

H E A L Y A N D A S S O C I A T E S

C E R T I F I E D P U B L I C A C C O U N T A N T

September 6, 2022

Unitarian Universalist Church of Berkeley
Attn: Tess O'Riva, Executive Director
1 Lawson Road
Kensington, CA 94707

Enclosed for your review and comments, please find a copy of the first draft of the Report on Audit of Financial Statements for the Year Ended June 30, 2021, the Audit Committee Letter for June 30, 2021, and the Letter to Management.

If you have any questions or comments, please do not hesitate to contact us.

Very truly yours,
Suzanne Robinson Healy
Certified Public Accountant
Healy and Associates

SRH: sar
Enclosure
Cc: Monte Meyers, Shining Star Consulting
RD Hudson, Audit Committee Chair
Lenore Ralston, Treasurer

UNITARIAN UNIVERSALIST CHURCH OF BERKELEY
(A NONPROFIT RELIGIOUS CORPORATION)

REPORT ON AUDIT OF FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

DRAFT

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INDEPENDENT AUDITOR'S REPORT

<Date of Report>

Board of Trustees
Unitarian Universalist Church of Berkeley
Kensington, California

I have audited the financial statements of Unitarian Universalist Church of Berkeley, (a nonprofit religious corporation), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses, and cash flows 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 the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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, I 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.

Board of Trustees
Unitarian Universalist Church of Berkeley
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I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Unitarian Universalist Church of Berkeley as of June 30, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Healy and Associates
Concord, California

UNITARIAN UNIVERSALIST CHURCH OF BERKELEY
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2021

ASSETS

Current Assets:

Cash and cash equivalents	\$ 867,332
Investments	1,845,640
Accounts receivable	12,400
Prepaid expenses	1,250
Total Current Assets	<u>2,726,622</u>

Property and equipment, net	2,166,758
Assets of charitable remainder trust	334,684
Interest in pooled income trust	<u>44,257</u>

TOTAL ASSETS	<u><u>\$ 5,272,321</u></u>
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LIABILITIES AND NET ASSETS

LIABILITIES

Current Liabilities:

Accounts payable and accrued expenses	\$ 66,200
Security deposits	52,158
Total Current Liabilities	<u>118,358</u>

PPP loan payable	107,985
Notes payable	50,000

TOTAL LIABILITIES	<u>276,343</u>
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COMMITMENTS AND CONTINGENCY

NET ASSETS

Without donor restrictions:	
General	2,539,664
Board designated	951,798
With donor restrictions	
Temporary	1,268,161
Permanent	236,355

TOTAL NET ASSETS	<u>4,995,978</u>
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TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 5,272,321</u></u>
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UNITARIAN UNIVERSALIST CHURCH OF BERKELEY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT:			
Contributions	\$ 58,971	\$ 650,771	\$ 709,742
Investment income, net	380,039	71,123	451,162
Rental income	364,955	-	364,955
Gain on forgiveness of PPP loan	102,370	-	102,370
Interest income on note receivable	79,551	-	79,551
Gain on forgiveness of notes payable	30,000	-	30,000
Events	6,145	-	6,145
Other income	962	-	962
Interest income	498	-	498
Program income	385	-	385
Total revenue and support	<u>1,023,876</u>	<u>721,894</u>	<u>1,745,770</u>
Net assets released from restrictions	138,842	(138,842)	-
	<u>1,162,718</u>	<u>583,052</u>	<u>1,745,770</u>
EXPENSES:			
Program	727,560	-	727,560
General and administrative	347,419	-	347,419
Total expenses before depreciation	<u>1,074,979</u>	<u>-</u>	<u>1,074,979</u>
Depreciation	116,176	-	116,176
Total expenses	<u>1,191,155</u>	<u>-</u>	<u>1,191,155</u>
Change in net assets	(28,437)	583,052	554,615
NET ASSETS, beginning of year	<u>3,519,899</u>	<u>921,464</u>	<u>4,441,363</u>
NET ASSETS, end of year	<u>\$ 3,491,462</u>	<u>\$1,504,516</u>	<u>\$ 4,995,978</u>

