

**Financial Statements
and Supplemental Schedules**

Unitarian Universalist Association

June 30, 2012 and 2011



Mayer Hoffman McCann P.C.
Tofias New England Division
An Independent CPA Firm

UNITARIAN UNIVERSALIST ASSOCIATION

Financial Statements and Supplemental Schedules

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Independent Auditors' Report

The Board of Trustees
Unitarian Universalist Association
Boston, Massachusetts

We have audited the accompanying statements of financial position of the Unitarian Universalist Association (the "Association") as of June 30, 2012 and 2011, and the related statements of changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information included in Schedules I through VII is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the 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 U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Mayer Hoffman McCann P.C.

October 29, 2012
Boston, Massachusetts

UNITARIAN UNIVERSALIST ASSOCIATION

Statements of Financial Position

(in thousands)

	<i>June 30,</i>	
	<i>2012</i>	<i>2011</i>
Assets		
Cash and cash equivalents	\$ 9,936	\$ 9,766
Accounts receivable, net	1,908	1,487
Pledges receivable, net	169	234
Inventories	1,569	1,682
Other assets	1,025	828
Investments	70,363	73,907
Investment funds managed for others	67,181	62,579
Funds held in trust by others	40,283	42,202
Funds held in support of split-interest agreements	11,435	12,720
Loans to member congregations, net	7,529	7,439
Property and equipment, net	5,828	6,009
Total assets	\$ 217,226	\$ 218,853
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 7,980	\$ 6,363
Annuity liabilities	2,784	2,907
Bank debt	1,940	1,971
Obligations under split-interest agreements	6,469	7,289
Obligations for funds managed for others	67,181	62,579
Accumulated postretirement benefit obligation	1,951	1,992
Total liabilities	88,305	83,101
Net assets:		
Unrestricted	16,172	18,545
Temporarily restricted	55,400	59,452
Permanently restricted	57,349	57,755
Total net assets	128,921	135,752
Total liabilities and net assets	\$ 217,226	\$ 218,853

UNITARIAN UNIVERSALIST ASSOCIATION

Statements of Changes in Net Assets

(in thousands)

	For the Years Ended June 30,				2011
	2012				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Support and revenue:					
Fundraising and gifts and bequests	\$ 12,962	\$ 688	\$ 37	\$ 13,687	\$ 13,710
Net sales from publishing activities	6,400	-	-	6,400	6,021
Sales and administrative services	1,708	-	-	1,708	1,854
Investment return authorized for operations	3,577	-	-	3,577	3,665
Distributions from Holdeen	-	1,248	-	1,248	1,248
Other investment income	377	-	-	377	405
Other income	5,273	-	-	5,273	5,009
Net assets released from restriction	2,799	(2,799)	-	-	-
Total support and revenue	<u>33,096</u>	<u>(863)</u>	<u>37</u>	<u>32,270</u>	<u>31,912</u>
Expenditures:					
Programs	25,776	-	-	25,776	24,668
General and administration	5,285	-	-	5,285	4,810
Stewardship and development	1,946	-	-	1,946	1,829
Total expenditures	<u>33,007</u>	<u>-</u>	<u>-</u>	<u>33,007</u>	<u>31,307</u>
Changes in net assets from operations	<u>89</u>	<u>(863)</u>	<u>37</u>	<u>(737)</u>	<u>605</u>
Nonoperating income (expense):					
Investment return, net of amounts authorized for operations	(1,351)	(3,153)	-	(4,504)	11,117
Increase (decrease) in value of funds held in support of split-interest agreements and trusts	(74)	(1,658)	(416)	(2,148)	6,107
Postretirement benefit plan expense	-	-	-	-	(399)
Other releases and changes in net assets	(1,037)	1,622	(27)	558	(205)
Change in net assets from nonoperating activities	<u>(2,462)</u>	<u>(3,189)</u>	<u>(443)</u>	<u>(6,094)</u>	<u>16,620</u>
Change in net assets	(2,373)	(4,052)	(406)	(6,831)	17,225
Net assets, beginning of year	<u>18,545</u>	<u>59,452</u>	<u>57,755</u>	<u>135,752</u>	<u>118,527</u>
Net assets, end of year	\$ <u>16,172</u>	\$ <u>55,400</u>	\$ <u>57,349</u>	\$ <u>128,921</u>	\$ <u>135,752</u>

See accompanying notes to financial statements.

UNITARIAN UNIVERSALIST ASSOCIATION

Statement of Changes in Net Assets

For the Year Ended June 30, 2011

(in thousands)

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Support and revenue:				
Fundraising and gifts and bequests	\$ 11,952	\$ 1,518	\$ 240	\$ 13,710
Net sales from publishing activities	6,021	-	-	6,021
Sales and administrative services	1,854	-	-	1,854
Investment return authorized for operations	3,665	-	-	3,665
Distributions from Holdeen	-	1,248	-	1,248
Other investment income	405	-	-	405
Other income	5,009	-	-	5,009
Net assets released from restriction	2,681	(2,681)	-	-
Total support and revenue	<u>31,587</u>	<u>85</u>	<u>240</u>	<u>31,912</u>
Expenditures:				
Programs	24,668	-	-	24,668
General and administration	4,810	-	-	4,810
Stewardship and development	1,829	-	-	1,829
Total expenditures	<u>31,307</u>	<u>-</u>	<u>-</u>	<u>31,307</u>
Changes in net assets from operations	<u>280</u>	<u>85</u>	<u>240</u>	<u>605</u>
Nonoperating income (expense):				
Investment return, net of amounts authorized for operations	4,015	7,102	-	11,117
Increase in value of funds held in support of split-interest agreements and trusts	152	4,817	1,138	6,107
Postretirement benefit plan expense	(399)	-	-	(399)
Other changes in net assets	1,221	(1,189)	(237)	(205)
Change in net assets from nonoperating activities	<u>4,989</u>	<u>10,730</u>	<u>901</u>	<u>16,620</u>
Change in net assets	5,269	10,815	1,141	17,225
Net assets, beginning of year, as restated	<u>13,276</u>	<u>48,637</u>	<u>56,614</u>	<u>118,527</u>
Net assets, end of year	\$ <u>18,545</u>	\$ <u>59,452</u>	\$ <u>57,755</u>	\$ <u>135,752</u>

See accompanying notes to financial statements.

