MONITORING REPORTS
December 20, 2011

2.8 FINANCIAL CONDITION AND ACTIVITIES

Policy: The President shall not cause or allow conditions that would jeopardize the Association's fiscal health.

Operational definition: The UUA Administration will use best practices in financial management and oversight as described in the sub-policies below. We believe the detailed sub-policies below provide a comprehensive list of conditions that could jeopardize the Association's fiscal health.

Supporting evidence: See individual policies below.

2.8.1

Policy: [The President shall not] Fail to follow Generally Accepted Accounting Principles (GAAP) and the applicable rules of the Financial Accounting Standards Board in the financial reporting and procedures of the Association.

Operational definition: The standards for financial reporting and procedures are set by the Financial Accounting Standards Board. In June 2009, the Financial Accounting Standards Board (the "FASB") approved the FASB Accounting Standards Codification (the "Codification") as a single source of authoritative nongovernmental U.S. Generally Accepted Accounting Principles. The Codification does not change current GAAP, but is intended to simplify user access to all authoritative GAAP by providing all the authoritative literature related to a particular topic in one place. The UUA bases its accounting and control systems on the Codification. Auditing firms conduct procedures that include an assessment of the accounting principles used by an organization in their accounting and presentation in their financial statements. An affirmative statement from the auditors that the UUA follows GAAP would indicate compliance.

Rationale: The FASB is accepted at the arbiter of GAAP by all certified accounting firms. An independent audit by a CPA firm provides reasonable assurance that GAAP is followed by an organization.

Supporting evidence: The financial statements of the UUA are audited by an independent CPA firm each year. The Board of Trustees selects the independent auditing firm on recommendation of the Audit Committee. For the audit of the year ending June 30, 2011, the Audit Committee recommended and the Board selected Mayer, Hoffman, McCann P.C., Tofias New England Division, a leading firm with an extensive practice with nonprofit organizations in New England. This is their second year to audit the UUA. In their report to the Board of Trustees dated November 3, 2011, they stated, "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, 2011 and 2010, 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."

Therefore, I report compliance.

Policy 2.8.5

Policy: [The President shall not] Incur secured debt over $50,000 without prior Board approval.

Operational definition: Secured debt is a loan or other debt obligation that is secured by assets of the Association, for example a mortgage loan secured by real estate. By "incur," we assume this refers to taking on new debt and not to renewing existing lines of credit. All debt is reported in the audited financial statements, and the terms of those loans are described in the footnotes to the statements. Thus any new secured debt is disclosed in the annual audit report.

Rationale: BusinessDictionary.com defines secured debt as follows: "Loan amount for which the borrower pledges one or more assets of equal or greater liquidation-value as a security which may be forfeited in case of a default." We interpret "incur" to mean new debt obligations because existing secured debt obligations have previously been approved by the Board of Trustees. The annual audit report provides an independent, reliable basis for determining and changes in the Association's debt.

Supporting evidence: The FY 2011 audited financial statements of the Association report all debt, both secured and unsecured. In footnote #8, "Bank Debt," the report states that the member lending credit line is $6 million, the line of credit is $500,000, and the outstanding mortgage loan is $467,000. All of these loans are secured by the Association's Beacon Hill real estate and were previously approved by the Board of Trustees. In fact, the bank requires evidence of such approval before issuing the loans. As part of their procedures, the auditors review all loan documentation to insure that it is properly documented. The FY 2011 audit report shows that there have been no additions to the lines of credit and that the principle balance on the mortgage has declined since last year.

Therefore, I report compliance.

Policy 2.8.6

Policy: [The President shall not] Use donor-restricted funds, including all income and appreciation therefrom, in a manner inconsistent with the terms of the donation, except that, to offset the costs of providing administrative services that support programs funded

with restricted gift and endowment income, the President may charge an overhead fee of not more than 15% on all spending from restricted gift and endowment funds.

Operational definition: Under Massachusetts trust law, funds from donors, including spendable donations and restricted endowments, may only be used as directed by the donor. However, some portion of the donations may be used for the overhead and administrative costs of programmatic activities funded by the donor's gift. The President has established a policy of adding an overhead charge of 15% to all expenses funded by restricted gifts, restricted distributions from permanent endowment funds, and expenses funded by distributions from outside trusts unless explicitly prohibited by the gift instrument.

Rationale: Since the UUA is headquartered in Massachusetts, the governing law is Massachusetts trust law. It is reasonable to add an overhead charge to the direct costs of a program because without services such as facilities, accounting, information technology, human resources, etc. it would be impossible to operate the donor-funded programs. It is considered best practice in the nonprofit sector to add an overhead charge to direct costs. According to BoardSource, ". . . there are no generally accepted standards for what levels are acceptable. Many organizations boast that they spend only five or six percent of their funds on overhead; other well-known and effective nonprofits spend 25 or 30 percent on overhead." Therefore an overhead charge of 15% is reasonable and in line with the practices of other nonprofit institutions.