See Notes to Financial Statements

UNITARIAN UNIVERSALIST CHURCH OF BERKELEY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2021

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ 554,615
Adjustment to reconcile change in net assets to cash provided by operating activities:	
Depreciation	116,176
Unrealized gain on investments	(383,345)
Gain on forgiveness of PPP #1 loan	(102,370)
Gain on forgiveness of notes payable	(30,000)
Changes in current assets and current liabilities:	
Accounts receivable	(12,400)
Prepaid expenses	8,562
Other assets	119
Accounts payable and accrued expenses	264
Deferred revenue	22,250
	<hr/>
NET CASH PROVIDED BY OPERATING ACTIVITIES	173,871

CASH FLOWS FROM INVESTING ACTIVITIES:

Repayment of note receivable	303,021
Fixed asset acquisitions	(163,381)
Change in investments	(246,694)
Change in charitable remainder trust	(41,563)
Change in pooled income trust	(5,116)
	<hr/>
NET CASH USED BY INVESTING ACTIVITIES	(153,733)

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from PPP #2 loan payable	107,985
	<hr/>
NET CASH PROVIDED BY FINANCING ACTIVITIES	107,985

NET CHANGE IN CASH AND CASH EQUIVALENTS

128,123

CASH AND CASH EQUIVALENTS, beginning of year

739,209

CASH AND CASH EQUIVALENTS, end of year

\$ 867,332

UNITARIAN UNIVERSALIST CHURCH OF BERKELEY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2021

	Program	General and Administrative	Total
Salaries and related expenses	\$ 440,689	\$ 219,090	\$ 659,779
Property maintenance	141,569	-	141,569
Distributions	-	38,617	38,617
UUA dues	-	36,000	36,000
Professional services	11,908	19,767	31,675
Utilities	26,717	-	26,717
Insurance	16,722	8,766	25,488
Donations to others	22,660	-	22,660
Telephone and communications	10,343	9,024	19,367
Property tax	18,351	-	18,351
Equipment	10,419	2,351	12,770
Program expenses	9,882	-	9,882
Professional development	7,728	483	8,211
Bank and payroll fees	-	7,142	7,142
Miscellaneous	4,404	2,111	6,515
Supplies	3,371	719	4,090
Advertising	1,347	2,212	3,559
Office expense	1,450	1,137	2,587
	<u>727,560</u>	<u>347,419</u>	<u>1,074,979</u>
Total expenses before depreciation			
Depreciation	116,176	-	116,176
TOTAL EXPENSES	<u><u>\$ 843,736</u></u>	<u><u>\$ 347,419</u></u>	<u><u>\$ 1,191,155</u></u>

See Notes to Financial Statements

UNITARIAN UNIVERSALIST CHURCH OF BERKELEY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

NOTE A – NATURE OF ACTIVITIES

Unitarian Universalist Church of Berkeley (the Church) is a nonprofit religious corporation, incorporated in February 1978 in the State of California, located in Kensington, California. The mission of the Unitarian Universalist Church of Berkeley is to create a loving community, inspire spiritual growth, and encourage lives of integrity, joy, and service.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Method and Basis of Presentation

The accounting records of the Church are maintained on the accrual basis of accounting. The financial statements of the Church have been prepared in accordance with ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*, which require the Church to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Church. These net assets may be used at the discretion of the Church's management and the Board of Trustees.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Church or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the Church to make estimates and assumptions that affect the reported amounts of 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, and those differences could be material.

Cash and Cash Equivalents

For the statements of financial position and cash flows purposes, cash and cash equivalents includes all monies in banks and highly liquid investments with original maturity dates of less than three months. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

UNITARIAN UNIVERSALIST CHURCH OF BERKELEY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

The Church is supported primarily through contributions from the congregation. In addition, the Church earns income from rent and investments.

The Church recognizes contributions when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

The Church believes that motivation for giving is prompted by one's connection to individual faith paths and inspiration. Therefore, it views faith promises as an expression of a desire to give based on one's belief that they will be able and moved to do so. Faith promises received by the Church are not recognized as contributions in the financial statements, nor are they conditional promises, since all conditions rest with the donor and the donor reserves the right to modify the promise at any time.

Income from rent is recognized when the earnings process is complete. Revenue earned under a contractual arrangement (an "exchange transaction") is recognized when earned and therefore measured as usage occurs.

