

**UNITARIAN UNIVERSALIST CHURCH
OF ARLINGTON, VIRGINIA**

AUDITED FINANCIAL STATEMENTS

For the year ended June 30, 2014

UNITARIAN UNIVERSALIST CHURCH OF ARLINGTON, VIRGINIA

TABLE OF CONTENTS

	Pages
Report of Independent Auditors	1-2
Financial Statements	
Statement of Assets, Liabilities, and Net Assets - Modified Cash Basis	3
Statement of Revenues and Expenses and Changes in Net Assets— Modified Cash Basis	4
Notes to Financial Statements	5-13

REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Unitarian Universalist Church of Arlington, Virginia
Arlington, Virginia

We have audited the accompanying financial statements of Unitarian Universalist Church of Arlington, Virginia, (the Church), which comprise the statement of assets, liabilities and net assets - modified cash basis as of June 30, 2014, and the related statement of revenues and expenses and changes in net assets - modified cash basis for the year 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 the modified cash basis of accounting described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 auditor's 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 assets, liabilities and net assets of the Church as of June 30, 2014, and its revenues and expenses for the year then ended, in accordance with the basis of accounting as described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

UHY LLP

Columbia, Maryland
December 22, 2014

UNITARIAN UNIVERSALIST CHURCH OF ARLINGTON, VIRGINIA
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS - MODIFIED CASH BASIS
June 30, 2014

ASSETS

CURRENT ASSETS

Cash	\$ 104,008
Other current assets	<u>7,630</u>

Total current assets \$ 111,638

INVESTMENTS 1,242,325

NOTES RECEIVABLE 41,500

PROPERTY AND EQUIPMENT, net 7,262,864

\$ 8,658,327

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Mortgage payable, current portion	\$ 52,715
Line of credit, current portion	500,000
Payroll and other accrued liabilities	<u>8,238</u>

Total current liabilities \$ 560,953

LONG-TERM LIABILITIES

Mortgage payable, net of current portion	1,875,509
Line of credit, net of current portion	<u>2,013,222</u>

Total long term liabilities 3,888,731

Total liabilities 4,449,684

NET ASSETS

Unrestricted:	
Board designated	101,315
Undesignated	<u>2,097,877</u>

Total unrestricted 2,199,192

Temporarily restricted 2,009,451

Total net assets 4,208,643

\$ 8,658,327

UNITARIAN UNIVERSALIST CHURCH OF ARLINGTON, VIRGINIA
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS -
MODIFIED CASH BASIS
For the year ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and Support			
Contributions	\$ 682,818	\$ 146,223	\$ 829,041
Pledge income	1,122,055	-	1,122,055
Other collections	126,679	-	126,679
Fundraising events revenue	37,899	-	37,899
Rental revenue	97,926	-	97,926
Music and dance revenue	1,771	-	1,771
Investment income	22,289	163,461	185,750
Net assets released from restrictions	356,844	(356,844)	-
	<u>2,448,281</u>	<u>(47,160)</u>	<u>2,401,121</u>
Expenses			
Compensation	716,040	-	716,040
Benefits and taxes	227,545	-	227,545
Professional fees	42,787	-	42,787
Office supplies and other expenses	89,025	-	89,025
Guest ministers/musicians	16,218	-	16,218
Repair and maintenance	69,306	-	69,306
Utilities	64,560	-	64,560
Insurance	13,431	-	13,431
Other administrative costs	51,714	-	51,714
Denominational support	68,550	-	68,550
Faith in Action/Outreach	194,134	-	194,134
Mortgage interest	75,355	-	75,355
Capital campaign	60,979	-	60,979
Fundraising	6,043	-	6,043
Education/camp	56,207	-	56,207
Theatre/arts	16,844	-	16,844
Affinity groups/retreats	20,763	-	20,763
Depreciation	296,543	-	296,543
	<u>2,086,044</u>	<u>-</u>	<u>2,086,044</u>
Change in net assets	362,237	(47,160)	315,077
Net Assets, Beginning	<u>1,836,955</u>	<u>2,056,611</u>	<u>3,893,566</u>
Net Assets, Ending	<u>\$ 2,199,192</u>	<u>\$ 2,009,451</u>	<u>\$ 4,208,643</u>

See notes to financial statements.

