



2013
ANNUAL
REPORT



6,129,826	2,487,120	2,487,120
2,221,297	2,033,516	2,033,516
163,677		
8,103,454		
14,813,364	4,660,164	6,616,168
(3,397,988)	9,180,610	11,521,610
(1,320,525)	(2,158,411)	(2,162,168)
4,718,513)	(824,333)	(1,047,906)
994,851	(2,982,744)	(3,210,074)
6,261	6,197,866	8,311,616
	6,434,570	8,551,837



Our Vision

United Church Funds strives to be a trusted partner in transformation.

Transforming generosity —
investing our clients' funds wisely to grow money for ministry.

Transforming capitalism —
using shareholder engagement and activism to improve the way business is done.

Transforming our environment —
evolving as individuals and an organization to better serve our investors and our world.

Transforming the future —
helping accomplish God's work on the planet for generations to come.

Our Mission

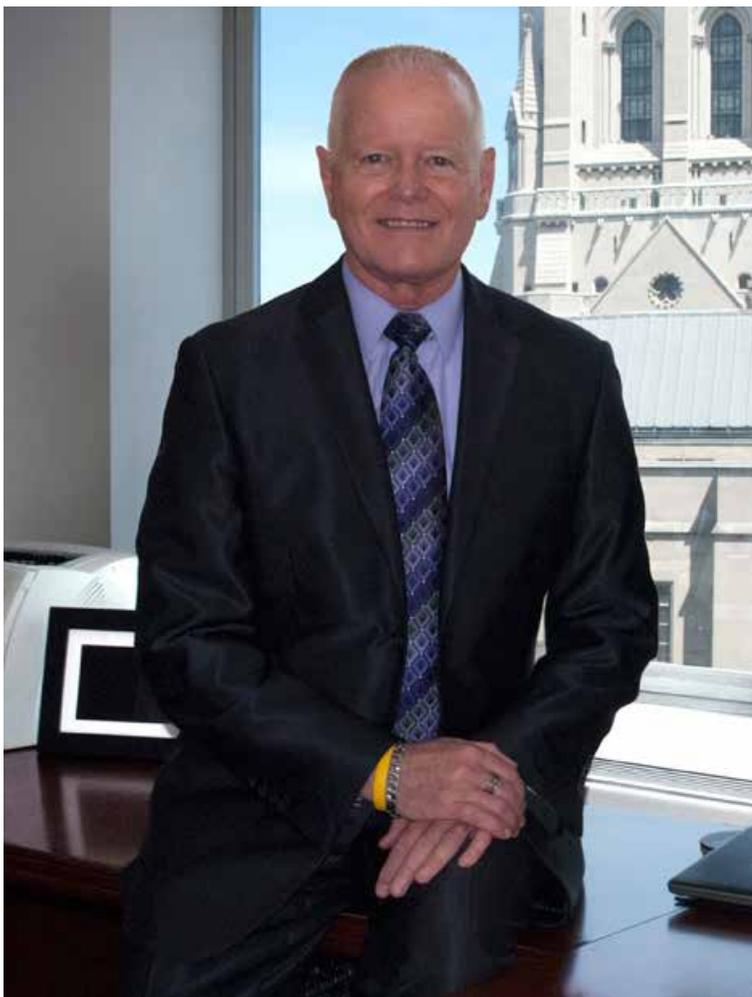
Invest Responsibly. Strengthen Ministry.

Invest responsibly.

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Strengthen ministry.



Donald G. Hart
President

With continuing improvement in the US economy, United Church Funds ended 2013 with another year of strong performance — always one of our top goals, as we know our performance directly impacts the funding of many of our investors' ministries. And we're pleased to report that in 2013, we laid the groundwork for several new initiatives that extend UCF's ministry beyond investment management to provide even deeper support for local churches and ministries.

Of course, many churches continue to struggle with limited resources, and we're finding a number of our investors relying ever more heavily on their endowments to fund annual operating budgets. As you may know, the Uniform Prudent Management of Institutional Funds Act (known familiarly as UPMIFA) recommends investors choose a prudent level of withdrawal that takes advantage of return and capital gain, while permitting the portfolio to continue to grow. UPMIFA draws the line of excess spending at anything over a 7% withdrawal rate — but in the post-2008 environment, most organizations choose an annual rate of withdrawal in the 3% to 5% range. While higher spending rates can solve immediate cash flow problems when declining contributions strain a church's budget, excess withdrawals can create long-term problems for investors, reducing the ability of a permanent fund to provide adequate funding in the future. And should the market turn down, years of high withdrawal can leave an endowment even more vulnerable. If your church or organization would like to talk about your spending model, give us a call — UCF would be pleased to help you run the numbers and understand your options.

In 2013, UCF also decided to live further into our value of transparency by changing the way we report fees. While we have long listed an administrative fee for each fund, we have not separated out the fees we pay to managers. In 2014, we will identify a single, comprehensive expense that's "all in" — one fee that includes investment manager expense and all administrative costs (we still don't charge transaction or other back-end fees). Many managers present a portfolio management fee, but do not include in that pricing the cost of investing in mutual funds and other instruments, transaction fees, and account maintenance. At UCF, we believe our comprehensive expense ratio — deducted from income before performance is calculated — will help our investors better understand the true cost and advantage of UCF's responsible endowment management.

Another element of our mission to invest responsibly: our drive to become a more sustainable organization. We have sought to reduce our organizational use of materials and energy in a number of ways, including moving online more of our working documents — from investor resources to materials for our Board of Directors meetings. We expanded our participation in some of the nation's most prominent social responsibility organizations. And most visibly, we actively participated in development of the fossil fuels resolution that passed at General Synod in July.

Thank you for continuing to trust United Church Funds with the management of your endowment. We continue to work each day to build that trust and strengthen your ministry.

Sincerely,

A handwritten signature in black ink that reads "Donald G. Hart". The signature is written in a cursive, slightly slanted style.

Donald G. Hart

A Few Highlights of 2013



At the beginning of the year, United Church Funds welcomed three new staff members. Carla Bergmeier, a native of Australia with communications experience at the Uniting Church in Australia, joined our marketing staff as Communications Specialist/Writer in January. Katie McCloskey, who has served as UCF's Director of Social Responsibility for a number of years, shifted from a shared-staff position with a sister organization to exclusively serving UCF in her role. And investment professional Matt Wagner, active UCC member and son of a UCC pastor, joined our Investor Development group. We're delighted with the addition of these three individuals to our team.



In January, UCF hosted our third Investor Conference in Albuquerque, offering participants a weekend of speakers, workshops and panel discussion to help them strengthen their investment knowledge and endowment management skills.



UCF continued to engage with corporations to advance social justice concerns identified by General Synod. In addition to engagements on water use, child labor and fossil fuels, UCF for the first time led an ecumenical group of shareholders in engaging Microsoft Corporation on their involvement in Israel and the Occupied Palestinian Territories.



UCF supported the development of the fossil fuels resolution that passed at General Synod, helping to achieve a resolution that engages the church at every level — from individual member activity to corporate ownership— in reducing participation in the fossil fuel industry. We invite you to learn more about our work — and your own carbon footprint — at our affiliated website, Beyond Fossil Fuels, which you can find at bff.ucfunds.org.



David A. Klassen
Chief Investment Strategist

Chief Investment Strategist Report

In 2013, United Church Funds' (UCF) market participants benefited from exposure to equity markets, but interest sensitive fixed income markets, as anticipated, proved more challenging. The context was increasing signals of an improving US economy, even more impressive in light of the multitude of political challenges. There were also signs of incremental positive change in European economies, while Japan was catalyzed by dramatic policy moves designed to stimulate their domestic economy. Investors in those countries (especially in the developed world) where central bankers provided supportive monetary policy, were beneficiaries of positive equity markets for the year; where that support was missing, not so much benefit. Concerns of a slowing China, coupled with negative capital flows and political unrest in other emerging countries such as Brazil, Thailand and Turkey, kept emerging markets investors on the defensive. These trends were exacerbated by the US Federal Reserve's (Fed) decision to slow their rate of asset purchases, which finally commenced in December.

Equities

US equity markets closed the year with the best performance since 1997. Domestic equities, as represented by the Standard and Poor's Index of 500 stocks (S&P 500), returned 10.51% for the final quarter and a whopping 32.39% for 2013. Other developed markets, such as Japan, the UK and Europe's largest economies (Germany, France, Italy and Spain) also rebounded. Specifically, international developed equity market indices (MSCI EAFE) had strong fourth quarters, up 5.71% and 22.78 for 2013. Outside of that, it was tougher generating returns. Emerging markets equities (MSCI EM) were up slightly for the quarter at 1.8% but ended 2013 down 2.6%.