Functional Allocation of Expenses

The costs of program activities and supporting services have been summarized on a functional basis in the statement of functional expenses. The statement presents the natural classification of detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Indirect costs such as general and administrative expenses include costs that are not directly identifiable with any specific program, but which provide the overall support and direction of the Church. Such expenses which are common to multiple functions have been allocated among the various functions benefited based on employee time spent in the functional area or facility usage.

Accounts Receivable

Accounts receivable are comprised of rent receivable at June 30, 2021. The Church evaluates the collectability of its receivables on an ongoing basis and records a provision for potential uncollectible receivables when appropriate. At June 30, 2021, the Church has an allowance for doubtful accounts of \$0.

Property and Equipment

Acquisitions of property and equipment of \$5,000 or greater are capitalized. Property and equipment are carried at cost, or if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over their estimated useful life, which ranges from five to fifty years. Maintenance and repairs that do not extend the useful lives of the respective assets are expensed as incurred.

UNITARIAN UNIVERSALIST CHURCH OF BERKELEY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

The Church's financial instruments include cash, cash equivalents, and investments measured using Level 1 inputs (Note D). Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. U.S. GAAP establishes a fair value hierarchy that prioritizes investments based on those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). The Church groups assets at fair value in three levels, based on the markets in which the assets are traded, and the reliability of the assumptions used to determine fair value. These levels are:

- **Level 1**— Quoted prices for identical assets in active markets.
- **Level 2**—Observable inputs other than Level 1, which include quoted prices for similar assets in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument.
- **Level 3**— Unobservable inputs that cannot be corroborated by observable market data.

Contributed Services

The Church receives a substantial amount of services donated by its members in carrying out the Church's ministry. No amounts have been reflected in the financial statements for those services, as they do not meet the criteria for recognition under ASC 958.

Security Deposits

Security deposits represent funds received from renters for use of space under short-term or long-term usage.

Tax Exemption Status

The Church is exempt from Federal and State income taxes under Sections 501(c)(3) of the Internal Revenue Code (IRC) and 23701(d) of the California Revenue and Taxation Code, respectively. The Church is exempt from filing annual information returns with the IRS and state. Furthermore, the Church has no unrelated business income or uncertain tax positions.

UNITARIAN UNIVERSALIST CHURCH OF BERKELEY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Newly Adopted Accounting Principles

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606), which requires organizations to recognize revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the organization expects to be entitled to in exchange for those goods and services. The Church adopted the standard on July 1, 2020. The adoption of this standard did not materially affect changes in net assets, financial position, or cash flows.

Relevant Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The new standard establishes a comprehensive new lease accounting model. It clarifies the definition of a lease and causes lessees to recognize leases on the statement of financial position as a lease liability with a corresponding right-of-use asset for leases with a lease term of more than one year. It is effective for financial statements issued for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. Early adoption is permitted. The standard requires a modified retrospective transition for capital or operating leases existing at or entered into after the beginning of the earliest comparative period presented in the financial statements, but it does not require transition accounting for leases that expire prior to the date of initial application. The Church is currently evaluating the impact of adopting this new guidance on its financial statements.

NOTE C – CONCENTRATION OF CREDIT RISK

Total cash held by the Church at June 30, 2021 exceeded the federally insured limits provided from the Federal Deposit Insurance Corporation (FDIC) by \$513,490. In addition, the Church holds investments in an institution that does not carry SIPC. It is the opinion of management that the solvency of the financial institution is not of particular concern at this time.

The Church earns a portion of its revenue from rental income. Any reduction in that type of activity could impact the Church's continued operations.

NOTE D – INVESTMENTS

Investments are stated at fair value (level 1) and consist of the following as of June 30, 2021:

Cash held in investment account	\$ 3,488
Open-end mutual funds	22,328
Mutual funds-no SIPC insurance	1,819,824
Balance, June 30, 2021	<u>\$1,845,640</u>

UNITARIAN UNIVERSALIST CHURCH OF BERKELEY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

NOTE D – INVESTMENTS (Continued)

The activity in investments for the year ended June 30, 2021 is as follows:

Balance, June 30, 2020	\$ 1,215,601
Additions, net of withdrawals	250,000
Interest and earnings	12,617
Unrealized gain	383,345
Fees	(15,923)
Balance, June 30, 2021	<u>\$1,845,640</u>

NOTE E – PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2021 consists of the following:

Land	\$108,361
Building and improvements	4,307,184
Furniture and equipment	462,898
	<u>4,878,443</u>
Less: Accumulated depreciation	(2,711,685)
Property and equipment, net	<u>\$ 2,166,758</u>

Depreciation for the year ended June 30, 2021 is \$116,176.