UNITARIAN UNIVERSALIST ASSOCIATION

Statements of Cash Flows

(in thousands)

	<i>For the Years Ended June 30,</i>	
	2012	2011
Cash flows from operating activities:		
Change in net assets	\$ (6,831)	\$ 17,225
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	505	469
Net realized and unrealized losses/(gains) on investments	1,928	(13,189)
Contributions restricted for long-term investment	(37)	(240)
Net change in value of funds held in support of split-interest agreements and trusts	2,148	(6,107)
Changes in assets and liabilities:		
Accounts receivable, net	(421)	148
Pledges receivable, net	65	609
Inventories	113	(140)
Other assets	(197)	(31)
Accounts payable and accrued expenses	1,617	(2,884)
Annuity liabilities	(123)	-
Accumulated postretirement benefit obligation	(41)	329
	<u>(1,274)</u>	<u>(3,811)</u>
Net cash used in operating activities	(1,274)	(3,811)
Cash flows from investing activities:		
Cost of purchases of investments	(30,699)	(35,629)
Proceeds from sales of investments	28,769	20,517
Purchases of property and equipment	(324)	(306)
Change in obligations for funds managed for others	4,602	17,508
Change in obligations under split-interest agreements	(820)	545
Additions to loans to member congregations	(710)	-
Repayments on loans to member congregations	620	777
	<u>1,438</u>	<u>3,412</u>
Net cash provided by investing activities	1,438	3,412
Cash flows from financing activities:		
Repayment of bank debt	(741)	(1,034)
Proceeds from bank debt	710	-
Contributions restricted for long-term investment	37	240
	<u>6</u>	<u>(794)</u>
Net cash provided by (used in) financing activities	6	(794)
Change in cash and cash equivalents	170	(1,193)
Cash and cash equivalents as of beginning of year	<u>9,766</u>	<u>10,959</u>
Cash and cash equivalents as of end of year	\$ 9,936	\$ 9,766
Supplemental disclosure:		
Cash paid for interest	\$ 86	\$ 118

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 1 - The Association's Background and History

The Unitarian Universalist Association (the "Association") was formed in 1961, when the American Unitarian Association and the Universalist Church of America merged to form one entity with the purpose of creating an association of congregations in support of liberal religion. The Association's central office is at 25 Beacon Street in Boston, Massachusetts. District and other offices are located throughout the country. The Association is governed by a Board of Trustees consisting of District Trustees and at-large Trustees. An elected president, a board-appointed executive vice-president, a board-appointed treasurer and eleven other staff group directors form the leadership council, which manages the day-to-day business of the Association.

The primary purposes of the Association are to serve the needs of its member congregations, organize new congregations, extend and strengthen Unitarian Universalist institutions, and implement its principles. These financial statements only include the activity of the Association and not of its member congregations. The stewardship of assets and the fiscal management of the Association are composed of five business segments: Current, Beacon Press, Congregational Properties and Loan Fund (CPLF), and Unitarian Universalist Common Endowment Fund (UUCEF). The Current section manages the general operations of the Association including fundraising and core program administration. General Assembly is the annual gathering of Association congregation delegates organized to conduct the business of the Association. Beacon Press is the Association's trade publishing group. CPLF provides loans and loan guarantees to Association congregations. UUCEF is the endowment fund which holds assets of the Association and Association congregations electing to hold assets alongside the Association.

Note 2 - Summary of Significant Accounting Policies

Basis of Financial Statement Presentation

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

Unrestricted net assets – represent those assets that the Association may use at its discretion as well as accumulated unspent gains related to a trust whose income is unrestricted.

Temporarily restricted net assets – result from contributions subject to donor-imposed use or time related restrictions. Temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions in the period in which the donor-imposed stipulation is met or that the stipulated time restrictions have passed. Net appreciation (depreciation) of permanently restricted long-term investments is recognized within the temporarily restricted net asset category until such monies are available for expenditure under the Association's spending policy and a qualifying expenditure is incurred unless otherwise directed by the underlying arrangements with the donor in accordance with law. Charitable lead trusts, in which a donor establishes and funds a trust with distributions to be made to the Association over a specified period no matter what duration, are categorized as temporarily restricted net assets.

Permanently restricted net assets – result from contributions which stipulate that the resources be maintained permanently by the Association. Generally, the donors of these assets permit the Association to use or expend part or all of the returns derived from the donated assets for general or specific purposes.

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Basis of Financial Statement Presentation (Continued)

Fundraising support, gifts and bequests are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed time and/or purpose restrictions. If time and/or purpose restrictions are associated with support, these resources are accounted for as temporarily or permanently restricted support as applicable. If a restriction on a gift is fulfilled in the same time period in which the contribution is received, the contribution is reported as an unrestricted contribution. Expenses are reported as decreases in unrestricted net assets.

Amounts reported as nonoperating in the statement of changes in net assets include investment return net of amounts authorized for operations and other miscellaneous nonrecurring events or activities such as contributions of long-lived assets, contributions of cash or other assets that must be used to acquire long-lived assets, changes in value of certain split-interest agreements, and postretirement benefit plan expense.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates included in the financial statements relate to the allowance for doubtful accounts and pledges receivable, fair value of certain investments as well as funds held in trust by others and split-interest agreements, allowance for doubtful loans, asset retirement obligations, accumulated postretirement benefit obligation, and the allocation of common expenses over program functions.

Cash and Cash Equivalents

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

Accounts Receivable

Accounts receivable are carried at their net realizable value. Management estimates the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible and recoveries of previously written off receivables are recorded as revenue when received.

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Contributions and Pledges Receivable

Unconditional promises to give are recorded at fair value when initially pledged. Initial recording for pledges expected to be collected in one year or more is arrived at by using the present value of a risk adjusted rate to account for the inherent risk associated with expected future cash flows. The initially recorded fair value is considered a Level 2 fair value approach. Amortization of the discount is included in gift and contribution revenue. Unconditional promises to give are periodically reviewed to estimate an allowance for doubtful collections. Management estimates the allowance by review of historical experience and a specific review of collection trends that differ from plans on individual accounts. Conditional promises to give are not included as support until the conditions are substantially met.

Inventory

Finished goods inventories, consisting primarily of books, are stated at the lower of weighted average cost or market. Outside costs related to preparing a manuscript for printing are capitalized over the first printing of the book.

Investments

Investments are reported at fair value. Fair value is determined as per the fair value policies described later in this section. Interest, dividends and net gains or losses on investments are reported as increases or decreases in permanently restricted net assets if the terms of the original gift require that they be applied to the principal of a permanent endowment fund; as increases or decreases in temporarily restricted net assets if the terms of the gift and/or relevant state law impose restrictions on the current use of the income or net gains and losses; and as increases or decreases in unrestricted net assets in all other cases.

The Association provides for the opportunity for member congregations to invest their funds utilizing the professional investment management, administration and reporting capabilities. The funds are operated much like a mutual fund with the investments of the Association and member congregations being co-mingled such that each participant will share in the returns on the funds in pro-rata relationship to their units of ownership. New units are issued when new monies are to be invested, while redemptions reduce units outstanding. The net asset value per unit is adjusted monthly based on underlying changes in the fair value of investments.

Fair Value Measurements

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

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Fair Value Measurements (Continued)

technique or in accordance with net asset value practical expedient rules, which allow for either Level 2 or Level 3 depending on lock up and notice periods associated with underlying funds. Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

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

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Level 2 also includes investments accounted for under the net asset practical expedient with lock up periods of 90 days or less.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation. Level 3 also includes investments accounted for under the net asset value practical expedient with lock up periods greater than 90 days.