In domestic equities, UCF's Domestic Core Equity Fund delivered a return of 31.95% after fees. The fund benefitted from its portfolio allocation to Quantitative Management Associates, which delivered a 33.06% gross return for the year. During the year, two additional managers were added to the fund for diversification purposes: State Street Global Advisors and Fiduciary Management Inc. of Milwaukee. Our Small Cap Equity Fund delivered the highest returns in the

UCF family in 2013, with a return of 39.11% after fees. This fund was led by the performance of Westfield Capital Management's small cap growth strategy, up 45.02% before fees.

As for the Total Equity Fund, which returned 22.58% after fees, the fund's allocation to the US proved beneficial, as where we were overweight to well-positioned managers and strong companies for most of the year. If our allocation decisions versus target allocations were a positive, the fund was held back somewhat by underperformance of our emerging markets manager, Aberdeen Asset Management, who struggled despite a prior multi-year period of strong outperformance for UCF. We had been cautious and less exposed to higher growth emerging markets during most of the year. However, we brought in a new portfolio management team, Oaktree Capital Management, for part of our emerging markets allocation to take advantage as opportunities developed during the fourth quarter. On the developed international front (UK, Europe and Japan), LSV Asset Management added strong returns as well, benefitting from the improvements in Europe's sovereign debt situation and their disciplined value approach.

Fixed Income

Not surprisingly, most fixed income indices were slightly negative in the recent period and for the year. Stronger economic data led to Fed commencement of a "taper"; that is, a reduced level of asset purchases to \$75 billion from the \$85 billion a month they had been targeting. Fixed income yields increased (and prices declined) to their highest levels as 2013 came to a close. In terms of the averages, the Barclay's Capital US Government/Credit Index was off by 2.35% for the full year.

UCF's Fixed Income Fund returned -1.94% for 2013 and benefitted from the fund's allocation to the variable rate bank loan strategy managed by Western Asset, which represented 13.9% of the fund on December 31. An offset was the allocation to emerging market debt, managed by Standish Mellon Asset Management. Most positively, all three managers, including the Core Fixed Income strategy, which represents 78.2% of the fund, outperformed their benchmarks for the year.

It is important to mention again that we have been positioning your portfolios to protect against gradually rising interest rates. This strategy includes a lower interest rate sensitivity (duration) as well as inclusion of fixed income asset classes which can benefit from a stronger economic environment. We continue to focus on earning a competitive return and yield.

Balanced Funds

UCF's Balanced Funds performed in line with, if not above, their policy benchmarks for 2013, following on the benchmark-beating performance in 2012. The Conservative Balanced Fund, Moderate Balanced Fund, Alternatives Balanced Fund, and Aggressive Balanced Fund returned 6.66%, 12.67%, 12.89%, and 16.54% respectively, net of all fees. Although each of the Balanced Funds were hurt slightly by the relative underperformance of the Total Equity Fund versus policy benchmark, the overweight to equities over 2013 and the favorable performance of the Fixed Income Fund provided positive relative benefit. Finally, the Alternatives Balanced Fund's allocation to private real estate and hedge fund of fund strategies was also beneficial, especially in the context of higher interest rates and lower fixed income returns.

Looking Forward

For the upcoming year, investor focus is on the economy and earnings. There is slow and steady, but far from robust, economic improvement in the US. Unemployment continues to decline, house prices are increasing, and consumers remain more confident. There are obvious concerns

about a negative impact that higher interest rates could have on certain economic sectors. In addition, corporate profitability and profit margins are at all-time highs, but dependent on improved revenues for sustainability. Europe and some select emerging economies and markets appear to have bottomed and now represent better value. However, there are still structural challenges in Europe, and some emerging market countries are subject to higher levels of political instability, exacerbated by a busy election year. Finally, our constructive but more muted view for 2014 is predicated on interest rates and inflation staying within acceptable ranges.

Here at United Church Funds, we appreciate the opportunity to have worked with you in 2013, and pledge to remain focused on achieving the best combination of shorter- and longer-term strategies in order to position your investment portfolios for the upcoming years.

“US equity markets closed the year with the best performance since 1997.”



Investment Performance

as of December 31, 2013

AVERAGE TOTAL RATES OF RETURNS		ANNUALIZED				
<i>Returns on UCF's funds are presented net of fees</i>		One Year	Two Years	Three Years	Five Years	Ten Years
MANAGED FUNDS	Fixed Income Fund	-1.94%	1.81%	3.61%	5.43%	4.57%
	Custom Index: 85% Barclays Capital Gov't/Credit Bond Index, 5% JPM CBI-EM Global Diversified, 10% S&P LSTA Performing Loan ⁴	-2.46%	1.20%	3.65%	4.41%	4.52%
	Barclays Capital Gov't Credit Bond Index (BCGC)	-2.35%	1.17%	3.63%	4.4%	4.52%
	Domestic Core Equity Fund¹	31.95%	24.73%	15.94%	17.18%	N/A
	S&P 500 Index	32.39%	23.93%	16.18%	17.94%	
	Small Cap Equity Fund¹	39.11%	27.42%	12.57%	15.79%	N/A
	Russell 2000 Index	38.82%	27.09%	15.67%	20.08%	
	International Equity Fund¹	12.37%	15.47%	4.98%	13.85%	N/A
	Custom Index 70% EAFE net, 30% MSCI EM net	14.64%	16.15%	5.29%	12.47%	
	Cash & Equivalent Fund	0.01%	0.01%	0.01%	0.08%	N/A
	Lipper Money Market Funds Index	0.01%	0.01%	0.01%	0.06%	
	Alternatives Fund³	7.86%	7.79%	4.35%	N/A	N/A
	Custom Index: 70% HFRI Funds of Funds Composite, 30% NCREIF Fund Index	9.30%	7.96%	5.19%	N/A	
FUNDS OF FUNDS	Total Equity Fund	22.58%	20.38%	10.48%	14.83%	5.74%
	Current Policy Index: 40% S&P 500, 10% Russell 2000, 35% EAFE, 15% MSCI Emerging Markets Net	23.93%	20.42%	11.13%	15.72%	6.66%
	Conservative Balanced Fund²	6.66%	8.45%	6.36%	9.15%	N/A
	Current Policy Index: 35% Equity Policy, 65% Fixed Income Policy Index	6.19%	7.74%	6.48%	8.63%	
	Moderate Balanced Fund	12.67%	12.96%	8.04%	11.34%	5.65%
	Current Policy Index: 60% Equity Policy, 40% Fixed Income Policy Index	12.75%	12.54%	8.37%	11.49%	6.15%
	Aggressive Balanced Fund²	16.54%	15.98%	8.93%	12.7%	N/A
	Current Policy Index: 75% Equity Policy, 25% Fixed Income Policy Index	16.84%	15.47%	9.44%	13.12%	
Alternatives Balanced Fund³	12.89%	12.73%	7.17%	N/A	N/A	
Current Policy Index: 50% Equity Policy, 30% Fixed Income Policy Index, 20% Alternatives Policy	12.78%	12.38%	8.08%	N/A		

¹Inception date: October 1, 2005 • ²Inception date: January 1, 2006 • ³Inception date: July 1, 2010 • ⁴Inception date: June 1, 2013

Investment Performance



Kathryn O'Neill McCloskey
Director, Social Responsibility

Responsible Investing in an Ever-Changing World

What an exciting time for United Church Funds to be committed to the principles of socially responsible investing! In 2013, we were able to continue our foundational practices while imagining our next generation of offerings, compelled by the changing needs of our clients.

Focus: Fossil Fuels

The fossil fuels divestment campaign began taking shape in early 2013 and has drawn significant interest in the socially responsible investing realm. The movement has been widely paralleled to the South African Apartheid divestment campaign, and hopes to have a similar impact in affecting the outcomes of climate change. As a prophetic church, the United Church of Christ's 2013 General Synod passed a resolution in concert with the aims of this new divestment campaign. United Church Funds worked to make this resolution "actionable" and within the scope of its fiduciary duty. This partnership with the UCC's leadership on issues of investment represent a model for going forward and in this case resulted in a resolution that we are very proud of: *Urging Divestment – Along with Other Strategies – From Fossil Fuel Companies*.