NOTE F – CHARITABLE REMAINDER TRUST

The Church acts as Trustee for a Charitable Remainder Trust, whose assets are invested in marketable securities. One individual has a 50% life income interest, and a second beneficiary has a 25% life income interest. Upon their deaths, the Church receives 7/8 of the trust principal. The amount reflected in the accompanying financials is the current fair market value of the Church's 7/8 interest. During the year ended June 30, 2021, the Church had the following activity:

Balance, June 30, 2020	\$ 332,664
Withdrawals	(16,176)
Interest and earnings	8,689
Unrealized gain	57,318
Less: 1/8 unowned interest	(47,811)
Balance, June 30, 2021	<u>\$ 334,684</u>

UNITARIAN UNIVERSALIST CHURCH OF BERKELEY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

NOTE G – INTEREST IN POOLED INCOME TRUST

The pooled income trust consists of "life income gifts", whereby donor/income beneficiaries receive the income generated on their principal gift during their lifetime and a remainder interest at death. Upon the death of the beneficiaries, their portion of the trust principal becomes the property of the Church. The amount reflected in the accompanying financials is the current fair market value of the Church's interest. During the year ended June 30, 2021, the Church had the following activity:

Balance, June 30, 2020	\$ 39,141
Interest and earnings	1,044
Unrealized gain	4,072
Balance, June 30, 2021	<u>\$ 44,257</u>

NOTE H – NOTES PAYABLE

Notes payable at June 30, 2021 is comprised of three unsecured loans totaling \$50,000 made in September 2018 by Church members. The loans carry an interest rate of 4% and mature September 2023 with interest due at the time of final payment. During the year ended June 30, 2021, the Church received forgiveness on two loans totaling \$30,000. A current member of the Board of Trustees is one of the note holders for \$20,000.

NOTE I – PPP LOAN PAYABLE

In April 2020, the Church received \$102,370 from the Payroll Protection Program (PPP), offered through the Small Business Administration (SBA), in response to COVID-19. The PPP carries an interest rate of 1% and becomes payable two years after issuance. In May 2021, the Church received forgiveness of the full amount of the first PPP grant of \$102,370 and is reflected in the accompanying statement of activities.

In March 2021, the Church received a second draw of \$107,985 from the PPP loan funding offered through the Small Business Administration. The loan carries an interest rate of 1% and is due five years after issuance. Subsequent to year end, the Church received forgiveness of the full amount of the second PPP loan of \$107,985.

NOTE J – EMPLOYEE RETIREMENT PLANS AND ACCRUED VACATION

The Church maintains a 403(b) retirement plan for staff members who have been employed with the Church for at least one year and work at least 20 hours per week. Each eligible worker is entitled to a contribution equal to 10% of his or her annual salary. Employer contributions for the year ended June 30, 2021 is \$40,871.

The Church accrues liabilities for paid time-off for full-time staff. The total accruals at June 30, 2021 are \$20,909 and are reflected in accrued expenses in the accompanying statement of financial position.

UNITARIAN UNIVERSALIST CHURCH OF BERKELEY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

NOTE K – COMMITMENTS

The Church leases various office machinery with monthly payments of approximately \$430 extending through the December 2026. Future commitments associated with this lease are as follows:

<u>Year Ended June 30</u>	
2022	\$ 7,733
2023	\$ 4,608
2024	\$ 4,608
2025	\$ 4,608
2026	\$ 4,608

NOTE L – CONTINGENCY

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of non-essential businesses. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. While the Church has revised operations in light of COVID-19, it remains uncertain as to how this matter will continue to impact its operating results. The related financial impact and duration cannot be reasonably estimated at this time.

NOTE M – OPERATING LEASES

The Church leases part of its space to a school and other nonprofit organizations under operating leases as follows:

Good Earth Preschool

The current addendum is from the January 1, 2018 lease extending it through July 2026 at a rate of \$26,000 monthly with annual increases. Total rent was \$103,698 for the year ended June 30, 2021.

Other Leases

The Church leases space to other nonprofit organizations on an on-going basis with obligations through August 2021.