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

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

Funds Held in Trust by Others

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

A major portion of funds held in trust by others are charitable lead trusts established by Jonathan Holdeen (the Holdeen Trusts) in which the Association has an irrevocable right to the trust income for periods of 500 or 1,000 years after which the assets revert to the Commonwealth of Pennsylvania. Under the terms of the Holdeen Trusts' instruments, the income is to be used primarily for support of the Holdeen India Program and

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Funds Held in Trust by Others (Continued)

other charities designated by the Association's Board of Trustees. Given the long-term nature of this arrangement, the beneficial interest was determined to be equal to the fair value of the assets for reporting purposes.

Split-Interest Agreements

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

Loans to Member Congregations

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

Property and Equipment

Land, buildings, plant renovations and repairs, and equipment are stated at cost at the date of acquisition or renovation or at fair market value at the date of donation in the case of gifts. Fair value of donated property and equipment is effectively recorded using a Level 3 market approach when applicable. Minor renovations and repairs are charged to operations and maintenance as incurred. Depreciation of plant and equipment is computed on a straight-line basis over the expected lives of the respective assets.

Revenue Recognition and Royalty Advances from Publishing Activities

Revenue is recorded upon shipment net of estimated returns.

Royalty advances are negotiated on a contract-by-contract basis and are recorded as other assets when paid. As sales occur, royalty advances are reduced. Write-offs of advances are recorded when it appears that advances are not expected to be recovered from future sales.

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Outstanding Legacies

From time to time, the Association is named as a beneficiary under various wills and trust agreements, the total realizable amounts of which are not immediately determinable. Such bequests are recorded only when there is an irrevocable right to the bequest and the proceeds are determinable.

Income Taxes

The Association is a tax-exempt church organization as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is generally exempt from income taxes pursuant to Section 501(a) of the Code.

Uncertain Tax Positions

The Association accounts for the effect of any uncertain tax positions based on a “more likely than not” threshold to the recognition of the tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a “cumulative probability assessment” that aggregates the estimated tax liability for all uncertain tax positions. The Association has a number of tax positions, none of which result in an uncertainty requiring recognition. The Association is not currently under examination by any taxing jurisdiction. As a tax-exempt church related organization, the Association is exempt from filing certain non-profit filings, and accordingly, there are no returns currently open for examination.

Functional Expense Allocation

Costs have been allocated to functional classifications based on percentage of effort, usage, square footage and other criteria. Accordingly, costs and expenses have been allocated to the benefiting function using various assumptions and estimates.

Fundraising Expenditures

Total fundraising costs were \$1,099 and \$1,011 for the years ended June 30, 2012 and 2011, respectively, and is included in stewardship and development expense in the statement of changes in net assets.

Conditional Asset Retirement Obligations

The Association applies the principles of accounting for conditional asset retirement obligations to its retirement obligations. Under these principles, the obligation to perform asset retirement activity may be unconditional even though uncertainty exists about the timing and/or method of settlement. Accordingly, the Association is required to recognize a liability for the fair value of conditional asset retirement obligations if the fair value of the liability is reasonably estimated. The Association has recorded a liability of \$562 and \$539 for the years ended June 30, 2012 and 2011, respectively, for its estimated asset retirement obligations, which is included in accrued expenses.

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Reclassifications

Certain 2011 amounts have been reclassified to conform to the 2012 presentation. There was no change to total net assets as a result of the reclassifications.

Subsequent Events

The Association has evaluated subsequent events through October 29, 2012, the date the financial statements were authorized to be issued.

Note 3 - Pledges Receivable

Pledges receivable relates to amounts received as part of the Now is the Time Campaign. The rate used to discount pledges receivable was 4% and 6% as of June 30, 2012 and 2011, respectively.

Pledges receivable consisted of the following as of June 30, 2012 and 2011:

	<i>2012</i>	<i>2011</i>
Amounts due in:		
Less than one year	\$ 100	\$ 271
Two to five years	87	97
Over five years	7	4
	194	372
Less allowance for uncollectible pledges and present value discount	(25)	(138)
Pledges receivable, net	\$ 169	\$ 234

Note 4 - Investments

Total investment return from working capital investments, long-term investments and restricted cash consisted of the following for the years ended June 30, 2012 and 2011:

	<i>2012</i>	<i>2011</i>
Investment income	\$ 1,996	\$ 2,818
Net realized gain on investments	809	2,511
Net change in unrealized gain (loss) on investments	(2,737)	10,678
Less investment fee expense	(618)	(820)
Total return	\$ (550)	\$ 15,187

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 4 - Investments (Continued)

Investments as of June 30, 2012 and 2011 are recorded in the statement of financial position by net asset class as follows:

	<i>2012</i>	<i>2011</i>
Unrestricted	\$ 7,179	\$ 6,276
Temporarily restricted	21,030	24,820
Permanently restricted	<u>42,154</u>	<u>42,811</u>
Total investments - UUA	70,363	73,907
Obligations for funds managed for others (member congregations)	<u>67,181</u>	<u>62,579</u>
Total	\$ <u><u>137,544</u></u>	\$ <u><u>136,486</u></u>

Following is a reconciliation of total investment return to amounts reported in the statement of changes in net assets for the years ended June 30, 2012 and 2011:

	<i>2012</i>	<i>2011</i>
Investment return authorized for operations	\$ 3,577	\$ 3,665
Other investment return - operating activities	377	405
Investment return, net of amounts authorized for operations - nonoperating - unrestricted	(1,351)	4,015
Investment return - nonoperating - temporarily restricted	<u>(3,153)</u>	<u>7,102</u>
Total return	\$ <u><u>(550)</u></u>	\$ <u><u>15,187</u></u>

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 5 - Fair Values of Financial Instruments

The following table presents financial assets at June 30, 2012 that the Association measures fair value on a recurring basis, by level, within the fair value hierarchy:

<i>UUCEF Investments</i>				
<i>2012</i>				
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Equity securities:				
Domestic securities	\$ 28,349	\$ -	\$ -	\$ 28,349
Foreign securities	24,284	8,334	-	32,618
Fixed income funds:				
Domestic funds	19,971	6,950	-	26,921
Foreign funds	7,024	-	-	7,024
Global asset allocation funds	10,585	24,138	-	34,723
Hedge fund of funds	-	-	6,716	6,716
Community investments	-	1,113	-	1,113
Cash and equivalents	80	-	-	80
Total UUCEF investments	\$ 90,293	\$ 40,535	\$ 6,716	\$ 137,544
 <i>Other Investments</i>				
<i>2012</i>				
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Split-interest agreements:				
Charitable gift annuity	\$ 7,072	\$ -	\$ -	\$ 7,072
Charitable remainder trust	-	-	1,507	1,507
Pooled income funds	2,856	-	-	2,856
	9,928	-	1,507	11,435
Funds held by others:				
Holdeen trusts	-	-	30,274	30,274
Outside trusts	-	-	10,009	10,009
	-	-	40,283	40,283
Total split-interest agreements and funds held by others	\$ 9,928	\$ -	\$ 41,790	\$ 51,718

