b>Total</b>	<b>\$ <u>19,674</u></b>

Unfunded commitments to the investment vehicles amounted to \$5,495 at June 30, 2017. Funds allow for managers to limit normal redemptions under certain circumstances which could impact the ultimate availability of funds. In addition, funds in trust are controlled by outside organizations and thus are not redeemable.

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

# UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

## *Notes to Consolidated Financial Statements (in thousands)*

### **Note 6 - Loans to Member Congregations**

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

	<i>2017</i>	<i>2016</i>
Mortgage loans to member congregations at interest rates from 0% to 5.16% due through 2035	\$ 4,731	\$ 5,643
Less allowance for uncollectible loans	<u>(340)</u>	<u>(340)</u>
<b>Net loans to member congregations</b>	<b>\$ <u>4,391</u></b>	<b>\$ <u>5,303</u></b>

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:

2018	\$ 424
2019	282
2020	340
2021	1,857
2022	931
Thereafter	<u>897</u>
<b>Total</b>	<b>\$ <u>4,731</u></b>

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, 2017 and 2016, 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>	
2017	3	\$	176	\$	179	\$	4,552	\$	4,731
2016	2	\$	176	\$	178	\$	5,465	\$	5,643

# UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

## *Notes to Consolidated 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>2017</i>		<i>2016</i>
Land, buildings and improvements	20-40 yrs	\$	36,269	\$	35,946
Computer equipment	4-7 yrs		1,638		1,568
Office furniture and fixtures	7 yrs		2,123		2,071
Construction in progress	-		199		-
			40,229		39,585
Less accumulated depreciation			(4,889)		(3,559)
<b>Property and equipment, net</b>		<b>\$</b>	<b>35,340</b>	<b>\$</b>	<b>36,026</b>

Construction in progress represents repairs to the building's elevators and is expected to be completed in fiscal year 2018 at a total cost of \$419.

As more fully described in Note 8, the land, building and improvements serve as collateral under a term note agreement.

### *Allocation of Depreciation Between Operating and Nonoperating*

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. During 2017, the Association performed another facilities condition assessment and determined that over an 11 year period \$435 represents the annual replacement funding needed. The excess depreciation of \$716 in 2017 and of \$633 in 2016 is considered unfunded and included in nonoperating expense on the consolidated statements of activities.

### *Sale of Real Estate*

In June 2017, the Association received a final \$840 contingency payment related to the 2104 sale of the 25 Beacon Street property, of which \$814 was reported as a gain on sale net of brokerage fees of \$26.

# UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

## *Notes to Consolidated Financial Statements (in thousands)*

### ***Note 8 - Bank Debt***

The Association has the following bank debt at June 30:

	<i>2017</i>	<i>2016</i>
Member lending credit line	\$ 734	\$ 1,816
Mortgage note payable	<u>7,654</u>	<u>8,494</u>
<b>Total bank debt</b>	<b><u>\$ 8,388</u></b>	<b><u>\$ 10,310</u></b>

### ***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, 2018, 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 3.99% and mature at various dates through February 25, 2020.

### ***Mortgage Note Payable***

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

### ***Line of Credit***

The Association has a \$500 line of credit available with a bank of which no amounts were outstanding at June 30, 2017 and 2016. The line of credit bears interest at the bank's base lending rate with a floor of 3.99% during the draw period as defined by the agreement. The actual rate was 3.99% at June 30, 2017 and 2016. The line is collateralized by cash deposits. The line contains certain financial covenants and expires on December 31, 2018 at which time it will be reviewed for renewal.

Interest expense for the years ended June 30, 2017 and 2016 was \$368 and \$417, respectively. Cash paid for interest was \$373 and \$419 for the years ended June 30, 2017 and 2016, respectively.

# UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

## *Notes to Consolidated Financial Statements (in thousands)*

### *Note 8 - Bank Debt (Continued)*

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

2018	\$	895
2019		1,548
2020		1,003
2021		972
2022		3,970
<b>Total</b>	<b>\$</b>	<b>8,388</b>

### *Note 9 - Net Assets and Endowment Matters*

#### *Temporarily Restricted Net Assets*

Temporarily restricted net assets consisted of the following as of June 30:

	<i>2017</i>		<i>2016</i>
Accumulated unspent gains:			
General operating	\$ 4,809	\$	3,904
Scholarships for ministerial students	7,200		5,862
Ministerial aid	6,417		5,875
Other programs	2,590		1,553
<b>Total accumulated unspent gains</b>	<b>21,016</b>		<b>17,194</b>
Purpose restrictions:			
Split-interest agreements	1,283		1,346
Building loan fund	201		201
<b>Total purpose restrictions</b>	<b>1,484</b>		<b>1,547</b>
Time and purpose restrictions:			
Funds held in trust by others - Holdeen Trusts	33,450		31,272
Amounts restricted by donors for programs and (or) time restrictions	3,782		2,528
<b>Total time and purpose restrictions</b>	<b>37,232</b>		<b>33,800</b>
<b>Total temporarily restricted net assets</b>	<b>\$ 59,732</b>	<b>\$</b>	<b>52,541</b>

# UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

## *Notes to Consolidated 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>2017</i>	<i>2016</i>
Ministerial programs	\$ <u>1,521</u>	\$ <u>1,795</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>2017</i>	<i>2016</i>
Endowment funds:		
General operating	\$ 27,209	\$ 27,209
Scholarships for ministerial students	11,648	11,614
Other programs	2,245	2,236
Ministerial aid	<u>1,377</u>	<u>1,377</u>
<b>Total endowment funds</b>	<b>42,479</b>	<b>42,436</b>
Building loan fund	4,412	4,412
Funds held in trust by others for restricted purposes	11,404	10,803
Wilton Peace Prize Fund	<u>55</u>	<u>55</u>
<b>Total permanently restricted net assets</b>	<b>\$ <u>58,350</u></b>	<b>\$ <u>57,706</u></b>

#### *Endowment*

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

A significant portion of the endowment funds are held via trust that contains special provisions which provides for a member of management to be the trustee under the trust. The trust allows for investment return generated from the permanently restricted portion of the trusts to be considered unrestricted given the discretion provided to the trustee to utilize such funds as needed. Notwithstanding this flexibility, management has determined it would be prudent to label it as unrestricted within that category of stewardship



# UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

## *Notes to Consolidated Financial Statements (in thousands)*

### *Note 9 - Net Assets and Endowment Matters (Continued)*

#### *Endowment (Continued)*

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

#### *Interpretation of Relevant Law*

The Board of Trustees of the Association has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), Chapter 180A of the general laws of the Commonwealth of Massachusetts, as requiring the preservation of the historic dollar value of the original gifts to donor-restricted endowment funds absent explicit donor stipulations to the contrary. The Association 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 AND SUBSIDIARY

## *Notes to Consolidated 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, 2017 are as follows:

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Endowment net assets, beginning of year	\$ <u>22,011</u>	\$ <u>17,194</u>	\$ <u>42,436</u>	\$ <u>81,641</u>
Investment return:				
Investment income (net of expenses)	(28)	(28)	-	(56)
Net appreciation (realized and unrealized)	<u>5,430</u>	<u>5,532</u>	<u>-</u>	<u>10,962</u>
Total investment return	5,402	5,504	-	10,906
Contributions	19	711	44	774
Adjust for Underwater Funds	86	(86)	-	-
Investment return authorized for operations	<u>(3,350)</u>	<u>(2,307)</u>	<u>-</u>	<u>(5,657)</u>
<b>Endowment net assets, end of year</b>	<b>\$ <u>24,168</u></b>	<b>\$ <u>21,016</u></b>	<b>\$ <u>42,480</u></b>	<b>\$ <u>87,664</u></b>

Endowment net asset composition by type of fund consists of the following at June 30, 2017:

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Donor-imposed endowment funds	\$ 6,720	\$ 21,016	\$ 42,480	\$ 70,216
Unrestricted quasi endowment funds	<u>17,448</u>	<u>-</u>	<u>-</u>	<u>17,448</u>
<b>Total endowed net assets</b>	<b>\$ <u>24,168</u></b>	<b>\$ <u>21,016</u></b>	<b>\$ <u>42,480</u></b>	<b>\$ <u>87,664</u></b>

# UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

## *Notes to Consolidated 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, 2016 are as follows:

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Endowment net assets, beginning of year	\$ <u>26,852</u>	\$ <u>21,411</u>	\$ <u>42,417</u>	\$ <u>90,680</u>
Investment return:				
Investment income (net of expenses)	(64)	(63)	-	(127)
Net appreciation (realized and unrealized)	<u>(2,112)</u>	<u>(2,092)</u>	<u>-</u>	<u>(4,204)</u>
Total investment return	(2,176)	(2,155)	-	(4,331)
Contributions	1,123	149	19	1,291
Adjust for Underwater Funds	(86)	86	-	-
Investment return authorized for operations	<u>(3,702)</u>	<u>(2,297)</u>	<u>-</u>	<u>(5,999)</u>
<b>Endowment net assets, end of year</b>	<b>\$ <u>22,011</u></b>	<b>\$ <u>17,194</u></b>	<b>\$ <u>42,436</u></b>	<b>\$ <u>81,641</u></b>

Endowment net asset composition by type of fund consists of the following at June 30, 2016:

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Donor-imposed endowment funds	\$ 4,893	\$ 17,194	\$ 42,436	\$ 64,523
Unrestricted quasi endowment funds	<u>17,118</u>	<u>-</u>	<u>-</u>	<u>17,118</u>
<b>Total endowed net assets</b>	<b>\$ <u>22,011</u></b>	<b>\$ <u>17,194</u></b>	<b>\$ <u>42,436</u></b>	<b>\$ <u>81,641</u></b>

# UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

## *Notes to Consolidated 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, 2017 and four funds totaling \$86 with deficiencies as of June 30, 2016.

#### *Return Objectives and Risk Parameters*

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

#### *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 5.0% of the trailing four-quarter average market value of the endowment as of the previous December (weighted at 30%). However, the spending rate must be at least 4% and not more than 6% of the trailing four-quarter average market value of the endowment as of the previous December. Spending from new gifts will be calculated at the effective spending policy rate as approved by the Board of Trustees.

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 AND SUBSIDIARY

## *Notes to Consolidated Financial Statements (in thousands)*

### *Note 10 - Leases and Other Commitments*

#### *Leases as Lessor*

A portion of the Association's headquarters facility is leased to unrelated entities under operating lease agreements that expire at various times through 2020. Such leases provide for various escalations for operating and real estate taxes. Rental income was \$1,631 and \$1,600 for the years ended June 30, 2017 and 2016, respectively.

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

2018	\$	1,468
2019		1,487
2020		<u>138</u>
<b>Total</b>	<b>\$</b>	<b><u><u>3,093</u></u></b>

#### *Leases as Lessee*

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

2018	\$	69
2019		22
2020		10
2021		10
2022		10
Thereafter		<u>1</u>
<b>Total</b>	<b>\$</b>	<b><u><u>122</u></u></b>

Rent expense was \$103 and \$109 for the years ended June 30, 2017 and 2016, respectively.

#### *Guarantees*

The Association guarantees certain loans extended by various lending institutions to member congregations. The outstanding guarantees were \$579 and \$929 on loans totaling \$1,158 and \$1,867 for June 30, 2017 and 2016, respectively. The loan guarantees were extended to the member congregations through the Association's loan guarantee program. The Association's policy is to guarantee 50% of the outstanding loan principal up to a maximum guarantee of \$450. The Association determined the value of these guarantees was not significant given its experience.

# UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

## *Notes to Consolidated Financial Statements (in thousands)*

### *Note 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, 2017 and 2016, the plan was sufficiently funded to cover all actuarially determined obligations. The Association maintains stop loss insurance coverage that will pay claims for an individual once a \$500 calendar year threshold is reached, up to an unlimited lifetime maximum. The Association has determined the value of this guarantee to not be a significant obligation given the funded status of the plan.

#### ***Employment Related Agreements***

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

#### ***Legal***

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

#### ***Other Commitments***

The Association acts as agent for certain donors that wish to donate funds to the Association for distribution to an outside organization. Occasionally, these funds are held at the Association pending final distribution determination by the donor and are accounted for in cash and accounts payable. Agency funds held at the Association as of June 30, 2017 and 2016 were \$16 and \$1,501, respectively.