The resolution calls for —

- Each individual, church entity, conference, etc. to examine how they can decrease demand for fossil fuels, including asking members of the UCC to be activists for meaningful environmental legislation.
- United Church Funds to be a strong investor advocate through shareholder engagements and resolutions. In 2013, we filed resolutions, participated in dialogues and supported primary filers with six fossil fuel companies. These engagements are urging companies to identify

greenhouse gas emissions reductions targets, disclose their hydraulic fracturing risks — including the risks to the water supply, the air quality, exposure to radioactive chemicals, and the community cohesion, and disclose their relationships with the American Legislative Exchange Council, as regards that organization's stance on climate change lobbying and legislation. United Church Funds was one of 70 investors that signed a letter asking companies to establish their sustainability goals in light of the very real possibility that they will lose the license to access their proven reserves — which represents a carbon asset risk. That letter presaged engagements with companies on how they're positioning themselves in a carbon-constrained future.

- United Church Funds to create an option for our clients — a fund that is free of fossil fuel companies. We are endeavoring to have this fund ready for investment by the end of 2014.
- United Church Funds to use best-in-class metrics to guide lower carbon investment across our portfolio. United Church Funds is engaging potential partners, identifying available products, and learning more about how to define a best-in-class standard. We will be bringing our definition and metrics to the next General Synod in 2015.

We're very excited about the Beyond Fossil Fuels website bff.ucfunds.org, a platform for showcasing our resolution efforts to clients and stakeholders. Aspirational in nature, this resource will be a way to communicate, to learn how the smallest congregation up to the national setting of the church is responding, and establish ways United Church Funds can connect to that work.

Remaining Energized for the Pillars of Our Work

All of this growing and stretching was shared by many in our industry: the socially responsible investing industry continues to use coordinating organizations like the Interfaith Center on Corporate Responsibility and USSIF to answer their constituents on issues of justice and investing. In our first full year with dedicated social responsibility staff, we have been expanding our shareholder activism portfolio on issues of environmental preservation, human rights sanctity, and corporate governance optimization. Highlights of our work included —

- providing a voice for the American economy and the American family by questioning the involvement of major banks in predatory payday lending
- pressuring beverage companies to recognize the Human Right to Water as a part of their corporate policy
- finding our leadership voice in advocating for a just peace in the Middle East, by pressuring more companies whose business practices support the Israeli Occupation of the Palestinian Territories
- speaking out against the dollars spent by private prison corporations manipulating our elected officials in order to increase and maintain the number of US citizens and immigrants who are incarcerated

We continue to examine how to provide the best ways for our clients to integrate their investments with their missions, and 2013 included many exciting prospect meetings with impact investors.

The work of UCF's social responsibility program recognizes that investors and corporations operate in a construct of the moral and physical realities of our world. Our focus continues to be on creative solutions to the environmental, social and governance impacts of our investments.



Creating a Legacy of Leaders

The Helen and Richard Brown Endowment for Pastoral Scholarships derives from a generous gift received in the 1990s, designated to support pastoral ministry in the United Church of Christ. The donors named United Church Funds as the Trustee to oversee the management and distribution of the funds. The UCF Board of Directors has adopted — and from time to time revises — its Brown Endowment distribution policy based on recommendations received from the Brown Endowment Committee, appointed by the board. The Committee includes a representative from the Council of Seminary Presidents, the Council of Racial and Ethnic Minorities (COREM), the Council of Conference Ministers, the United Church of Christ Board and the UCF Board of Directors.

Annual distributions from the Brown Endowment are allocated for scholarships to exceptional seminary students, known as Brown Scholars, who are nominated by their UCC seminary, one of the COREM bodies, or by Wider Church Ministries. In addition, funds from the Brown Endowment are available for pastoral continuing education events organized by UCC Conferences and for individual study grants for working UCC pastors. In 2013, nearly \$325,000 was allocated for these purposes from this important endowment resource.

Since its establishment, the Brown Endowment has provided well over \$3 million to support the development of church leaders who have a global perspective, consciousness of ethnic-cultural diversity, and a commitment to enabling change that empowers people in the life of the church.

For the first time in 2013, 5% of the amount allocated is being held in escrow for six seminaries to enable one or more international students to study at their school in the future. Each year, each school will receive another similar allocation for this purpose, and at any time (for up to 10 years), they may request escrowed funds be used to support the cost of having an international Brown Scholar study at their school. Including the funds being held in escrow, 89% of the 2013 allocation was distributed. Some of the unused funds from previous years helped 12 UCC seminarians attend General Synod in Long Beach, California. Other funds unused from previous years have been designated for an upcoming leadership development event.

The Richard and Helen Brown Endowment for Pastoral Scholarships remains an important resource for developing future leaders of the United Church of Christ, and for enabling students and active clergy to develop the skills needed for effective ministry.

UCF is honored to serve as the trustee for the Brown Endowment, which offers a good example of a long-term fund that is invested to weather the storms of the market. With a well-chosen, balanced portfolio, the fund will continue to support ministry for generations to come.



At United Church Funds (UCF), we are blessed with a cadre of highly skilled professionals who offer their time and share their expertise for no monetary reward. Our Board Members' incredible gift of time and service enables UCF to benefit from the wisdom of individuals who place their talents in the church's service. Their volunteer service on our board saves UCF thousands of dollars and ensures that our investors pay some of the lowest fees anywhere. We're proud of the people who serve the United Church of Christ in this way, and honor their contribution.

Mr. Nesa Joseph, Chair
The Rev. Geoffrey A. Black
The Rev. Dr. Charles Buck
The Rev. Kathy Dwyer
Mr. William Epke
Ms. Barbara Everett
Ms. Sylvia G. Ferrell-Jones
Ms. Edith Guffey
Mr. Steven J. Guy
The Honorable Brian F. Holeman
The Rev. Dr. Sandra Hulse

The Rev. Gwendolyn V. Kirkland
The Rev. Penny Lowes
Ms. Stella A. Schoen
The Rev. Harold S. Schultz
The Rev. Dr. Bernard Wilson
Mr. Wade Zick

Member Emeritus

Mr. Richard A. Hopkins
The Rev. Dr. Harold C. Smith

Investment Committee

Mr. Steven J. Guy, Chair*
Mr. Dennis Bushe
Ms. Sylvia G. Ferrell-Jones*
Mr. Donald G. Hart
Mr. Douglas S. Hatfield
The Rev. Dr. Sandra S. Hulse*
The Rev. Gwendolyn V. Kirkland*
Mr. Mark R. Parthemer

Member Emeritus

The Rev. Dr. Harold C. Smith

* Members of Board of Directors

Staff

UCF Staff

Mr. Donald G. Hart, *President & Chief Investment Officer*
Ms. Michelle Andrée, *Director, Finance & Administration*
The Rev. Cheri L. Lovell, *Director, Marketing & Strategic Initiatives*
Ms. Kathryn McCloskey, *Director, Social Responsibility*
The Rev. Nelson R. Murphy, *Director, Investor Development*
Ms. Karen Sherman-Chang, *Controller*
Mr. Matthew Wagner, *Associate, Investor Development*

Ms. Milagros Hernandez, *Team Leader, Investor Services*
Ms. Carla Bergmeier, *Communications Specialist*
Ms. Michele Hamilton, *Staff Accountant*
Ms. Crysta Seelal, *Investor Services Representative*
Mr. Gaylord Tang, *Administrative Assistant*

Shared Staff with The Pension Boards — United Church of Christ

Mr. David A. Klassen, *Chief Investment Strategist*
Mr. Michael de Guzman, *Senior Investment Analyst*

In Memory of Michelle Andrée

10.29.63 – 1.29.14

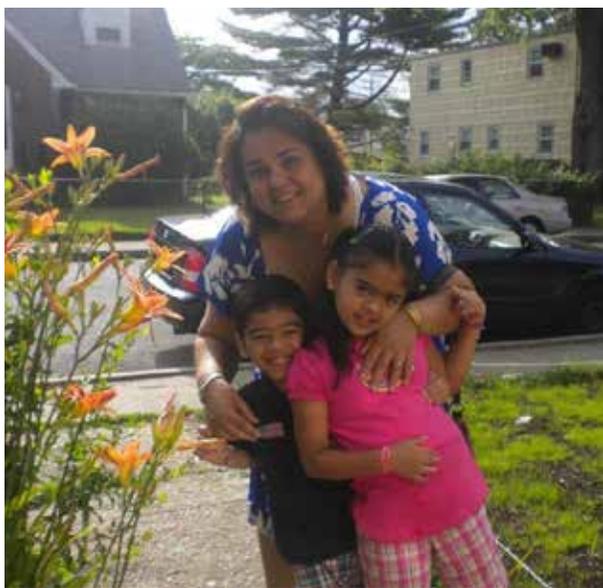
When Michelle Andrée emigrated from Sri Lanka in 1990 to attend Southern Connecticut State University, she brought with her a sense of adventure, determination and zest for life. Graduating summa cum laude in 1993, Michelle went on to lead a successful career in accounting as a CPA, eventually joining United Church Funds in 2008.