UNITARIAN UNIVERSALIST CHURCH OF BERKELEY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

NOTE N –DESIGNATED NET ASSETS

The Church may internally restrict the use of contributions for various projects or missions. The Church manages its board designated endowment like an endowed fund. Church bylaws provide that the objective of this fund is to "provide income to the General Fund and to increase the Endowment asset base in order to maintain the real purchasing power of the Endowment Fund after distributions. To attain these objectives, the annual distribution shall be fixed at 4% of the market value of the Endowment Fund at the end of the calendar year proceeding the year that distributions are made."

<u>Purpose</u>	<u>6/30/2020</u>	<u>Allocations</u>	<u>Releases</u>	<u>6/30/2021</u>
Board created quasi endowment	\$ 781,949	\$ 232,162	(\$62,313)	\$ 951,798
Total	\$ 781,949	\$ 232,162	(\$62,313)	\$ 951,798

NOTE O –NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions had the following activity for the year ended June 30, 2021:

<u>Restriction</u>	<u>6/30/2020</u>	<u>Earnings and Transfers</u>	<u>Releases</u>	<u>6/30/2021</u>
Temporary				
Pooled income trust	\$ 39,141	\$ 5,116	\$ -	\$ 44,257
Lawrence lecture	64,380	18,111	(754)	81,737
Spatz intern scholarship	56,977	16,028	(667)	72,338
Armstrong gardens	20,474	5,342	-	25,816
Calkins Trust	293,122	80,179	(38,617)	334,684
General operations	33,415	135,777	(33,415)	135,777
Capital campaign	47,217	500	(47,717)	-
Music fund	64,223	2,170	(4,625)	61,768
Ministerial housing	25,538	382,572	(7,381)	400,729
Earnings on permanent	-	63,725	-	63,725
Other funds	40,622	12,374	(5,666)	47,330
Total temporarily restricted	685,109	721,894	(138,842)	1,268,161
Permanent				
Endowment pool	77,607	-	-	77,607
Kay Davis fund	129,532	-	-	129,532
Theological ed fund	29,216	-	-	29,216
Total permanently restricted	236,355	-	-	236,355
Total restricted net assets	\$921,464	\$ 721,894	(\$ 138,842)	\$1,504,516

UNITARIAN UNIVERSALIST CHURCH OF BERKELEY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

NOTE P – ENDOWMENT FUNDS

The Church maintains three endowed funds of net assets with permanent restrictions. Permanent restrictions arise when donors contribute money to the Church with a restriction stating the money is to be invested and that the principal is not to be spent. These are considered donor-restricted endowed funds that the Church must hold in perpetuity. Donors may also set a restriction as to the use of the earnings.

The Board of Trustees has determined it holds assets which meet the definition of endowment funds under the California Uniform Prudent Management of Institutional Funds Act (“UPMIFA”). As a result of this interpretation, the corpus of funds subject to UPMIFA is classified as with donor restrictions. The corpus represents the fair value of the original gifts as of the gift date, and all subsequent gifts where the donor has indicated the gift be retained permanently. The value of assets in excess of original gifts in donor-restricted endowment funds are classified as net assets with donor restrictions until appropriated for expenditures by the Church.

In Accordance with UPMIFA, the Board of Trustees considers the following factors in making a determination as to the appropriation of assets for expenditures:

- The duration and preservation of the fund
- The purposes of the Church and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Church
- The investment policies of the Church

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Church has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At June 30, 2021, there were no underwater endowment funds.

As of June 30, 2021, net assets restricted for endowment include the following:

Endowment pool	\$ 77,607
Kay Davis fund	129,532
Theological education fund	<u>29,216</u>
Total endowment funds	<u><u>\$ 236,355</u></u>

UNITARIAN UNIVERSALIST CHURCH OF BERKELEY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

NOTE P – ENDOWMENT FUNDS (Continued)

The endowment funds are stated at fair value, with fair value hierarchy noted, and invested as follows at June 30, 2021:

<u>Funds held by Unitarian Universalist Association:</u>	
UU Common Endowment Fund	<u>\$ 236,355</u>
Total endowment funds	<u><u>\$ 236,355</u></u>

The Church has investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to operations and programs supported by its endowments while at the same time seeking to maintain the principle of the endowment assets. The investment policy will identify acceptable levels of risk and rate of return objectives for the endowed funds. Currently, assets are invested in a manner that is intended to produce moderate income while assuming a low level of risk. The Church expects the endowment funds, over time, to yield an average rate of return of that is consistent with market standards for its types of investment. Actual returns in any given year may vary.