Supporting evidence: Among the auditor's procedures is testing restricted donations to insure that they are used in accordance with the explicit directions of the donor. This is done on a sampling basis to test the systems and procedures controlling this process. The expenditures subject to testing included direct program expenses and any applicable overhead charge. During the audit of fiscal year 2010, the auditors found no material variances in their testing.

Therefore, I report compliance.

Policy 2.8.13

Policy: [The President shall not] Fail to cooperate fully with the annual audit of the Association's financial statements, or to sign the financial statements and certify that they fairly represent the financial condition and operations of the Association.

Operational definition: Receipt by the Audit Committee of a statement from the independent auditing firm stating that there were no disagreements with management and no difficulties performing the audit would indicate full cooperation with the auditors. Compliance is further indicated if the auditor's opinion letter is unqualified.

Receipt by the Board of letter signed by the Association's CEO and CFO certifying the Association's financial statements.

Rationale: The Board of Trustees selects the independent auditing firm on recommendation of the Audit Committee. For the audit of the year ending June 30, 2011, the Audit Committee recommended and the Board selected Mayer, Hoffman, McCann P.C., Tofias New England Division. The auditors direct their report to the Audit Committee but rely on the Administration to obtain the information necessary to perform their audit procedures. This means that the staff must provide the auditing firm with full access to all books and records of the Association and devote sufficient staff time to provide documents and answer questions. Since auditing standards require that the auditors communicate any difficulties in conducting the audit to the Audit Committee, compliance would be indicated if this report states that there are no such difficulties.

The Administration has modeled the certification of its financial statements on the practices employed by US corporations under the Sarbanes-Oxley regulations. Such certifying statements are signed by both the CEO and the CFO.

Supporting evidence: The auditors' report to the Audit Committee contains a section called "Required Communications" which states in part:

- "Disagreements with management – None
- "Management consultations with other accountants – None
- "Major issues discussed with management prior to our retention – None
- "Difficulties encountered performing the audit – None."

In addition, Tofias provided an oral report to the Audit Committee in which they stated there were no problems with staff cooperation. The meeting also included an executive session with no staff present, upon which the Administration is not in a position to report. The full report is available for direct inspection.

Further, the auditors' opinion letter for the financial statements for the year ending June 30, 2011 states: "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, 2011 and 2010, 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."

The audited financial statements were voted "received" by the Board at their meeting of November 17, 2011.

A certification statement signed by the CEO and the CFO was distributed to the Board prior to their December 15, 2011 meeting.

Therefore, I report compliance.

Policy 2.8.14

Policy: [The President shall not] Receive, hold, or disburse any funds that are not reported in the consolidated financial statements of the Association or the UUA Employee Benefits Trust.

Operational definition: UUA financial statements include the assets held in all bank accounts opened in the UUA's name and all other assets owned by the UUA. Since there is no way to directly test what is NOT included in the Association's financial statements, we shall rely on a poll of staff with financial responsibilities to report on whether such accounts exist.

Rationale: To open a bank account, an organization must provide its federal employer identification number (EIN). Therefore, any account using the UUA's EIN should be managed and controlled in accordance with UUA policies and accounted for in the UUA general ledger. In the past, certain departments within the UUA received funds and deposited them into bank accounts and money market funds that were not managed by the Office of Financial Services and thus were not accounted for in the Association's books. The Association's management subsequently made clear to all staff group directors that such practices are against UUA policy, and specifically, that any donations or other assets intended for the UUA must be processed through the Office of Financial Services.

Supporting evidence: In November, 2010, all those on the UUA staff with financial and budget responsibility, including staff of the EBT, were polled by the Treasurer and asked to report any knowledge of bank accounts or other assets that were not managed through the Office of Financial Services. Each person queried stated that she/he knew of no such funds. This 2011 report relies on the 2010 survey as we have no reason to believe there have been any material changes. All bank accounts and other financial assets managed through the Office of Financial Services are accounted for through the Association's general ledger and are included in the financial statements of the Association. The annual independent audit (described above in 2.8.13) confirms that assets are accounted for in all material respects.

Therefore, I report compliance.

Policy 2.8.15

Policy: [The President shall not] Allow UUA resources, including staff time, to be used in such way as to be of primary benefit to a private purpose rather than to the Association and its mission.

Operational definition: Federal law requires that a 501(c)3 tax exempt organization must direct all resources, including money and staff, toward advancing the mission of the organization. Any surplus generated from the operations of the Association must be retained and applied to its mission.

Rationale: Under IRS rules, a nonprofit corporation may not be operated in such a way as to benefit a private individual or entity. To violate this principle would risk the charitable status of the Association.

Supporting evidence: A key aspect of the audit process is to examine whether the Association operates in compliance with tax law and has procedures in place to protect its nonprofit charitable status. As part of the audit, the financial services staff completes a compliance questionnaire which is reviewed with the Treasurer by a tax partner of the auditing firm. The survey includes questions related to "private inurement," including misdirecting financial resources and staff time towards private benefit. In the audit report from Mayer Hoffman McCann, no issues of compliance were noted.

Therefore, I report compliance.