Her infectious personality and gregarious spirit were quickly evident to everyone at United Church Funds and she soon became a cherished member of the team. As Director of Finance & Administration, Michelle took the organization to new levels of excellence. She was admired for her exceptional contributions in the professional realm — as well as for the unique ways in which she impacted the lives around her.

Michelle was a dedicated wife to her husband Nalin, and the proud mother of twins Tamara and Nalin Jr. — always finding ways to bring them up in conversation. When she was diagnosed with cancer, her love of life continued to shine through illness. Michelle proceeded to work, mentor her family and comfort those around her.

On January 20, 2014, Michelle passed away. Her arduous battle finally over. While everyone at United Church Funds mourned the news, and together farewelled her in Long Island, we felt comforted that she was no longer in pain.

With understandable sadness, we are inspired to celebrate life just as she did. United Church Funds is grateful for the passion Michelle brought to the team, and the contributions she made to our organization. She will forever be in our hearts.



Revelation 21: 4 (NRSV)

“He will wipe every tear from their eyes. Death will be no more; mourning and crying and pain will be no more, for the first things have passed away.”

Financial Statements as of December 31, 2013

Financial Statements

8,224,836	2,887,880	6,610
2,221,287	2,033,316	
163,677	-	
8,103,454	4,660,164	
14,813,364	9,180,610	11,521
(3,397,988)	(2,158,411)	(2,162,100)
(1,320,525)	(824,333)	(1,047,900)
(4,718,513)	(2,982,744)	(3,210,074)
0,094,851	6,197,866	8,311,616
366,261	6,434,570	8,551,837
2,567	(39,499)	(11,26,805)
8,279,871	11,26,805	8,625,032



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REPORT OF INDEPENDENT AUDITORS

The Board of Directors
United Church Funds, Inc.

We have audited the accompanying financial statements of United Church Funds, Inc., which comprise the statement of financial position as of December 31, 2013, and the related statements of activities 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 these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of 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. Those standards require that we 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of United Church Funds, Inc. at December 31, 2013, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.



Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of assets, liabilities and fund balances and schedules of changes in fund balances for the Common Investment Funds and Split-Interest Agreement Funds are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited United Church Funds, Inc.'s 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 30, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Mitchell & Titus, LLP

July 11, 2014

UNITED CHURCH FUNDS, INC.

Statements of Financial Position

December 31, 2013 and 2012

ASSETS

	<u>2013</u>	<u>2012</u>
Cash	\$ 377,469	312,790
Investments	778,965,894	708,316,212
Accrued investment income	2,769,891	2,984,001
Receivable from UCF Common Investment Funds	476,828	410,422
Accounts receivable	28,196	26,523
Prepaid expenses	63,408	83,936
Other assets	393,140	501,192
TOTAL ASSETS	<u>\$ 783,074,826</u>	<u>\$ 712,635,076</u>

LIABILITIES AND NET ASSETS

Liabilities

Accrued expenses	\$ 961,278	\$ 690,018
Total	<u>961,278</u>	<u>690,018</u>
Funds held for benefit of others		
UCF Common Investment Funds	696,329,618	630,055,525
New Hampshire Conference Consolidated Investment Fund	6,461	6,629
Liabilities under split-interest agreements	25,606,291	26,892,550
Endowments	51,446,793	46,734,142
Total funds held for benefit of others	<u>773,389,163</u>	<u>703,688,846</u>
TOTAL LIABILITIES	<u>774,350,441</u>	<u>704,378,864</u>

Net Assets

Unrestricted	1,501,994	1,572,240
Temporarily restricted	1,692,044	1,154,349
Permanently restricted	5,530,347	5,529,623
TOTAL NET ASSETS	<u>8,724,385</u>	<u>8,256,212</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 783,074,826</u>	<u>\$ 712,635,076</u>

See notes to financial statements

UNITED CHURCH FUNDS, INC.

Statement of Activities

For the Year Ended December 31, 2013 with Summarized Financial Information for 2012

	2013			2012	
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Total
REVENUES, GAINS AND RECLASSIFICATIONS					
Contributions	\$ 3,630	\$	\$ 724	\$ 4,354	\$ 2,283
Income earned on investments	13,391	75,050		88,441	108,343
Fees earned on managed funds	5,371,920			5,371,920	4,683,341
Reimbursement for services rendered to other entities	90,791			90,791	91,566
Net realized gains on investments sold	11,987	53,513		65,500	52,246
Unrealized appreciation on investments	87,882	690,824		778,706	691,661
Net assets released from restriction	281,692	(281,692)			-
TOTAL REVENUES, GAINS AND RECLASSIFICATIONS	5,861,293	537,695	724	6,399,712	5,629,440
EXPENSES AND GRANTS					
Administration of Common Investment Funds	1,955,222			1,955,222	1,925,143
Investment-related expenses	2,705,362			2,705,362	2,106,191
Social responsibility coordination	142,206			142,206	104,823
Marketing program expenses	834,080			834,080	780,924
Grants and other distributions paid from endowments	294,669			294,669	313,414
TOTAL EXPENSES AND GRANTS	5,931,539			5,931,539	5,230,495
(DECREASE) INCREASE IN NET ASSETS	(70,246)	537,695	724	468,173	398,945
NET ASSETS, BEGINNING OF YEAR	1,572,240	1,154,349	5,529,623	8,256,212	7,857,267
NET ASSETS, END OF YEAR	<u>\$ 1,501,994</u>	<u>\$ 1,692,044</u>	<u>\$ 5,530,347</u>	<u>\$ 8,724,385</u>	<u>\$ 8,256,212</u>

See notes to financial statements

UNITED CHURCH FUNDS, INC.

Statements of Cash Flows

For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 468,173	\$ 398,945
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Unrealized appreciation on investments	(778,706)	(691,661)
Net realized gains on investments sold	(65,500)	(52,246)
Depreciation and amortization	132,671	120,120
Contributions to permanently restricted net assets	(724)	(1,449)
Changes in operating assets and liabilities:		
Increase in assets related to		
funds held for benefit of others	(69,700,317)	(71,737,800)
Increase in funds held for benefit of others	69,700,317	71,737,800
Net decrease (increase) in other assets and liabilities	127,156	(187,397)
Net cash used in operating activities	<u>(116,930)</u>	<u>(413,688)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from liquidation of units of participation in the UCF Common Investment Funds	282,312	303,098
Purchases of units of participation in the UCF Common Investment Funds and other investments	(76,597)	(99,635)
Purchases of equipment and other capitalized items	(24,830)	(417,386)
Net cash provided by (used in) investing activities	<u>180,885</u>	<u>(213,923)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions to permanently restricted net assets	724	1,449
Net cash provided by financing activities	<u>724</u>	<u>1,449</u>
NET INCREASE (DECREASE) INCREASE IN CASH	64,679	(626,162)
CASH, BEGINNING OF YEAR	312,790	938,952
CASH, END OF YEAR	<u>\$ 377,469</u>	<u>\$ 312,790</u>

See notes to financial statements

UNITED CHURCH FUNDS, INC.

Notes to the Financial Statements

Years Ended December 31, 2013 and 2012

1. ORGANIZATION AND PURPOSE

United Church Funds, Inc. (UCF), an associated ministry of the United Church of Christ (UCC), is a tax-exempt, not-for-profit entity established to receive gifts from individuals and organizations, to hold such funds and property as may be entrusted or conveyed to it by UCC-related organizations, and administer and invest such funds. In that respect, UCF provides professional investment management services to local churches, conferences and other entities affiliated with the UCC. UCF is also the designated fiscal agent of the planned giving program of the UCC, which is directed by the Office of Philanthropy and Stewardship of the United Church of Christ. Funds raised through the planned giving programs are managed by UCF in a gift annuity fund, a pooled income fund and in separate trusts. From time to time, UCF is also named as trustee of endowments that benefit other UCC-related entities.

UCF carries out its investment management services through various Common Investment Funds. Investors receive units of participation in the Common Investment Funds based on the determinations of fair values. Units may be issued or redeemed daily. Net investment income is accrued daily and included in the unit value. At the end of each quarter, a dividend is declared and either credited to each account or paid to each account holder based on the units of participation owned on the date of declaration.

Investments are made pursuant to guidelines established by the Investment Committee of UCF, which include parameters requiring exclusion of investment in securities of entities considered unsuitable because of social or moral concerns.