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 5 - Fair Values of Financial Instruments (Continued)

The following table presents financial assets at June 30, 2011 that the Association measures fair value on a recurring basis, by level, within the fair value hierarchy:

<i>UUCEF Investments</i>				
<i>2011</i>				
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Equity securities:				
Domestic securities	\$ 27,534	\$ 5,340	\$ -	\$ 32,874
Foreign securities	21,995	8,728	-	30,723
Fixed income funds:				
Domestic funds	18,213	6,496	-	24,709
Foreign funds	6,683	-	-	6,683
Global asset allocation funds	9,976	24,060	-	34,036
Hedge fund of funds	-	-	6,316	6,316
Community investments	-	1,064	-	1,064
Cash and equivalents	81	-	-	81
Total UUCEF investments	\$ 84,482	\$ 45,688	\$ 6,316	\$ 136,486
 <i>Other Investments</i>				
<i>2011</i>				
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Split-interest agreements:				
Charitable gift annuity	\$ 7,991	\$ -	\$ -	\$ 7,991
Charitable remainder trust	-	-	1,630	1,630
Pooled income funds	3,099	-	-	3,099
	<u>11,090</u>	<u>-</u>	<u>1,630</u>	<u>12,720</u>
Funds held by others:				
Holdeen trusts	-	-	31,786	31,786
Outside trusts	-	-	10,416	10,416
	<u>-</u>	<u>-</u>	<u>42,202</u>	<u>42,202</u>
Total split-interest agreements and funds held by others	\$ 11,090	\$ -	\$ 43,832	\$ 54,922

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 5 - Fair Values of Financial Instruments (Continued)

The Association owns interests in each alternative investment fund rather than in the securities underlying each fund, and therefore it is generally required to consider such investments as Level 2 or 3 for purposes of applying the fair value measurement standard, even though the underlying securities may not be difficult to value or may be readily marketable. Also, because of the use of net asset valuation as a practical expedient to estimate fair value, the level in the fair value hierarchy in which each fund's fair value measurement is classified is based primarily on the Association's ability to redeem interest in the fund at or near the date of the statement of financial position. Accordingly, the inputs or methodology used for valuing or classifying investments for financial reporting purposes are not necessarily an indication of the risk associated with investing in those investments or a reflection on the liquidity of each fund's underlying assets and liabilities.

The investments in Levels 2 and 3 are substantially valued using net asset value as a practical expedient.

<i>Level 3 Roll Forward</i>				
<i>2012</i>				
	<i>Hedge Fund of Funds</i>	<i>Holdeen Trusts</i>	<i>Outside Trusts</i>	<i>Charitable Remainder Trust</i>
Beginning balance	\$ 6,316	\$ 31,786	\$ 10,416	\$ 1,630
Additions/purchases	699	-	-	-
Distributions/sales	-	(1,248)	(326)	-
Unrealized loss	(299)	(264)	(81)	(123)
Ending balance	\$ 6,716	\$ 30,274	\$ 10,009	\$ 1,507

<i>Level 3 Roll Forward</i>				
<i>2011</i>				
	<i>Hedge Fund of Funds</i>	<i>Holdeen Trusts</i>	<i>Outside Trusts</i>	<i>Charitable Remainder Trust</i>
Beginning balance	\$ 5,620	\$ 27,263	\$ 9,294	\$ 1,417
Additions/purchases	22	-	-	-
Distributions/sales	(62)	(1,248)	(314)	-
Unrealized gain	736	5,771	1,436	213
Ending balance	\$ 6,316	\$ 31,786	\$ 10,416	\$ 1,630

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 5 - Fair Values of Financial Instruments (Continued)

The Association invests in certain entities that calculate net asset value per share in accordance with guidance relative to investment companies, and these investments are reported at fair value based on the net asset value per share as reported by the investee. These investments are measured at fair value using Level 2 or Level 3 inputs. Investments are categorized as Level 2 instruments when the Association has the ability to redeem its investment in the entity at net asset value per share at year-end or within 90 days of year-end. Investments are categorized as Level 3 instruments when the Association cannot redeem its investment within 90 days of year-end. A summary of the significant categories of such investments and their attributes is as follows as of June 30, 2012:

	<i>Fair Value</i>	<i>Unfunded Commitments</i>	<i>Redemption Frequency (if Currently Eligible)</i>	<i>Redemption Notice Period</i>
	<i>(in thousands)</i>			
Global asset allocation funds	\$ 24,138	\$ -	Monthly	5 days; prior month
Foreign equity securities	8,334	-	Monthly	approx. 4 days
Hedge fund-of-funds	6,716	-	Quarterly	Max w/d = 50%
Domestic fixed income funds	6,950	-	Bi-monthly	30 days
Community investments	<u>1,113</u>	<u>-</u>	1-5 Years	Not applicable
	<u><u>\$ 47,251</u></u>	<u><u>\$ -</u></u>		

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 5 - Fair Values of Financial Instruments (Continued)

A summary of the significant categories of such investments and their attributes is as follows as of June 30, 2011:

	<i>Fair Value</i>	<i>Unfunded Commitments</i>		<i>Redemption Frequency (if Currently Eligible)</i>	<i>Redemption Notice Period</i>
	<i>(in thousands)</i>				
Global asset allocation funds	\$ 24,060	\$ -		Monthly	5 days; prior month
Domestic equity securities	5,340	-		Annual	90 days; up to 12 months
Foreign equity securities	8,728	-		Monthly	approx. 4 days
Hedge fund-of-funds	6,316	-		Quarterly	Max w/d = 50%
Domestic fixed income funds	6,496	-		Bi-monthly	30 days
Community investments	1,064	-		1-5 Years	Not applicable
	\$ 52,004	\$ -			

Global Asset Allocation Fund - Global Asset Allocation is an investment strategy that attempts to exploit short-term market inefficiencies by establishing positions in an assortment of markets with a goal to profit from relative movements across those markets. This top-down strategy focuses on general movements in the market rather than on performance of individual securities.

Domestic Equity Securities - This fund invests in and strives to create long-term growth in publicly traded, underperforming companies that it believes are undervalued in the marketplace. The fund seeks to engage the management, board of directors and shareholders of a portfolio company in a productive dialogue designed to build a consensus for positive change to improve shareholder value.

Foreign Equity Securities - The fund includes investments in overseas markets that expose the endowment to the global economy, providing substantial diversification along with opportunities to earn above-market returns through active management.

Hedge Funds-of-Funds - Investments in a broadly diversified portfolio of hedge funds. Underlying manager strategies vary but include long/short equity, event driven, merger arbitrage, distressed and multi-strategy.