UNITARIAN UNIVERSALIST CHURCH OF ARLINGTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2014

NOTE 1 – DESCRIPTION OF ORGANIZATION

Unitarian Universalist Church of Arlington, Virginia, (the Church) is a not-for-profit organization, established to build and sustain a committed fellowship, to celebrate spirit, to invite the enrichment of human diversity, to nurture spiritual and intellectual growth, and to embody our faith in deeds of justice and love. The Church is an intentionally inclusive congregation that welcomes people of all races, religious backgrounds, cultural origins and sexual orientations. The Church is a member of the Unitarian Universalist Association of Congregations, a liberal religion, which emerged from a Judeo-Christian heritage.

The Church, which was formed in 1948, was incorporated in Virginia on June 2, 2011.

The activities of the Church are funded primarily through pledges and contributions from its members and friends.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements are presented in accordance with the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Revenue is recognized when received and expenses are recognized when paid. Amounts paid for long-term assets and amounts received from the issuance of long-term liabilities are capitalized on the balance sheet.

Basis of Presentation

The financial statement presentation is to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Church has no permanently restricted net assets as of June 30, 2014.

Cash and Cash Equivalents

Cash and cash equivalents include amounts invested in short-term investments with original maturities of 90 days or less or designated for use in operations. Cash and cash equivalents held by an investment custodian to facilitate investment transactions or for investment are included in investments in the Statement of Assets, Liabilities and Net Assets – Modified Cash Basis.

Pledges and Contributions

Pledges and contributions are recognized when the cash is received.

UNITARIAN UNIVERSALIST CHURCH OF ARLINGTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted and Unrestricted Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted revenue, depending on the existence and/or nature of any donor restrictions.

All donor-restricted revenue is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Revenues and Expenses and Changes in Net Assets – Modified Cash Basis.

Property and Equipment

The Church follows the practice of capitalizing, at cost, all expenditures for property and equipment in excess of \$5,000. Assets donated are capitalized at fair value at date of donation. Land and land improvements are not depreciated. Depreciation of property and equipment is provided on the straight-line method over the following estimated useful lives:

Building and improvements	20 - 50 years
Organ improvements and sanctuary pews	20 years
Furniture, fixtures and equipment	5 - 10 years

Depreciation expense was \$296,543 for the year ended June 30, 2014.

Functional Allocation of Expenses

The Church provides various program services to the community and its congregation. Expenses related to providing these services for the year ended June 30, 2014 are as follows:

Program	\$ 1,383,033
Management and general	696,967
Fundraising	<u>6,044</u>
	<u>\$ 2,086,044</u>

Investments

Investments consist of cash and cash equivalents held in investment accounts, fixed income securities and equity securities. Investments are carried at their fair value which may differ from the amount ultimately realized at the time of sale. Both realized and unrealized gains and losses are reflected in the statement of revenues and expenses and changes in net assets – modified cash basis. The cost of investments sold is determined by the specific identification method.

UNITARIAN UNIVERSALIST CHURCH OF ARLINGTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Marketable securities acquired by donation are sold immediately after receipt and the sales proceeds are recorded as contribution revenue.

Fair Value Measurements

FASB ASC 820, *Fair Value Measurements and Disclosures*, established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to the unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

- *Level 1:* Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date.
- *Level 2:* Level 2 inputs are from other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- *Level 3:* Level 3 inputs are unobservable and should be used to measure fair value to the extent that observable inputs are not available.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of the observable inputs and minimize the use of the unobservable inputs.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting 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 support and revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 - CONCENTRATION OF CREDIT RISK

The Church maintains cash balances in accounts in one institution, which on occasion may exceed the maximum amount covered by the Federal Deposit Insurance Corporation (FDIC). The cash balances that exceed the limit bear some risk. The Church has not experienced any losses on its excess cash deposits.