During 2017, the Board approved a long-term \$5,300 funding commitment to Black Lives UU (BLUU). This commitment is guaranteed by the common endowment fund. The Association provided \$300 of funding against this commitment during the year.

Effective May 8, 2017, the Association entered into an agreement with a third-party to implement a customized Hosting Application for Bibliographic, Production and Digital Asset Management. The total license and implementation costs are estimated at \$116. At June 30, 2017, \$58 has been incurred and \$58 is expected to be paid during fiscal 2018. The Association will also pay an annual maintenance cost of approximately \$44 to the third-party after the launch date. The agreement expires on May 8, 2023 and automatically renews for one additional year unless terminated by one of the parties.

# UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

## *Notes to Consolidated Financial Statements (in thousands)*

### *Note 11 - Agency Agreement*

The Association, along with five other related organizations, has entered into an agreement with the Unitarian Universalist Congregation at Shelter Rock (UUCSR) whereby the UUCSR will make \$4,500 in grants available as a match equal to the greater of \$1 or 10% of the gift pledge amount (maximum of \$10) for every new legacy gift pledge received from January 1, 2017 to June 30, 2020 to any UU member organization. Matching grants will be paid out from July 1, 2019 to June 30, 2020. Matching grants of \$16 and \$496 payable to the UUA and related organizations, respectively, were accrued at June 30, 2017. In addition, the UUCSR has granted \$500 to the Association for program development; \$250 was received in July 2016, and the remainder was accrued at June 30, 2017. At June 30, 2017, \$266 is included in pledges receivable related to this agreement.

### *Note 12 - Benefit Plans*

The Association has a qualified defined contribution retirement plan covering all employees who have satisfied initial age and hour requirements. The Association makes a pension contribution of 11% of employee salary (plus housing allowance for ministers) for all employees who 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 \$1,088 and \$942 for the years ended June 30, 2017 and 2016, 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.

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

	<i>2017</i>	<i>2016</i>
Changes in benefit obligation:		
Benefit obligation at beginning of year	\$ 1,937	\$ 1,991
Service cost	2	2
Interest cost	69	72
Actuarial loss	(132)	-
Benefits paid	<u>(115)</u>	<u>(128)</u>
Benefit obligation at end of year	<u>1,761</u>	<u>1,937</u>
Change in plan assets:		
Employer contribution	115	128
Benefits paid	<u>(115)</u>	<u>(128)</u>
Fair value of plan assets at end of year	<u>-</u>	<u>-</u>
<b>Accumulated postretirement benefit obligation</b>	<b>\$ <u>1,761</u></b>	<b>\$ <u>1,937</u></b>

# UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

## *Notes to Consolidated Financial Statements (in thousands)*

### *Note 12 - Benefit Plans (Continued)*

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

	<i>2017</i>	<i>2016</i>
Discount rate	3.25%	3.75%
Rate of increase in healthcare costs	5.70	5.50

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. In addition, updated mortality tables were used in 2017 to measure obligations.

A one-percentage-point change in assumed healthcare cost trend rates would have the following effects as of June 30, 2017:

	<i>One- Percentage- Point Increase</i>	<i>One- Percentage- Point Decrease</i>
Effects on total service and interest cost components for 2017	\$ 79	\$ 65
Effects on year-end 2017 accumulated postretirement benefit obligation	1,904	1,634

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

2018	\$	145
2019		144
2020		143
2021		141
2022		138
2023-2027		626
<b>Total</b>	<b>\$</b>	<b><u><u>1,337</u></u></b>

The expected benefits are based on the same assumptions used to measure the Association's benefit obligation at June 30, 2017 and 2016.



# UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

## *Notes to Consolidated Financial Statements (in thousands)*

### *Note 12 - Benefit Plans (Continued)*

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

	<i>2017</i>	<i>2016</i>
Service cost	\$ 2	\$ 2
Interest cost	69	72
	69	72
<b>Net periodic benefit cost</b>	<b>\$ 71</b>	<b>\$ 74</b>
	<b>71</b>	<b>74</b>

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 2091.