Domestic Fixed Income Funds - Fixed income assets generate stable flows of income, providing greater certainty of nominal cash flow than any other endowment asset class. The bond portfolio exhibits a low covariance with other asset classes and serves as a hedge against financial accidents or periods of unanticipated deflation.

Community Investments - Includes investments in credit unions, non-profit banks, and funds that make loans for affordable housing and start-up enterprises in low-income communities. Such programs provide capital and technical expertise to persons and groups that are often under served by traditional lenders. These investments are typically structured as notes with below-market interest rates.

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 5 - Fair Values of Financial Instruments (Continued)

Funds allow for managers to limit normal redemptions under certain circumstances which could impact the ultimate availability of funds. In addition, funds in trust are controlled by outside organizations and thus are not redeemable.

Fair values of financial instruments for which the Association did not elect the fair value option include cash and cash equivalents, accounts receivable, pledges receivable, loans to member congregations, accounts payable, obligations under split-interest agreements, annuity liabilities and bank debt. Management believes the carrying value approximates fair value for items of short-term nature. For other instruments, management concluded that the cost of obtaining such fair value information outweighed the benefit to be derived. The fair values of such instruments have been derived, in part, by management's assumptions under Level 2 fair value methods. Different assumptions could significantly affect these estimated fair values. Accordingly, the net realizable values could be materially different from the estimated fair value. In addition, the estimates are only indicative of the value of individual financial instruments and should not be considered an indication of the fair value of the Association.

Note 6 - Loans to Member Congregations

Loans to member congregations are for capital purposes, primarily for buildings.

	<i>2012</i>	<i>2011</i>
Mortgage loans to member congregations at interest rates from 0% to 5.25% due through 2035	\$ <u>7,904</u>	\$ <u>7,814</u>
Less allowance for uncollectible loans:		
Beginning of year	(375)	(390)
(Increases) decreases	<u>-</u>	<u>15</u>
End of year	<u>(375)</u>	<u>(375)</u>
Net	\$ <u>7,529</u>	\$ <u>7,439</u>

Loans to member congregations are written for revolving 7 year terms, with the total term ranging from 15 to 25 years. Maturities of mortgaged loans to member congregations, reflecting the extended term, are as follows at June 30, 2012:

2013	\$	-
2014		186
2015		118
2016		416
2017		11
Thereafter		<u>7,173</u>
Total	\$	<u>7,904</u>

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 6 - Loans to Member Congregations (Continued)

Only a small portion of the loans are non-interest bearing, and accordingly, management determined that applying a present value to such loans would not result in a material difference in reported amounts.

At June 30, 2012 and 2011, the following amounts were past due under loans to member congregations:

<i>June 30,</i>	<i>Loans Past Due</i>		<i>Loans in Default</i>		<i>Total Past Due/Default</i>		<i>Current</i>		<i>Total Receivable</i>	
2012	\$	6	\$	176	\$	182	\$	7,722	\$	7,904
2011	\$	6	\$	176	\$	182	\$	7,632	\$	7,814

Note 7 - Property and Equipment

Property and equipment was composed of the following as of June 30:

	<i>2012</i>	<i>2011</i>
Land, buildings and improvements	\$ 10,666	\$ 10,552
Computer equipment	1,320	1,129
Office furniture and fixtures	842	823
	<hr/>	<hr/>
	12,828	12,504
Less accumulated depreciation	<u>(7,000)</u>	<u>(6,495)</u>
Property and equipment, net	<u>\$ 5,828</u>	<u>\$ 6,009</u>

Note 8 - Bank Debt

The Association has the following bank debt at June 30:

	<i>2012</i>	<i>2011</i>
Member lending credit line	\$ 1,573	\$ 1,504
Mortgage note	367	467
	<hr/>	<hr/>
Total bank debt	<u>\$ 1,940</u>	<u>\$ 1,971</u>

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 8 - Bank Debt (Continued)

Member Lending Credit Line

The member lending credit line is a revolving line of credit with an aggregate borrowing limit of \$6,000 which expires on December 31, 2014, at which time it will be reviewed for renewal. The term expiration and renewal apply to the unused balance of the credit line. Draws outstanding at term expiration date will remain outstanding and payable in accordance with current agreement terms. This line of credit is used to provide mortgage loan financing to member congregations according to the existing lending standards used by the Association. Draws on the line of credit bear interest at various rates between 3.09% and 5.25%, and mature at various dates through November 30, 2018.

Line of Credit

The Association also has a \$500 line of credit available with a bank of which no amounts were outstanding at June 30, 2012 and 2011. The line of credit bears interest at the bank's base lending rate with a floor of 3.99% during the draw period as defined by the agreement. The line is collateralized by cash deposits and certain of the Association's real estate. The line contains certain financial covenants and expires on December 31, 2012 at which time it will be reviewed for renewal.

Mortgage Note

During 2012, the Association refinanced its mortgage note which bears interest at a fixed rate per annum equal to 3.99%. The fixed rate was 5.78% for June 30, 2011. The mortgage note is payable quarterly with equal principal installments of \$33 plus interest with a final due date of any remaining principal at December 31, 2014. The agreement contains financial and nonfinancial covenants and is collateralized by the Association's real estate mortgages on 39-41 Mount Vernon Street, Boston, Massachusetts and 6 and 7 Mount Vernon Place, Boston, Massachusetts.

Interest expense and cash paid was \$86 and \$118 for the years ended June 30, 2012 and 2011, respectively.

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 9 - Net Assets and Endowment Matters

Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following as of June 30, 2012 and 2011:

	<i>2012</i>	<i>2011</i>
Accumulated unspent gains:		
Unrestricted	\$ <u>5,652</u>	\$ <u>6,412</u>
Purpose restrictions:		
Split-interest agreements	1,814	2,073
Building loan fund	201	201
Scholarships for ministerial students	5,157	6,372
Ministerial aid	7,210	7,807
Other programs	<u>3,304</u>	<u>4,202</u>
Total	<u>17,686</u>	<u>20,655</u>
Time and purpose restrictions:		
Funds held in trust by others - Holdeen trusts	30,274	31,786
Amounts restricted by donors for programs	<u>1,788</u>	<u>599</u>
Total	<u>32,062</u>	<u>32,385</u>
Total	\$ <u><u>55,400</u></u>	\$ <u><u>59,452</u></u>

Net assets released from temporarily restricted net assets were as follows for the years ended June 30, 2012 and 2011:

	<i>2012</i>	<i>2011</i>
Ministerial programs	\$ <u><u>2,799</u></u>	\$ <u><u>2,681</u></u>

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 9 - Net Assets and Endowment Matters (Continued)

Permanently Restricted Net Assets

Permanently restricted net assets as of June 30, 2012 and 2011 consisted of the following:

	<i>2012</i>	<i>2011</i>
Restricted as to purpose:		
General operating	\$ 27,248	\$ 27,248
Scholarships for ministerial students	11,544	11,520
Building loan fund	4,467	4,412
Other programs	3,945	3,988
Amounts restricted by donors for programs	28	55
Funds held in trust by others for restricted purposes	10,009	10,416
Split-interest agreement	53	61
Wilton Peace Prize Fund	55	55
	<hr/>	<hr/>
Total	\$ <u>57,349</u>	\$ <u>57,755</u>

Endowment

The Association's endowment consists of approximately 120 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

A significant portion of the permanently restricted and unrestricted net assets is a trust that under the following circumstances could result in termination of the trust and the return of such funds: the Association declares bankruptcy; terminates or liquidates its existence or ceases to operate as a religious, charitable or educational organization.