UNITARIAN UNIVERSALIST CHURCH OF ARLINGTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2014

NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments are stated at fair value and consist of the following:

Money Market	<u>\$ 100,204</u>
Mutual funds:	
Fixed Income:	
Short term bonds	62,075
High yield bonds	59,926
Financial	<u>222,146</u>
	<u>344,147</u>
Equities:	
Large cap	339,297
Mid cap	82,075
Small cap	112,754
Foreign	159,785
Specialty	<u>104,063</u>
	<u>797,974</u>
Total	<u>\$ 1,242,325</u>

Investment securities and other holdings are exposed to various risks, such as interest rate risk, financial market risk and credit risk. Due to the level of risk associated with investment securities it is at least reasonably possible that changes in the values of investment will occur in the near term and such changes could materially affect the Church's account balances.

Investments are measured at fair value on a recurring basis, using quoted prices in active markets for identical assets (Level 1).

All assets have been valued using a market approach. There have been no changes in valuation techniques and related inputs.

Total investments include funds held for restricted funds as follows:

Endowment Fund	\$ 774,888
Capital Campaign	48,581
Memorial Garden Fund	81,176
Cattell/Endacott Fund	<u>33,410</u>
Total	<u>\$ 938,055</u>

UNITARIAN UNIVERSALIST CHURCH OF ARLINGTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2014

NOTE 5 – NOTES RECEIVABLE

The Church has advanced funds to Open Door Housing Fund, \$21,500 from general operating fund and \$20,000 from the Endowment Fund. The notes funded from general operating funds bear interest at 2% per annum and mature in 2015. The notes funded from the Endowment Fund bear interest at 3% and mature in 2015. Management considers the notes to be 100% collectible.

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

Building and improvements	\$ 9,595,853
Organ improvements	72,000
Sanctuary pews	101,794
Furniture, fixtures and equipment	<u>278,808</u>
	10,048,455
Less accumulated depreciation	<u>(3,376,478)</u>
	6,671,977
Land and improvements	<u>590,887</u>
Net value of property and equipment	<u><u>\$ 7,262,864</u></u>

NOTE 7 – MORTGAGE PAYABLE

On June 20, 2012, the Church obtained a 5-year mortgage loan in the amount of \$2,020,000 from a major bank. The principal sum, together with interest at the rate of 3.8% per annum, is payable in monthly installments, computed on a 25-year amortization basis, of \$10,485, maturing June 2017. The loan is secured by a deed of trust on the real property of the Church.

Future principal payments under the mortgage payable for the years ending June 30th are as follows:

2015	\$ 52,715
2016	54,588
2017	<u>1,820,921</u>
	1,928,224
Less current portion	<u>52,715</u>
Total long-term portion	<u><u>\$ 1,875,509</u></u>

Interest expense for the mortgage payable for the year ended June 30, 2014 is \$75,355.

UNITARIAN UNIVERSALIST CHURCH OF ARLINGTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2014

NOTE 8 - CONSTRUCTION LINE OF CREDIT

On June 20, 2012, the Church obtained a \$4,000,000 Line of Credit for construction expenses from a major bank. Draws under this loan were made by the Church to fund project costs in excess of capital campaign pledges actually collected to date. The terms of the loan require monthly payments of interest at the rate of one-month LIBOR plus 2.75%. Principal curtailments are required at the rate of at least \$500,000 per year beginning July 2013. Any remaining balance at July 2016 (which cannot exceed \$1 million) will be payable in monthly installments, computed on a 25 year amortization basis, but maturing in June 2017. The loan is collateralized by the building. The Church capitalized interest associated with the line of credit while construction was in progress. For the year ended June 30, 2014, \$85,512 of interest was paid, of which \$28,634 was capitalized. At June 30, 2014 the unpaid balance was \$2,513,222.