UCF is a not-for-profit organization exempt from income taxes under Section 501(a) of the Internal Revenue Code (the "Code") and, accordingly, is qualified as a tax-exempt organization under Section 501(c)(3) of the Code. As a not-for-profit organization, UCF is exempt from New York State and New York City income and sales taxes. UCF has been classified as an organization which is not a private foundation and has been designated as a publicly supported organization under Section 509(a)(2) of the Code and qualifies for the maximum charitable contribution deduction for donors.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Net asset classifications

Net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of UCF are classified and reported as follows:

Permanently restricted net assets contain donor-imposed restrictions that stipulate the resources be maintained in perpetuity, but permit UCF to expend part or all of the income derived from the donated assets for either specified or unspecified purposes.

Temporarily restricted net assets contain donor-imposed restrictions that permit UCF to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by actions of UCF.

When a prior year donor restriction expires, the restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. UCF reports restricted contributions whose stipulations were met in the same year as unrestricted contributions.

Unrestricted net assets represent resources over which the Board of Directors and management of UCF have full discretion with respect to use.

b. Investments

Investments in marketable equity and fixed-income securities are stated at fair value as determined by quoted market prices. For certain thinly-traded fixed-income securities, market prices are obtained from UCF's investment brokers. Mutual funds are carried at fair values based on their published unit values. When marketable securities are acquired by gift or transfer, they are recorded at fair value on the date of receipt.

Investments in commingled funds are valued based on net asset values reported by the investment managers, which are generally calculated based on the last reported sales price of the underlying assets held by the funds.

Investment transactions are accounted for on the date the securities are purchased or sold. Dividend income is recorded on the ex-dividend date. Interest income is accrued as earned. Realized gains and losses on the sale of investments are the differences between proceeds received and the average cost of the securities sold.

In the Common Investment Funds and the Pooled Income Fund, the net realized gains are reinvested, while net investment income is distributed quarterly to participants in the funds in the form of additional units of participation or a cash payment.

Pursuant to a total return investment policy, UCF uses a spending rate to determine the amount to be made available for spending from some of its endowment funds. The spending rate on these endowments is 5%, which is applied to the funds' average quarterly fair values for the 5 years preceding the fiscal year.

At December 31, 2013 and 2012, UCF holds alternative investments (non-traditional, not readily marketable assets), which represent interests in two funds of hedge funds, a macro index hedge fund and a real estate trust fund. The investments are stated at fair value as estimated in an unquoted market. Fair value is determined by UCF's management based on the net asset values reported to UCF, with consideration of other factors, such as liquidity, that might affect fair value determination in accordance with Accounting Standards Codification 820, *Fair Value Measurements and Disclosures* (ASC 820). Financial information used by UCF to evaluate its alternative investments is provided by the investment funds.

The investees for the funds of hedge funds are "fund of funds", and, therefore, fair values are primarily based on financial data supplied by the underlying investment funds.

The investee for the real estate trust fund is a perpetual-life open-ended commingled real estate fund. The underlying real estate investments are carried at estimated fair value. An independent appraisal management firm oversees and administers the appraisal process for the fund. On a quarterly basis, the independent appraisal management firm presents appraised values which are updated by the appraisers based upon financial and leasing updates provided by the general partner of the fund and changes in occupancy levels, lease amendments, overall market conditions and capital improvements.

c. Contributions

UCF records as revenue the following types of contributions when they are received unconditionally at their fair value: cash, securities, and gifts of long-lived and other assets.

d. Cash and cash equivalents

UCF considers all highly liquid investments with an original maturity of three months or less, other than cash held for the benefit of others and those held in the investment portfolio, to be cash equivalents.

e. Other assets

Other assets include the cost of purchased software, computers and leasehold improvements, which are amortized over the estimated useful lives of the assets, typically 3 to 5 years.

f. Use of estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the amounts reported in the financial statements for revenue and expenses during the reporting period and amounts reported in the accompanying notes. Actual results could differ from those estimates.

g. Benefit costs

Pension and medical insurance costs are funded by quarterly payments as determined by The Pension Boards-United Church of Christ (Pension Boards), a related entity of the UCC. Such costs totaled approximately \$360,000 in 2013 and \$308,000 in 2012.

h. Summarized Prior Year Financial Information

The accompanying financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with UCF's financial statements for the year ended December 31, 2012, from which the summarized information was derived.

3. INVESTMENTS

a. Composition of investments

Investments are comprised of the following types of securities:

	2013		2012	
	Cost*	Fair Value	Cost*	Fair Value
Fixed-income investments				
Short-term investments and cash	\$ 23,971,650	\$ 23,971,650	\$ 22,750,623	\$ 22,750,623
Corporate bonds	151,962,097	153,384,573	157,569,968	167,835,160
U.S. Government and agency bonds	20,927,005	19,605,113	58,611,342	60,078,607
Mortgage-backed securities	5,214,296	5,066,455	6,424,380	6,131,491
International commingled fund - emerging markets debt	19,329,166	18,459,183	14,719,475	15,807,173
Commingled fund - bank loans	31,800,000	32,702,268	-	-
Private placement	4,150	4,150	4,150	4,150
Life insurance contracts	75,866	145,397	75,866	142,583
Total fixed-income investments	<u>253,284,230</u>	<u>253,338,789</u>	<u>260,155,804</u>	<u>272,749,787</u>
Equity investments				
Mutual and commingled funds				
Domestic - small cap	13,129,782	17,726,062	15,175,997	15,482,924
International - emerging markets	58,876,406	63,335,824	53,741,842	67,406,425
Common stocks				
Domestic - large cap	165,719,134	202,769,942	147,715,782	165,463,089
Domestic - small cap	24,332,638	32,094,894	21,238,274	22,865,589
International - developed markets	138,408,622	165,233,805	124,026,932	132,912,252
Futures	-	108,597	-	21,068
Total equity investments	<u>400,466,582</u>	<u>481,269,124</u>	<u>361,898,827</u>	<u>404,151,347</u>
Alternative investments				
Funds of hedge funds	22,925,000	26,541,746	22,925,000	23,989,908
Macro index hedge fund	10,000,000	9,627,792	-	-
Real estate trust fund	6,827,797	8,188,443	6,752,820	7,425,170
Total alternative investments	<u>39,752,797</u>	<u>44,357,981</u>	<u>29,677,820</u>	<u>31,415,078</u>
Total investments	<u>\$ 693,503,609</u>	<u>\$ 778,965,894</u>	<u>\$ 651,732,451</u>	<u>\$ 708,316,212</u>

* For fixed-income securities, cost represents amortized cost

b. Income earned on investments

Income earned on investments in the accompanying statement of activities excludes that portion attributable to funds held for benefit of others. Including amounts held for the benefit of others, the total investment income earned during 2013 and 2012 was as follows:

	2013	2012
Portion attributable to - UCF assets	\$ 88,441	\$ 108,343
Funds held for benefit of others	16,618,895	17,390,714
TOTAL	<u>\$ 16,707,336</u>	<u>\$ 17,499,057</u>

	2013	2012
Portion attributable to - UCF assets	\$ 65,500	\$ 52,246
Funds held for benefit of others	49,442,909	20,481,895
TOTAL	<u>\$ 49,508,409</u>	<u>\$ 20,534,141</u>

c. Net realized gains on investments sold

Net realized gains on investments sold in the accompanying statement of activities exclude gains attributable to funds held for benefit of others. Including amounts held for benefit of others, the net gains on investments sold during 2013 and 2012 were as follows:

d. Unrealized appreciation on investments

Unrealized appreciation on investments in the accompanying statement of activities excludes that portion attributable to funds held for benefit of others. Including amounts held for benefit of others, the total unrealized appreciation on investments in 2013 and 2012 was as follows:

	Year ended December 31,	
	2013	2012
Beginning of year	\$ 56,583,761	\$ 7,436,801
End of year	85,462,285	56,583,761
Change in unrealized appreciation	<u>\$ 28,878,524</u>	<u>\$ 49,146,960</u>

The change in unrealized appreciation includes the change in value of investments, or the difference between average cost and current fair value of the portfolio, as follows:

Portion attributable to -	2013	2012
UCF assets	\$ 778,706	\$ 691,661
Funds held for benefit of others	28,099,818	48,455,299
TOTAL	\$ 28,878,524	\$ 49,146,960

e. Risks and Uncertainties

UCF invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect amounts reported in the financial statements.

The Investment Committee of UCF establishes guidelines to ensure that the investments in each of UCF's Common Investment Funds meet the ethical, moral and social expectations of the United Church of Christ, and that appropriate diversification within each Fund is maintained. Investment managers retained by UCF are monitored by the Investment Committee to ensure that each manager adheres to these guidelines. Each of UCF's Common Investment Funds spreads investment risk across many securities in the portfolio to minimize potential losses. UCF's funds also diversify across asset classes (stocks and bonds), investment styles (growth and value) and capitalization size (large and small caps). While such broad diversification cannot prevent loss, it can mitigate losses suffered in one part of the market that may be offset by gains realized in another part.