Interpretation of Relevant Law

The Board of Trustees of the Association has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), Chapter 180A of the general laws of the Commonwealth of Massachusetts, as requiring the preservation of the historic dollar value of the original gifts to donor-restricted endowment funds absent explicit donor stipulations to the contrary. The Association classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, if any. Collectively, these amounts are referred to as the historic dollar value of the fund.

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 9 - Net Assets and Endowment Matters (Continued)

Interpretation of Relevant Law (Continued)

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Association and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Association
- (7) The investment policies of the Association

Changes in endowment net assets and those functioning as endowment net assets for the fiscal year ended June 30, 2012 are as follows:

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Endowment net assets, beginning of year	\$ <u>8,933</u>	\$ <u>24,794</u>	\$ <u>42,756</u>	\$ <u>76,483</u>
Investment return:				
Investment income (net of expenses)	325	533	-	858
Net depreciation (realized and unrealized)	<u>(732)</u>	<u>(1,196)</u>	<u>-</u>	<u>(1,928)</u>
Total investment return	(407)	(663)	-	(1,070)
Contributions	358	1	37	396
Investment return authorized for operations	(1,576)	(2,837)	(56)	(4,469)
Other net asset transfers	<u>(20)</u>	<u>28</u>	<u>-</u>	<u>8</u>
Endowment net assets, end of year	\$ <u><u>7,288</u></u>	\$ <u><u>21,323</u></u>	\$ <u><u>42,737</u></u>	\$ <u><u>71,348</u></u>

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 9 - Net Assets and Endowment Matters (Continued)

Endowment net asset composition by type of fund consists of the following at June 30, 2012:

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Donor-imposed endowment funds	\$ (200)	\$ 21,323	\$ 42,737	\$ 63,860
Unrestricted quasi endowment funds	<u>7,488</u>	<u>-</u>	<u>-</u>	<u>7,488</u>
Total endowed net assets	\$ <u>7,288</u>	\$ <u>21,323</u>	\$ <u>42,737</u>	\$ <u>71,348</u>

Changes in endowment net assets and those functioning as endowment net assets for the fiscal year ended June 30, 2011 are as follows:

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Endowment net assets, beginning of year	\$ <u>4,321</u>	\$ <u>17,790</u>	\$ <u>42,808</u>	\$ <u>64,919</u>
Investment return:				
Investment income (net of expenses)	301	460	-	761
Net appreciation (realized and unrealized)	<u>5,169</u>	<u>8,020</u>	<u>-</u>	<u>13,189</u>
Total investment return	5,470	8,480	-	13,950
Contributions	2	6	240	248
Investment return authorized for operations	(1,131)	(1,298)	-	(2,429)
Other net asset transfers	<u>271</u>	<u>(184)</u>	<u>(292)</u>	<u>(205)</u>
Endowment net assets, end of year	\$ <u>8,933</u>	\$ <u>24,794</u>	\$ <u>42,756</u>	\$ <u>76,483</u>

Endowment net asset composition by type of fund consists of the following at June 30, 2011:

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Donor-imposed endowment funds	\$ (180)	\$ 24,794	\$ 42,756	\$ 67,370
Unrestricted quasi endowment funds	<u>9,113</u>	<u>-</u>	<u>-</u>	<u>9,113</u>
Total endowed net assets	\$ <u>8,933</u>	\$ <u>24,794</u>	\$ <u>42,756</u>	\$ <u>76,483</u>

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 9 - Net Assets and Endowment Matters (Continued)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Association to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$200 and \$180 as of June 30, 2012 and 2011, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

Return Objectives and Risk Parameters

The Association has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Association must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that match or exceed a custom benchmark weighted by asset class while assuming a moderate level of investment risk. The Association expects its endowment funds, over time, to provide an average rate of return of approximately 7.5% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Association relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Association targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Association's spending policy determines the amount made available for expenditure from the Association's endowment in a fiscal year using a calculation based on a weighted average of the prior year's spending adjusted for inflation (weighted at 70%), and 5.5% of the trailing four-quarter average market value of the endowment as of the previous December (weighted at 30%). However, the spending rate must be at least 4.5% and not more than 6.25% of the trailing four-quarter average market value of the endowment as of the previous December.

In establishing this policy, the Association considered the long-term expected return on its endowment. Accordingly, over the long term, the Association expected the current spending policy to allow its endowment to maintain its value adjusted for inflation. This was consistent with the Association's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts.

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 10 - Leases and Other Commitments

Leases

The Association leases certain office equipment and office space under lease agreements classified as operating leases. These leases provide for various escalations for operating costs. Future minimum rental payments required under operating leases and office rental agreements that have initial or remaining noncancelable terms in excess of one year as of June 30, 2012 were:

2013	\$	220
2014		215
2015		174
2016		<u>7</u>
Total	\$	<u>616</u>

Rental expense charged to operations was \$203 and \$201 for the years ended June 30, 2012 and 2011, respectively.

Guarantees

The Association guarantees certain loans extended by various lending institutions to member congregations. The outstanding guarantees were \$1,119 and \$990 as of June 30, 2012 and 2011, respectively, on loans totaling \$2,493 and \$2,235, respectively. The loan guarantees were obtained by the member congregations via the Association's loan guarantee program. The Association's policy is to guarantee 50% of the outstanding loan principal up to a maximum of \$450.

Insurance

The Association operates a self-funded medical health insurance program for Association employees and the employees of congregations and affiliates. The Association is administrator and sponsor of the plan. The Trustees of the plan determine premiums to be charged and use a service organization to process benefit payments. In the event that assets accumulated in the trust are insufficient to cover the expected benefit payments, the Association has provided the plan with a guarantee to satisfy any unfunded obligations of the trust. As of June 30, 2012 and 2011, the plan was sufficiently funded to cover all actuarially determined obligations. The Association maintains stop loss insurance coverage that will pay claims for an individual once a \$200 calendar year threshold is reached, up to a lifetime maximum of \$2,000. In addition, aggregate protection is provided for incurred claims in a calendar year that exceed 125% of expected claims up to a maximum of \$1,000 per year.

Employment Related Agreements

The Association has an outstanding loan receivable from an employee in the amount of \$200 as of June 30, 2012 and 2011. The loan is due in full upon departure, and interest of 5% is paid annually.