The current Church policy is to make available all monies earned for grants in order for these funds to be spent on the mandated purposes of the Trusts each year. If the value of the principal of a fund falls below the historic value of the original gifts, that fund will not distribute any investment income until that value has been recovered. The Church understands that the intent of the donors to its endowment funds to be that such funds will maintain their principle in future year. The Church has an investment strategy that will continue to adhere to the restriction within the Trusts. Currently, all funds are in excess of the historic value of the original gifts.

The Church is limited to low-risk options for investment. The Church targets asset allocation in investments with the national association.

UNITARIAN UNIVERSALIST CHURCH OF BERKELEY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

NOTE Q – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash	\$ 867,332
Investments	1,845,640
Accounts receivable	12,400
Total financial assets	<u>2,725,372</u>
Less:	
Net assets with purpose restrictions to be met in one year	(1,268,161)
Designated net assets	(951,798)
	<u>(2,219,959)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 505,413</u></u>

As part of the Church's liquidity management, the Church has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Church invests cash in excess of daily requirements, if available, in short-term investments.

The Church's designated funds are \$951,798 at June 30, 2021. Although they do not intend to spend from this Board-designated fund, these amounts could be made available if necessary.

NOTE R – SUBSEQUENT EVENTS

In accordance with FASB Accounting Standards Codification Topic 855, "Subsequent Events," the Church has evaluated subsequent events through <Date of Report>, which is the date these financial statements were available to be issued.

<date of report>

Board of Trustees
Unitarian Universalist Church of Berkeley
Kensington, California

I have audited the financial statements of Unitarian Universalist Church of Berkeley for the year ended June 30, 2021, and have issued my report thereon dated <date of report>. Professional standards require that I provide you with information about my responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of my audit. I have communicated such information in my letter to you dated August 16, 2021. Professional standards also require that I communicate to you the following information related to my audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Unitarian Universalist Church of Berkeley are described in Note B to the financial statements.

As described in Note B, the Church changed accounting policies related to financial statement presentation and disclosure by adopting FASB Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, in 2020.

I noted no transactions entered into by the Church during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in dealing with management in performing and completing my audit. We do have the following comments:

Work related to fixed assets and disbursement testing took more time than is normally required due to document retention and storage issues. As a result, we recommend the Church maintain all documentation to support fixed assets digitally and indefinitely. Furthermore, as a result of our work, we recommend management work on record retention and storage given the changes to management and in response to working during COVID.

Corrected and Uncorrected Misstatements

Professional standards require me to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. The complete list of adjusting and reclassifying entries is attached.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to my satisfaction, that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

Management Representations

I have requested certain representations from management that are included in the management representation letter dated <date of report>.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Church's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, my professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Church's auditor. However, these discussions occurred in the normal course of my professional relationship and my responses were not a condition to my retention.

This information is intended solely for the use of the Board of Trustees and management of Unitarian Universalist Church of Berkeley and is not intended to be, and should not be, used by anyone other than these specified parties.

Healy and Associates
Concord, California

<date of report>

Board of Trustees
Unitarian Universalist Church of Berkeley
Kensington, California

In planning and performing my audit of the financial statements of Unitarian Universalist Church of Berkeley as of and for the year ended June 30, 2021, in accordance with auditing standards generally accepted in the United States of America, I considered Unitarian Universalist Church of Berkeley's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Church's internal control. Accordingly, I do not express an opinion on the effectiveness of the Church's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

My consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

As a result of our audit work, we have the following recommendations:

Recommendation 1:

Work related to fixed assets and cash disbursement testing took more time than is normally required due to document retention and storage issues. We recommend the Church maintain all documentation to support fixed assets digitally and indefinitely. Furthermore, as a result of our work, we recommend management work on record retention and storage given the changes to management and in response to working during COVID.

This communication is intended solely for the information and use of management, Board of Trustees, and others within the Church, and is not intended to be, and should not be, used by anyone other than these specified parties.

Healy and Associates
Concord, California