UCF has established diversification guidelines in an effort to achieve an appropriate combination of asset classes within the Total Equity and Balanced Funds. Asset classes are identified based on their appropriateness for UCF's investment program, their long-term return and volatility characteristics and the diversification benefits offered within a multiple manager and a multiple asset class structure. The actual distribution of assets within the Total Equity and Balanced Funds will be allowed to fluctuate within the policy guidelines, and it may be adjusted as deemed appropriate to mitigate risk.

The investment guidelines for cash and cash equivalents or fixed-income portfolios limit the amount of credit concentration by limiting the percentage of a particular manager's portfolio to a maximum of 5% of any one issuer (excluding the US Government or its agencies or instrumentalities). In addition, any manager's portfolio should be appropriately diversified. For equity portfolios, the same 5% limit on any single issuer applies to 75% of the value of each manager's portfolio. For the remaining 25% of the value of the manager's portfolio, a more concentrated risk of up to 8% of the value of the portfolio may be taken on any one issuer.

In addition to the limits on concentration in UCF's portfolio related to a single issuer, no more than 25% of the fair value of each manager's portfolio may be invested in companies in which the combined holdings of the manager's clients constitute 10% or more of the outstanding stock.

There is uncertainty in determining the fair value of the alternative investments, arising from factors such as lack of active markets (primary and secondary), lack of transparency into underlying holdings and the subjective evaluation of liquidity restrictions. As a result, the estimated fair values reported in the accompanying statements of financial position at December 31, 2013 and 2012 might differ from the values that would have been used had a ready market for the interests in the alternative investments existed. Furthermore, there is at least a reasonable possibility that estimates will change by material amounts in the near term.

The financial statements of all four investees are audited annually by independent auditors.

The alternative investments are funds of funds, a hedge fund and a real estate trust fund. The underlying investments may indirectly expose UCF to securities lending, short sales of securities, trading in derivative products and other complex investment strategies. While these financial instruments may contain varying degrees of risk, UCF's risk with respect to such transactions is limited to its capital balance in the alternative investments.

The alternative investments have liquidity restrictions under which UCF's capital may be accessed only at specified times. UCF has investments in two funds of hedge funds, a macro index hedge fund and one real estate trust fund. Two of the funds of hedge funds have quarterly liquidity on the last day of the quarter with prior notice of 60-65 days. UCF investment in a macro index hedge fund has daily liquidity. Finally, UCF has an investment in a real estate fund; this fund has quarterly liquidity with prior notice of 90 days.

No valuation adjustments have been made related to liquidity restrictions at December 31, 2013 and 2012 because it is not probable that UCF will sell its investments at an amount other than the net asset value per share.

4. FAIR VALUE MEASUREMENTS

Fair Value Hierarchy

UCF classifies and discloses the fair value of financial instruments according to a fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. The three levels of fair value hierarchy are:

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets and liabilities.
- Level 2 Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.
- Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Level 3 assets consist primarily of the alternative investments, the valuation for which is described in Note 1.

A review of fair value hierarchy classifications is conducted annually. Changes in the observability of valuation inputs may result in a reclassification for certain financial assets or liabilities. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in/out of the Level 3 category as of the beginning of the period in which the reclassifications occur.

The following tables set forth by level within the fair value hierarchy investment assets and liabilities as of December 31, 2013 and 2012 and changes in fair value of UCF's Level 3 investments during the years ended December 31, 2013 and 2012:

FAIR VALUE MEASUREMENTS
AS OF DECEMBER 31, 2013

	Total	Quoted market prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Fixed-income investments				
Short-term investments and cash	\$ 23,971,650	\$ 23,971,650	\$	\$
Corporate bonds	153,384,573		153,384,573	
U.S. Government and agency bonds	19,605,113	16,796,720	2,808,393	
Mortgage-backed securities	5,066,455		5,066,455	
International commingled fund - emerging markets debt	18,459,183		18,459,183	
Commingled fund - bank loans	32,702,268		32,702,268	
Private placement	4,150			4,150
Life insurance contracts	145,397			145,397
Total fixed-income investments	<u>253,338,789</u>	<u>40,768,370</u>	<u>212,420,872</u>	<u>149,547</u>
Equity investments				
Mutual and commingled funds				
Domestic - small cap	17,726,062	17,726,062		
International - emerging markets	63,335,824	24,413,276	38,922,548	
Common stocks				
Domestic - large cap	202,769,942	202,769,942		
Domestic - small cap	32,094,894	32,094,894		
International - developed markets	165,233,805	165,233,805		
Futures	108,597		108,597	
Total equity investments	<u>481,269,124</u>	<u>442,237,979</u>	<u>39,031,145</u>	<u>-</u>
Alternative investments				
Funds of hedge funds	26,541,746		26,541,746	
Macro index hedge fund	9,627,792		9,627,792	
Real estate trust fund	8,188,443		8,188,443	
Total alternative investments	<u>44,357,981</u>	<u>-</u>	<u>44,357,981</u>	<u>-</u>
Total investments	<u>\$ 778,965,894</u>	<u>\$ 483,006,349</u>	<u>\$ 295,809,998</u>	<u>\$ 149,547</u>

CHANGES IN LEVEL 3 INVESTMENTS*
YEAR ENDED DECEMBER 31, 2013

	Beginning Balance	Sales	Unrealized*	Ending Balance
Fixed-income investments				
Private placement	\$ 4,150	\$	\$	\$ 4,150
Life insurance contracts	142,583		2,814	145,397
Total fixed-income investments	<u>146,733</u>	<u>-</u>	<u>2,814</u>	<u>149,547</u>
Alternative investments				
Funds of hedge funds	6,885,542	(6,885,542)	-	-
Total alternative investments	<u>6,885,542</u>	<u>(6,885,542)</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 7,032,275</u>	<u>\$ (6,885,542)</u>	<u>\$ 2,814</u>	<u>\$ 149,547</u>

* Unrealized appreciation on Level 3 investments that continue to be held as of December 31, 2013 amounted to \$2,814. Unrealized gains on Level 3 investments are reflected within funds held for benefit of others in the accompanying statements of financial position.

FAIR VALUE MEASUREMENTS
AS OF DECEMBER 31, 2012

	Total	Quoted market prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Fixed-income investments				
Short-term investments and cash	\$ 22,750,623	\$ 22,750,623	\$	\$
Corporate bonds	167,835,160		167,835,160	
U.S. Government and agency bonds	60,078,607	58,109,869	1,968,738	
Mortgage-backed securities	6,131,491		6,131,491	
International commingled funds - Emerging markets debt	15,807,173		15,807,173	
Private placement	4,150			4,150
Life insurance contracts	142,583			142,583
Total fixed-income investments	<u>272,749,787</u>	<u>80,860,492</u>	<u>191,742,562</u>	<u>146,733</u>
Equity investments				
Mutual funds				
Domestic - Small Cap	15,482,924	15,170,827	312,097	
International - Emerging markets	67,406,425	67,406,425		
Common stocks				
Domestic - Large Cap	165,463,089	165,463,089		
Domestic - Small Cap	22,865,589	22,865,589		
International - Developed markets	132,912,252	132,912,252		
Futures	21,068		21,068	
Total equity investments	<u>404,151,347</u>	<u>403,818,182</u>	<u>333,165</u>	
Alternative investments				
Funds of hedge funds	23,989,908		17,104,366	6,885,542
Real estate fund	7,425,170		7,425,170	
Total alternative investments	<u>31,415,078</u>		<u>24,529,536</u>	<u>6,885,542</u>
Total investments	<u>\$ 708,316,212</u>	<u>\$ 484,678,674</u>	<u>\$ 216,605,263</u>	<u>\$ 7,032,275</u>

CHANGES IN LEVEL 3 INVESTMENTS*
YEAR ENDED DECEMBER 31, 2012

	Beginning balance	Sales	Transfers **	Unrealized gains	Ending balance
Fixed-income investments					
Private placement	\$ 222,150	\$ (218,000)	\$	\$	\$ 4,150
Life insurance contracts	137,098			5,485	142,583
Total fixed-income investments	<u>359,248</u>	<u>(218,000)</u>		<u>5,485</u>	<u>146,733</u>
Alternative investments					
Funds of hedge funds	14,383,611		(8,045,671)	547,602	6,885,542
Real estate trust fund	5,311,026	-	(5,311,026)	-	-
Total alternative investments	<u>19,694,637</u>	<u>-</u>	<u>(13,356,697)</u>	<u>547,602</u>	<u>6,885,542</u>
Total investments	<u>\$ 20,053,885</u>	<u>\$ (218,000)</u>	<u>\$ (13,356,697)</u>	<u>\$ 553,087</u>	<u>\$ 7,032,275</u>

* All Level 3 investments continue to be held at December 31, 2012. Unrealized gains on level 3 investments are reflected within funds held for benefit of others in the accompanying statements of financial position.