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

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 10 - Leases and Other Commitments (Continued)

Legal

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

Note 11 - Benefit Plans

The Association has a qualified defined contribution retirement plan covering all employees who have satisfied initial age and hours requirements. The Association makes a pension contribution of 11% of employee salary for all employees who have elected to participate in the plan upon completing one year of employment. Employees may make additional voluntary contributions to the plan up to the established IRS limits. Contributions to the plan are fully vested immediately. Retirement plan costs were \$842 and \$776 for the years ended June 30, 2012 and 2011, respectively.

The Association provides a healthcare retirement plan (the Plan) to certain employees retired prior to 2002, as well as to certain active employees who were over age 45 on April 1, 2002. The measurement date used to determine benefit measures for the Plan is June 30.

The following table presents the Plan's funded status at June 30, 2012 and 2011:

	<i>2012</i>	<i>2011</i>
Changes in benefit obligation:		
Benefit obligation at beginning of year	\$ 1,992	\$ 1,663
Service cost	5	5
Interest cost	106	106
Actuarial (gain) loss	-	419
Benefits paid	<u>(152)</u>	<u>(201)</u>
Benefit obligation at end of year	<u>1,951</u>	<u>1,992</u>
Change in plan assets:		
Employer contribution	152	201
Benefits paid	<u>(152)</u>	<u>(201)</u>
Fair value of plan assets at end of year	<u>-</u>	<u>-</u>
Accrued postretirement benefit obligation	\$ <u><u>1,951</u></u>	\$ <u><u>1,992</u></u>

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 11 - Benefit Plans (Continued)

Assumptions used to determine the benefit obligation as of June 30, 2012 and 2011 are as follows:

Discount rate	5.00%
Rate of increase in healthcare costs	8.00

The ultimate healthcare cost trend rate assumption of 5.00% used to calculate the benefit obligation is expected to be reached by 2017.

A one-percentage-point change in assumed healthcare cost trend rates would have the following effects as of June 30, 2012:

	<i>One- Percentage- Point Increase</i>	<i>One- Percentage- Point Decrease</i>
Effects on total service and interest cost components for 2012	\$ 123	\$ 102
Effects on year-end 2012 accumulated postretirement benefit obligation	2,169	1,839

The following expected future benefit payments are as follows as of June 30, 2012:

Year Ending June 30,

2013	\$ 161
2014	168
2015	170
2016	171
2017-2021	800

The expected benefits are based on the same assumptions used to measure the Association's benefit obligation at June 30, 2012 and 2011.

Net periodic postretirement benefit cost reported as expense in the statement of changes in net assets included the following components:

	<i>2012</i>	<i>2011</i>
Service cost	\$ 5	\$ 5
Interest cost	<u>106</u>	<u>106</u>
Net periodic benefit cost	\$ <u>111</u>	\$ <u>111</u>

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 11 - Benefit Plans (Continued)

Assumptions used to determine the net periodic postretirement benefit cost as of June 30, 2012 and 2011 are as follows:

Discount rate	6.55%
Rate of increase in healthcare costs	7.75

The ultimate healthcare cost trend rate assumption of 5.25% used to calculate the net periodic postretirement benefit cost is expected to be reached by 2014.

Note 12 - Programs Expenses

The Association's programs expenses and costs in 2012 and 2011 were as follows:

	<i>2012</i>	<i>2011</i>
Costs of goods sold and publishing expenses	\$ 6,115	\$ 5,607
Ministry and faith development	5,807	5,740
Congregational life	5,182	5,031
Other programs	4,935	4,488
Communications	2,346	2,335
Multicultural growth & witness	<u>1,391</u>	<u>1,467</u>
Total	\$ <u>25,776</u>	\$ <u>24,668</u>

Supplemental Schedules

UNITARIAN UNIVERSALIST ASSOCIATION

Supplemental Schedule of Assets by Business Segment

June 30, 2012

(in thousands)

	<i>Current</i>	<i>General Assembly</i>	<i>Beacon Press</i>	<i>CPLF</i>	<i>UUCEF</i>	<i>Eliminations</i>	<i>Total</i>
Current assets:							
Cash and cash equivalents	\$ 4,281	\$ 275	\$ 1,689	\$ 62	\$ 3,629	\$ -	\$ 9,936
Investments	80	-	73	-	137,464	(73)	137,544
Accounts receivable, net	1,232	-	676	-	-	-	1,908
Pledges receivable, net	169	-	-	-	-	-	169
Inventories	445	-	1,124	-	-	-	1,569
Amounts due from other business segments	8	-	-	-	-	(8)	-
Other current assets	101	-	-	-	17	-	118
Total current assets	6,316	275	3,562	62	141,110	(81)	151,244
Funds held in trust by others	40,283	-	-	-	-	-	40,283
Funds held in support of split-interest agreements	11,435	-	-	-	-	-	11,435
Other assets	200	-	-	-	-	-	200
Loans to member congregations, net	-	-	-	7,529	-	-	7,529
Property and equipment, net	5,821	-	7	-	-	-	5,828
Royalty advances	-	-	707	-	-	-	707
Total assets	\$ 64,055	\$ 275	\$ 4,276	\$ 7,591	\$ 141,110	\$ (81)	\$ 217,226

UNITARIAN UNIVERSALIST ASSOCIATION

Supplemental Schedule of Liabilities and Net Assets by Business Segment

June 30, 2012

(in thousands)

	<i>Current</i>	<i>General Assembly</i>	<i>Beacon Press</i>	<i>CPLF</i>	<i>UUCEF</i>	<i>Eliminations</i>	<i>Total</i>
Current liabilities:							
Accounts payable and accrued expenses	\$ 4,079	\$ -	\$ 1,330	\$ 3	\$ 2,568	\$ -	\$ 7,980
Current portion of annuity liabilities	398	-	-	-	-	-	398
Current portion of bank debt	133	-	-	83	-	-	216
Amounts due to (from) other business segments	(8)	-	8	(5)	13	(8)	-
Total current liabilities	4,602	-	1,338	81	2,581	(8)	8,594
Bank debt	234	-	-	1,490	-	-	1,724
Annuity liability and deferred revenue	2,386	-	-	-	-	-	2,386
Assets held in trust for others	6,469	-	-	-	67,181	-	73,650
Accumulated postretirement benefit obligation	1,951	-	-	-	-	-	1,951
Total liabilities	15,642	-	1,338	1,571	69,762	(8)	88,305
Net assets:							
Unrestricted	4,491	275	2,800	1,407	7,288	(89)	16,172
Temporarily restricted	33,806	-	97	201	21,323	(27)	55,400
Permanently restricted	10,116	-	41	4,412	42,737	43	57,349
Total net assets	48,413	275	2,938	6,020	71,348	(73)	128,921
Total liabilities and net assets	\$ 64,055	\$ 275	\$ 4,276	\$ 7,591	\$ 141,110	\$ (81)	\$ 217,226

UNITARIAN UNIVERSALIST ASSOCIATION
Supplemental Schedule of Unrestricted Activities by Business Segment