Future principal payments under the construction line of credit for the years ending June 30 are as follows:

2015	\$ 500,000
2016	500,000
2017	<u>1,513,222</u>
Total	<u>\$ 2,513,222</u>

NOTE 9 – RETIREMENT PLAN

The Church currently participates in a retirement plan, Unitarian Universalist Organizations Retirement Plan (UUORP) for which employees who are employed 1,000 hours or more per year are eligible after completion of one year of service. Any full or part-time service at another church in the UUA denomination immediately prior to employment at the Church or any such service at the Church within the previous five year period shall be counted toward this year of eligibility. The Church currently contributes 14% per annum of the salary to the retirement plan. Contributions made by the Church to the retirement plan during the year ended June 30, 2014 totaled \$91,274.

NOTE 10 – RESTRICTIONS AND DESIGNATIONS OF NET ASSETS

Board Designated

The Church’s board designated net assets consist of the following at June 30, 2014:

Memorial Gifts and Bequests	\$ 23,301
Replacement Reserve Fund	48,581
Chalice Theater	8,331
Other designations	<u>21,102</u>
	<u>\$ 101,315</u>

UNITARIAN UNIVERSALIST CHURCH OF ARLINGTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2014

NOTE 10 – RESTRICTIONS AND DESIGNATIONS OF NET ASSETS (Continued)

Temporarily Restricted

The Church’s temporarily restricted net assets consist of the following at June 30, 2014:

Temporarily restricted	
Endowment Fund	\$1,593,388
Capital Campaign	142,451
Pledges designated for the following year	95,237
Memorial Garden Fund	95,144
Peace Camp	23,917
Cattell Fund	33,410
Partners for Arlington and Guatemala/Guatemala Scholarship Fund	17,931
Others under \$10,000	<u>7,973</u>
	<u>\$ 2,009,451</u>

NOTE 11 – NET ASSETS RELEASED FROM RESTRICTION

Net assets released from donor restrictions are as follows for the year ended June 30, 2014:

Capital Campaign	\$ 248,559
Memorial Garden Fund	4,314
Peace Camp	34,658
Partners for Arlington and Guatemala/Guatemala Scholarship Fund	30,709
Other under \$10,000	<u>38,604</u>
	<u>\$ 356,844</u>

NOTE 12 - INCOME TAX

The Church is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. However, income from activities not directly related to the Church’s tax-exempt purpose is subject to taxation as unrelated business income. For the year ended June 30, 2014, the Church had no unrelated business income.

UNITARIAN UNIVERSALIST CHURCH OF ARLINGTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2014

NOTE 13 – LEASE COMMITMENTS

The Church performed an evaluation of uncertain tax positions for the year ended June 30, 2014 and determined that there were no matters that would require recognition in the financial statements or which may have any effect on its tax-exempt status. As of June 30, 2014, the statute of limitations for tax years 2011 and later remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which the Church may file tax returns. It is the Church’s policy to recognize interest and penalties related to uncertain tax positions, if any, in tax expense.

The Church has entered into various leases for equipment under agreements that are classified as operating leases and are scheduled to expire through 2019.

Future minimum lease payments are as follows:

Years ending June 30:		
2015		\$ 15,316
2016		16,669
2017		16,669
2018		13,964
2019		<u>1,051</u>
Total		<u>\$ 63,669</u>

Rent expense for the year ended June 30, 2014 was \$11,560.

NOTE 14 - RENTAL INCOME

The Church has entered into a rental income lease for space in its building with a tenant expiring June 30, 2020. The annual lease payments for the years ended June 30, 2016 through 2020 will equal the prior year rate adjusted by the change in the Consumer Price Index for the preceding calendar year. The tenant has the option to renew the lease but must enter into lease negotiations on or before April 1, 2019. As of June 30, 2014, future minimum lease receipts for this operating lease are as follows:

Years ending June 30:		
2015		\$ 22,500
2016		22,500
2017		22,500
2018		22,500
2019		22,500
2020		<u>22,500</u>
		<u>\$ 135,000</u>

UNITARIAN UNIVERSALIST CHURCH OF ARLINGTON, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2014

NOTE 15 – COMMITMENTS

The Church had entered into employment contracts with certain ministers and directors which provide for severance payments under certain circumstances. The terms of the employment contracts remain enforceable until amended.

NOTE 16 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 22, 2014, which is the date the financial statements are available to be issued.