** Transfers out of level 3 are the result of the expiration of liquidity restrictions impacting alternative investments

5. FUNDS HELD FOR BENEFIT OF OTHERS

UCF is the agent for third-party beneficiaries or the beneficiary of a number of split-interest agreements with donors. Some of these split-interest agreements are gift annuity contracts that provide that UCF shall pay to the designated beneficiaries an annual amount until the death of the designated beneficiaries. The payments continue even if the assets of the gift annuity fund have

been exhausted. UCF records the assets received at fair value. UCF issues charitable gift annuity contracts in several states. The highest actuarially determined gift annuity reserve required under applicable state (New York) insurance laws as of December 31, 2013 and 2012 was \$14,105,757 and \$15,579,951, respectively. These gift annuity reserve amounts do not represent liabilities to annuitants as they would be calculated under U.S. GAAP. The U.S. GAAP calculations would involve discount rates, mortality

tables and other inputs that differ from inputs used for state insurance requirement calculations. Upon the death of the beneficiaries, the assets of the gift annuity fund are distributed by UCF in accordance with the agreements.

The assets of split-interest agreements related to a pooled income fund and charitable remainder trusts are included in the total assets and the related liabilities to lifetime and remainder third-party beneficiaries are classified as liabilities under split-interest agreements in the accompanying statements of financial position. Under these agreements, UCF controls the donated assets and distributes to the donor or donor's designee a predetermined amount or percentage or, in the case of pooled income funds, all of the income generated from those assets until such time as stated in the agreement (usually upon the death of the donor or donor's designee). UCF will distribute to any third-party beneficiaries their respective remainder interests upon the death of the respective life income beneficiary and be able to use any portion of the gifts in which it has a beneficial interest.

Some states in which UCF issues charitable gift annuity contracts require UCF to register with the appropriate agencies of that state and to file reports with those agencies annually. In addition, some states require UCF to hold a certain amount of unrestricted net assets or other reserves. UCF believes it has met all legal requirements in most states and that it has adequate reserves to meet all state requirements. In those states that require registration and reporting but where UCF has not completed the process of registration, UCF is near completion of meeting the necessary legal requirements imposed by those states. There is a possibility that some states may impose penalties for the contracts that have been written prior to meeting the state's legal requirements, or that UCF will be precluded from issuing new contracts until the filing requirements are met. In the opinion of UCF's management, these matters will not have a material adverse effect on UCF's financial position, changes in net assets or cash flows.

UCF manages certain investments on behalf of local congregations and other entities affiliated with the UCC. Because UCF has no ownership of or residual interest in these investments, a liability equal to the fair value of the investments is included in the accompanying statements of financial position as funds held for the benefit of others.

When UCF is named as trustee of an endowment fund to be held for the benefit of another charitable beneficiary, the fair value of the assets received is recorded at fair value and included in the assets of UCF. UCF also records an equal amount as a liability in funds held for benefit of others and the income is paid to the third-party beneficiary in accordance with the instructions of the donor.

6. NET ASSET CLASSIFICATIONS

The State of Connecticut adopted the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) effective October 1, 2007. UCF is registered in the State of Connecticut; however its offices are located and its business conducted in the State of New York. UPMIFA serves as a basis for the primary laws governing the investment and management of donor-restricted endowment funds held by not-for-profit organizations. The Board of Directors, the governing body of UCF, determined that the Richard and Helen Brown Endowment Fund meets the definition of endowment funds under the definition of UPMIFA.

In accordance with UPMIFA, UCF 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 UCF 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 UCF
7. The investment policies of UCF.

Generally, if the corpus of an endowment must be maintained in perpetuity, it is classified as permanently restricted. The portion of the endowment not classified as permanently restricted is classified as temporarily restricted until appropriated for expenditure.

The donors of the Richard and Helen Brown Endowment Fund stipulated that the fund be used for pastoral scholarships. Based on this stipulation, the Board of Directors has designated the principal as permanently restricted net assets. The Board of Directors has set up specific guidelines and policies for the income available for distribution, administrative expenses and annual distributions criteria that would best serve the needs of the United Church of Christ pastoral scholarship support. The amount available for distribution is classified as temporarily restricted net assets. When an appropriation for expenditure occurs, the temporarily restricted net assets are released of the restriction.

Endowment Investment and Spending Policies

UCF has adopted investment and spending policies for endowment assets based on the Board-approved guidelines and policies 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. UCF's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes.

Through December 31, 2012, the income available for distribution was 5% of the 5-year moving average value of the endowment fund.

Effective January 1, 2013, the distribution from the Brown Endowment Fund is calculated as follows:

20% of the distribution is based on 5% of the 5-year moving average value of the endowment fund.

80% of the distribution is based on the prior year distribution indexed by the inflation rate.

The distribution for any year is limited to the prior year distribution indexed by the inflation rate.

All expenses for administration of the endowment fund as well as scholarships are paid from the amount available for distribution. Annual distributions are made in accordance with policy guidelines.

UCF targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk parameters. This is consistent with UCF's objective to maintain the purchasing power of endowment assets.

CHANGES IN ENDOWMENT NET ASSETS
YEAR ENDED DECEMBER 31, 2013

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment assets, beginning of year	\$ -	\$ 1,154,349	\$ 5,529,623	\$ 6,683,972
Contributions			724	724
Income earned on investments		75,050		75,050
Net realized gains on investments sold		53,513		53,513
Unrealized appreciation on investments		690,824		690,824
Endowment assets appropriated for expenditure	281,692	(281,692)		
Grants paid from endowments	(281,692)			(281,692)
Net change in endowment assets	-	537,695	724	538,419
Endowment assets, end of year	<u>\$ -</u>	<u>\$ 1,692,044</u>	<u>\$ 5,530,347</u>	<u>\$ 7,222,391</u>

COMPOSITION OF ENDOWMENT NET ASSETS
DECEMBER 31, 2013

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor restricted endowment funds	<u>\$ -</u>	<u>\$ 1,692,044</u>	<u>\$ 5,530,347</u>	<u>\$ 7,222,391</u>

CHANGES IN ENDOWMENT NET ASSETS
YEAR ENDED DECEMBER 31, 2012

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment assets, beginning of year	\$ -	\$ 695,611	\$ 5,528,174	\$ 6,223,785
Contributions			1,449	1,449
Income earned on investments		95,741		95,741
Net realized gains on investments sold		36,973		36,973
Unrealized appreciation on investments		628,538		628,538
Endowment assets appropriated for expenditure	302,514	(302,514)		
Grants paid from endowments	(302,514)			(302,514)
Net change in endowment assets	-	458,738	1,449	460,187
Endowment assets, end of year	<u>\$ -</u>	<u>\$ 1,154,349</u>	<u>\$ 5,529,623</u>	<u>\$ 6,683,972</u>

COMPOSITION OF ENDOWMENT NET ASSETS
DECEMBER 31, 2012

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor restricted endowment funds	<u>\$ -</u>	<u>\$ 1,154,349</u>	<u>\$ 5,529,623</u>	<u>\$ 6,683,972</u>

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for pastoral scholarships. During 2013 and 2012, temporarily restricted net assets were released in the amounts of \$281,692 and \$302,514, respectively, representing payments of pastoral scholarships.

8. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets represent contributions made into the Richard and Helen Brown Endowment for Pastoral Scholarships.

9. RELATED PARTY TRANSACTIONS

A portion of the operating expenses is incurred and billed to UCF by the Pension Boards, a related entity of the UCC. Such expenses are allocated on the basis of formulae, which are approved by the respective Boards of Trustees/Directors. Rent is allocated based upon square footage occupied. The total of such costs allocated by or paid to the Pension Boards in 2013 and 2012 was approximately \$1,489,000 and \$1,388,000, respectively. As of December 31, 2013 and 2012, amounts due to the Pension Boards of approximately \$336,000 and \$221,000, respectively, are included in accrued expenses in the accompanying statements of financial position. In addition, UCF compensates the Financial Development Ministry of the Office of General Ministries for certain activities performed on behalf of UCF. Such amounts are not material.