For the Year Ended June 30, 2012

(in thousands)

	<i>Current</i>	<i>General Assembly</i>	<i>Beacon Press</i>	<i>CPLF</i>	<i>UUCEF</i>	<i>Eliminations</i>	<i>Total</i>
Operating:							
Support and revenue:							
Fundraising and gifts and bequests	\$ 12,658	\$ -	\$ 200	\$ -	\$ 358	\$ (254)	\$ 12,962
Net sales from publishing activities	997	-	5,403	-	-	-	6,400
Sales and administrative services	894	1,181	-	-	-	(367)	1,708
Investment return authorized for operations	3,557	-	-	20	(1,577)	1,577	3,577
Other investment income	-	-	4	373	-	-	377
Other income	4,984	-	289	-	-	-	5,273
Net assets released from restriction	2,714	85	-	-	-	-	2,799
Total support and revenue	25,804	1,266	5,896	393	(1,219)	956	33,096
Expenses:							
Board and volunteer leadership	497	-	-	-	-	-	497
Multicultural growth & witness	1,391	-	-	-	-	-	1,391
International	1,606	-	-	-	-	-	1,606
Congregational life	5,182	-	-	-	-	-	5,182
Ministry and faith development	5,807	-	-	-	-	-	5,807
UU Funding Program	1,200	-	-	-	-	-	1,200
Crisis Relief Program	678	-	-	-	-	-	678
Communications	2,346	-	-	-	-	-	2,346
Cost of goods sold and publishing expenses	306	-	5,809	-	-	-	6,115
Administration	1,667	-	-	-	-	-	1,667
Stewardship and development	1,946	-	-	-	-	-	1,946
Information technology services	1,331	-	-	-	-	-	1,331
Internal services	1,656	-	-	-	-	-	1,656
General assembly	-	1,451	-	-	-	-	1,451
Expenses associated with investment pools	-	-	-	296	-	(225)	71
Interest expense	-	-	-	63	-	-	63
Total expenses	25,613	1,451	5,809	359	-	(225)	33,007
Increase (decrease) in unrestricted net assets from operations	191	(185)	87	34	(1,219)	1,181	89
Nonoperating:							
Investment income	-	-	-	-	(407)	(944)	(1,351)
Increase in value of funds held in support of split-interest agreements and trusts	(74)	-	-	-	-	-	(74)
Postretirement benefit plan expense	-	-	-	-	-	-	-
Other releases and changes in net assets	(1,017)	-	-	-	(20)	-	(1,037)
Total decrease in net assets from nonoperating activities	(1,091)	-	-	-	(427)	(944)	(2,462)
Increase (decrease) in unrestricted net assets	\$(900)	\$(185)	\$ 87	\$ 34	\$(1,646)	\$ 237	\$(2,373)

UNITARIAN UNIVERSALIST ASSOCIATION

*Supplemental Schedule of Unitarian Universalist Common Endowment
Fund (UUCEF) Assets and Liabilities*

June 30, 2012

(in thousands)

Assets:		
Cash and cash equivalents	\$	3,629
Investments in securities		137,464
Other current assets		<u>17</u>
Total assets	\$	<u><u>141,110</u></u>
Liabilities:		
Distributions payable	\$	336
Uninvested principal		2,136
Accounts payable and accrued expenses		<u>109</u>
Total liabilities		2,581
Net UUCEF funds (equivalent to \$6.7277 per unit based on 20,590,791.1892 outstanding shares)		<u>138,529</u>
Total liabilities and net UUCEF funds	\$	<u><u>141,110</u></u>

UNITARIAN UNIVERSALIST ASSOCIATION

*Supplemental Schedule of UUCEF Operations**For the Year Ended June 30, 2012**(in thousands)*

Investment income	\$ <u>3,009</u>
Expenses:	
Investment manager fees	743
Consultant and other expenses	377
UUA administrative fees	266
Audit fees	<u>35</u>
Total expenses	<u>1,421</u>
Net investment income	<u>1,588</u>
Realized and unrealized gain (loss) from investments:	
Net realized gain from investments sold	1,507
Net change in unrealized appreciation	<u>(5,018)</u>
Net realized and unrealized loss from investments	<u>(3,511)</u>
Net decrease in UUCEF funds from operations	\$ <u><u>(1,923)</u></u>

UNITARIAN UNIVERSALIST ASSOCIATION

*Supplemental Schedule of UUCEF Changes in Net Assets**For the Year Ended June 30, 2012**(in thousands)*

Decrease in net UUCEF funds from operations:	
Net investment income	\$ 1,588
Net realized gain from investments sold	1,507
Net change in unrealized appreciation	<u>(5,018)</u>
Net decrease in net UUCEF funds from operations	(1,923)
Distributions to participants	(12,295)
Net increase in net UUCEF funds from participant transactions	<u>13,661</u>
Net decrease in net UUCEF funds	(557)
Net UUCEF funds:	
Beginning of year	<u>139,086</u>
End of year	\$ <u><u>138,529</u></u>

UNITARIAN UNIVERSALIST ASSOCIATION

*Supplemental Schedule of UUCEF Financial Highlights**For the Year Ended June 30, 2012**(For a unit of participation outstanding throughout the year)**(in thousands)*

Selected per unit data:

Net asset value - beginning of year	\$ 7.2287
Net investment income	0.0819
Net realized and unrealized loss from investments	<u>(0.1890)</u>
 Total from investment operations	 7.1216
 Distributions to participants	 <u>(0.3939)</u>
 Net asset value - end of year	 \$ <u><u>6.7277</u></u>
 Total return (%) (a)	 -0.50%
Ratio of expenses to net assets (%)	1.06%

- (a) The UUCEF rate of return is calculated by the Association's investment consultant in accordance with the Global Investment Performance Standards (GIPS) which take into account intra-period cash flows, distributions and the relative weighting of asset classes.

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to UUCEF Supplemental Schedules

June 30, 2012 and 2011

(Dollars in thousands)

Note 1 - Investment Transactions

Purchases and proceeds from sales of securities were \$30,380 and \$28,769, respectively, during the year ended June 30, 2012 and \$23,597 and \$20,517, respectively, for the year ended June 30, 2011.

Note 2 - Units of Participation

Participant transactions for UUCEF for the year ended June 30, 2012 were as follows:

	<i>Units</i>		<i>Amount</i>
Units issued	1,976,639	\$	13,661
Units redeemed	(1,586,561)		(10,958)
Reinvestments	959,868		6,410
	<u>1,349,946</u>	<u>\$</u>	<u>9,113</u>

Participant transactions for UUCEF for the year ended June 30, 2011 were as follows:

	<i>Units</i>		<i>Amount</i>
Units issued	1,370,586	\$	9,633
Units redeemed	(686,631)		(4,831)
Reinvestments	1,079,874		7,483
	<u>1,763,829</u>	<u>\$</u>	<u>12,285</u>