### *Note 13 - Program Expenses*

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

	<i>2017</i>	<i>2016</i>
Costs of goods sold and publishing expenses	\$ 7,623	\$ 7,009
Ministries and faith development	6,081	5,927
Congregational life	6,762	6,196
Other programs	3,960	3,060
International programs	1,451	1,936
Communications	2,318	2,314
Multicultural growth & witness	1,071	1,309
	1,071	1,309
<b>Total</b>	<b>\$ 29,266</b>	<b>\$ 27,751</b>
	<b>29,266</b>	<b>27,751</b>

### *Note 14 - Cash Flow Information*

During 2016, the Association disposed of \$532 of fully depreciated computer equipment. There were no such activities during 2017.

# UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

## *Notes to Consolidated Financial Statements (in thousands)*

### *Note 15 - Subsequent Events*

The Association has evaluated subsequent events through December 11, 2017, the date the consolidated financial statements were authorized to be issued.

Two of the Association's previously independent regional operations merged into the Association as of July 1, 2017, resulting in a \$1,211 increase in fundraising and gifts and bequests. Final legal dissolution and transfer of assets of several districts within these two regions is expected in 2018 and 2019. At June 30, 2017, the estimated increase in net assets from the merger of these districts for fiscal 2018 and 2019 is approximately \$1,893 and \$148, respectively.

*Supplemental Schedules*

## UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

*Supplemental Schedule of Assets by Business Segment*

June 30, 2017

(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	\$ 7,499	\$ 292	\$ 1,452	\$ 1,291	\$ 1,330	\$ -	\$ -	\$ 11,864
Accounts receivable, net	825	-	-	897	-	-	(37)	1,685
Pledges receivable, net	981	-	-	-	-	-	-	981
Agency receivable	496	-	-	-	-	-	-	496
Inventories, net	496	-	-	886	-	-	-	1,382
Other assets	181	-	-	954	-	32	-	1,167
Investments	86,495	-	-	1,227	-	182,590	(87,664)	182,648
Funds held in trust by others	44,854	-	-	-	-	-	-	44,854
Funds held in support of split-interest agreements	9,419	-	-	-	-	-	-	9,419
Loans to member congregations, net	-	-	-	-	4,391	-	-	4,391
Property and equipment, net	35,287	-	-	13	-	40	-	35,340
Amounts due from other business segments	40	-	-	-	800	-	(840)	-
<b>Total assets</b>	<b>\$ 186,573</b>	<b>\$ 292</b>	<b>\$ 1,452</b>	<b>\$ 5,268</b>	<b>\$ 6,521</b>	<b>\$ 182,662</b>	<b>\$ (88,541)</b>	<b>\$ 294,227</b>

## UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

## Supplemental Schedule of Liabilities and Net Assets by Business Segment

June 30, 2017

(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	\$ 4,161	\$ -	\$ -	\$ 1,449	\$ -	\$ 214	\$ -	\$ 5,824
Agency liability	496	-	-	-	-	-	-	496
Annuity liabilities	2,001	-	-	-	-	-	-	2,001
Bank debt	7,654	-	-	-	734	-	-	8,388
Obligations under split-interest agreements	5,491	-	-	-	-	-	-	5,491
Accumulated postretirement benefit obligation	1,761	-	-	-	-	-	-	1,761
Amounts due to (from) other business segments	826	-	-	40	(56)	30	(840)	-
<b>Total liabilities</b>	<b>22,390</b>	<b>-</b>	<b>-</b>	<b>1,489</b>	<b>678</b>	<b>244</b>	<b>(840)</b>	<b>23,961</b>
<b>Minority interest in UUCEF</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>94,754</b>	<b>-</b>	<b>94,754</b>
Net assets:								
Unrestricted	50,842	292	1,452	3,565	1,230	87,664	(87,615)	57,430
Temporarily restricted	59,444	-	-	173	201	-	(86)	59,732
Permanently restricted	53,897	-	-	41	4,412	-	-	58,350
<b>Total net assets</b>	<b>164,183</b>	<b>292</b>	<b>1,452</b>	<b>3,779</b>	<b>5,843</b>	<b>87,664</b>	<b>(87,701)</b>	<b>175,512</b>
<b>Total liabilities and net assets</b>	<b>\$ 186,573</b>	<b>292</b>	<b>\$ 1,452</b>	<b>\$ 5,268</b>	<b>\$ 6,521</b>	<b>\$ 182,662</b>	<b>\$ (88,541)</b>	<b>\$ 294,227</b>

## UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

## Supplemental Schedule of Unrestricted Activities by Business Segment

For the Year Ended June 30, 2017

(in thousands)

	Current	General Assembly	Group Insurance Plan	Beacon Press	CPLF	UUCEF	Eliminations	Total
Operating:								
Support and revenue:								
Fundraising and gifts and bequests	\$ 13,779	\$ -	\$ -	\$ 10	\$ -	\$ -	\$ (37)	\$ 13,752
Net sales from publishing activities	1,046	-	-	7,072	-	-	-	8,118
Sales and administrative services	1,668	1,798	-	-	-	-	(848)	2,618
Investment return authorized for operations	4,617	-	-	-	21	-	-	4,638
Distributions from Holdeen Trusts	1,089	-	-	-	-	-	-	1,089
Other investment income	-	-	-	21	256	-	-	277
Rental income	1,631	-	-	-	-	-	-	1,631
Other income	3,439	-	1,618	248	-	-	(150)	5,155
Net assets released from restriction	1,321	4	-	196	-	-	-	1,521
<b>Total support and revenue</b>	<b>28,590</b>	<b>1,802</b>	<b>1,618</b>	<b>7,547</b>	<b>277</b>	<b>-</b>	<b>(1,035)</b>	<b>38,799</b>
Expenses:								
Board and volunteer leadership	482	-	-	-	-	-	-	482
Multicultural growth and witness	1,071	-	-	-	-	-	-	1,071
International	1,451	-	-	-	-	-	-	1,451
Congregational life	6,762	-	-	-	-	-	-	6,762
Ministry and faith development	4,969	-	1,573	-	-	-	(461)	6,081
UU Funding Program and Crisis Relief	1,832	-	-	-	-	-	-	1,832
Communications	2,318	-	-	-	-	-	-	2,318
Cost of goods sold and publishing expenses	354	-	-	7,419	-	-	(150)	7,623
Administration	1,962	-	-	-	-	-	-	1,962
Stewardship and development	2,019	-	-	-	-	-	-	2,019
Information technology services	1,463	-	-	-	-	-	-	1,463
Internal services	2,590	-	-	-	-	-	-	2,590
Rental expense	667	-	-	-	-	-	-	667
General assembly	-	2,128	-	-	-	-	-	2,128
Expenses associated with investment pools	-	-	-	-	230	-	(220)	10
Interest expense	298	-	-	-	75	-	-	373
<b>Total expenses</b>	<b>28,238</b>	<b>2,128</b>	<b>1,573</b>	<b>7,419</b>	<b>305</b>	<b>-</b>	<b>(831)</b>	<b>38,832</b>
<b>Increase (decrease) in unrestricted net assets from operations</b>	<b>352</b>	<b>(326)</b>	<b>45</b>	<b>128</b>	<b>(28)</b>	<b>-</b>	<b>(204)</b>	<b>(33)</b>
Nonoperating:								
Investment income	13,725	-	-	141	-	22,719	(22,552)	14,033
Increase in value of funds held in support of split-interest agreements and trusts	148	-	-	-	-	-	-	148
Postretirement benefit plan expense	103	-	-	-	-	-	-	103
Investment return - debt financing	842	-	-	-	-	-	-	842
Bequest income - Board restricted	90	-	-	-	-	-	-	90
Gain on sale of real estate	814	-	-	-	-	-	-	814
Other releases and changes in net assets	86	-	-	-	-	-	-	86
Unfunded depreciation	(716)	-	-	-	-	-	-	(716)
<b>Total decrease in net assets from nonoperating activities</b>	<b>15,092</b>	<b>-</b>	<b>-</b>	<b>141</b>	<b>-</b>	<b>22,719</b>	<b>(22,552)</b>	<b>15,400</b>
Minority interest in investment (earnings) of UUCEF	(11,813)	-	-	-	-	-	-	(11,813)
<b>Increase (decrease) in unrestricted net assets</b>	<b>\$ 3,631</b>	<b>\$ (326)</b>	<b>\$ 45</b>	<b>\$ 269</b>	<b>\$ (28)</b>	<b>\$ 22,719</b>	<b>\$ (22,756)</b>	<b>\$ 3,554</b>