The Board of Directors includes people who are employed by investing institutions and UCF's President is on the board of other investing institutions.

10. SUBSEQUENT EVENTS

UCF evaluated events and transactions occurring between January 1, 2014 and July 11, 2014, which is the date that the financial statements were available to be issued, for disclosure and recognition in the financial statements.

SUPPLEMENTARY INFORMATION

SCHEDULE A

UNITED CHURCH FUNDS, INC.

COMMON INVESTMENT FUNDS

Schedules of Assets, Liabilities and Fund Balances

December 31, 2013 and 2012

ASSETS	2013	2012
Cash and cash equivalents, net of unsettled investment transactions	\$ 956,626	\$ 940,967
Investments	777,143,239	706,235,721
Accrued investment income	2,769,891	2,984,001
TOTAL ASSETS	\$ 780,869,756	\$ 710,160,689
LIABILITIES		
Payable to United Church Funds, Inc.	\$ 476,828	\$ 410,422
Accrued expenses	205,455	108,900
TOTAL LIABILITIES	682,283	519,322
FUND BALANCES		
Income account	350,737	(480,153)
Investors' principal account	779,836,736	710,121,520
TOTAL FUND BALANCES	780,187,473	709,641,367
TOTAL LIABILITIES AND FUND BALANCES	\$ 780,869,756	\$ 710,160,689

The above schedules reflect the assets, liabilities, and fund balances of the funds held in UCF's Common Investment Funds. The Common Investment Funds hold investments for the funds held under split-interest agreements, endowments held for others and UCF's assets. The total fund balances not included in these categories (\$696,329,618 and 630,055,525 at December 31, 2013 and 2012, respectively) are included in the Statements of Financial Position as funds held for benefit of others-UCF Common Investment Funds. Cash and cash equivalents that UCF holds for the benefit of others are reported as investments in UCF's Statements of Financial Position. Changes in fund balances are shown on the following page.

UNITED CHURCH FUNDS, INC.**COMMON INVESTMENT FUNDS****Schedules of Changes in Fund Balances**

For the Years Ended December 31, 2013 and 2012

Income Account	<u>2013</u>	<u>2012</u>
INCOME AND EXPENSES		
Income earned on investments	\$ 16,699,407	\$ 17,405,991
Management fee paid to UCF operating fund	<u>(5,371,920)</u>	<u>(4,683,341)</u>
Net investment income	<u>11,327,487</u>	<u>12,722,650</u>
DISTRIBUTIONS TO INVESTORS		
Income paid to investors	1,981,466	2,076,882
Income used to purchase additional units	<u>8,515,131</u>	<u>9,728,826</u>
Total distributions to investors	<u>10,496,597</u>	<u>11,805,708</u>
INCREASE IN FUND BALANCES	830,890	916,942
FUND DEFICIENCY, BEGINNING OF YEAR	<u>(480,153)</u>	<u>(1,397,095)</u>
FUND BALANCES (DEFICIENCY), END OF YEAR	<u>\$ 350,737</u>	<u>\$ (480,153)</u>
Investors' Principal Account		
INVESTORS ACTIVITY		
Purchase of units of participation	\$ 30,443,884	\$ 32,773,552
Income used to purchase additional units	8,515,131	9,728,826
Liquidation of units of participation	<u>(46,952,831)</u>	<u>(40,071,412)</u>
NET (DECREASE) INCREASE IN UNITS OF PARTICIPATION	<u>(7,993,816)</u>	<u>2,430,966</u>
INVESTMENT ACTIVITY		
Investment expenses charged against principal	(601,280)	(263,066)
Net realized gains on investments sold	49,300,384	20,213,977
Unrealized appreciation on investments	<u>29,009,928</u>	<u>49,113,919</u>
NET INVESTMENT ACTIVITY	<u>77,709,032</u>	<u>69,064,830</u>
INCREASE IN FUND BALANCES	69,715,216	71,495,796
FUND BALANCES, BEGINNING OF YEAR	<u>710,121,520</u>	<u>638,625,724</u>
FUND BALANCES, END OF YEAR	<u>\$ 779,836,736</u>	<u>\$ 710,121,520</u>

SCHEDULE B

UNITED CHURCH FUNDS, INC.

SPLIT-INTEREST AGREEMENT FUNDS

Schedules of Assets, Liabilities and Fund Balances

December 31, 2013 and 2012

	2013				2012
	Gift Annuity Fund	Pooled Income Fund	Charitable Remainder Trusts	Total	Total
ASSETS					
Cash	\$ 34,159	\$ 43,667	\$ 222,668	\$ 300,494	\$ 445,835
Investment in UCF Common Investment Funds (CIF)	13,618,839	1,878,932	9,648,397	25,146,168	26,059,126
Other investments	145,397		29,187	174,584	352,411
Accrued investment income	33,317	9,870	27,306	70,493	120,625
TOTAL ASSETS	<u>13,831,712</u>	<u>1,932,469</u>	<u>9,927,558</u>	<u>25,691,739</u>	<u>26,977,997</u>
LIABILITIES					
Accrued income payable to participants		9,870		9,870	13,682
TOTAL LIABILITIES		<u>9,870</u>		<u>9,870</u>	<u>13,682</u>
FUND BALANCES	<u>\$ 13,831,712</u>	<u>\$ 1,922,599</u>	<u>\$ 9,927,558</u>	<u>\$ 25,681,869</u>	<u>\$ 26,964,315</u>

The amounts shown above as Fund Balances represent the liabilities payable to life-income and remainder beneficiaries under split-interest agreements. Changes in these balances appear on the following page.

UNITED CHURCH FUNDS, INC.

SPLIT-INTEREST AGREEMENT FUNDS

Schedules of Changes in Fund Balances

For the Year Ended December 31, 2013 with Summarized Financial Information for 2012

	2013			2012	
	Gift Annuity Fund	Pooled Income Fund	Charitable Remainder Trusts	Total	Total
REVENUES					
Received from participants	\$ 488,813	\$	\$ 96,287	\$ 585,100	\$ 1,169,783
Income earned on CIF investments	162,052	47,229	140,567	349,848	398,906
Income earned on other investments	42		1,771	1,813	88,438
TOTAL REVENUES	<u>650,907</u>	<u>47,229</u>	<u>238,625</u>	<u>936,761</u>	<u>1,657,127</u>
EXPENSES					
Administration of Planned Giving Funds*	143,414	18,618	118,280	280,312	418,445
TOTAL EXPENSES	<u>143,414</u>	<u>18,618</u>	<u>118,280</u>	<u>280,312</u>	<u>418,445</u>
DISTRIBUTIONS TO PARTICIPANTS					
Annuities paid	1,716,499			1,716,499	1,757,217
Payments to life income beneficiaries*		47,179	577,254	624,433	639,986
Payments to charitable remainder beneficiaries	1,239,540	224,746	696,931	2,161,217	1,293,590
TOTAL DISTRIBUTIONS TO PARTICIPANTS	<u>2,956,039</u>	<u>271,925</u>	<u>1,274,185</u>	<u>4,502,149</u>	<u>3,690,793</u>
INVESTMENT GAINS (LOSSES)					
Net realized gains on CIF investments sold	1,272,423	35,204	598,268	1,905,895	778,025
Net realized gains on other investments sold	7,150		188,943	196,093	304,897
Unrealized appreciation (depreciation) on CIF investments	333,648	(112,447)	409,689	630,890	1,448,404
Unrealized appreciation (depreciation) on other investments	2,815		(172,439)	(169,624)	14,775
NET INVESTMENT GAINS (LOSSES)	<u>1,616,036</u>	<u>(77,243)</u>	<u>1,024,461</u>	<u>2,563,254</u>	<u>2,546,101</u>
(DECREASE) INCREASE IN FUND BALANCES	(832,510)	(320,557)	(129,379)	(1,282,446)	93,990
FUND BALANCES, BEGINNING OF YEAR	14,664,222	2,243,156	10,056,937	\$ 26,964,315	26,870,325
FUND BALANCES, END OF YEAR	<u>\$ 13,831,712</u>	<u>\$ 1,922,599</u>	<u>\$ 9,927,558</u>	<u>\$ 25,681,869</u>	<u>\$ 26,964,315</u>
COMPOSITION OF FUND BALANCES					
Held for the benefit of United Church Funds, Inc.				\$ 75,578	\$ 71,765
Held for the benefit of other charitable remainder beneficiaries				25,606,291	26,892,550
TOTAL FUND BALANCES				<u>\$ 25,681,869</u>	<u>\$ 26,964,315</u>

* Certain 2012 amounts have been reclassified to conform to the 2013 presentation.



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