

**Financial Statements
and Supplemental Schedules**

Unitarian Universalist Association

June 30, 2011 and 2010



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, 2011 and 2010, 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, 2011 and 2010, 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 audit was 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Mayer Hoffman McCann P.C.

November 3, 2011
Boston, Massachusetts

UNITARIAN UNIVERSALIST ASSOCIATION

Statements of Financial Position

(in thousands)

	<i>June 30,</i>	
	<i>2011</i>	<i>2010</i>
Assets		
Cash and cash equivalents	\$ 9,766	\$ 10,959
Accounts receivable, net	1,487	1,635
Pledges receivable, net	234	843
Inventories	1,682	1,542
Other assets	828	797
Investments	73,907	63,699
Investment funds managed for others	62,579	45,071
Funds held in trust by others	42,202	36,557
Funds held in support of split-interest agreements	12,720	11,673
Loans to member congregations, net	7,439	8,216
Property and equipment, net	6,009	6,172
	<u>6,009</u>	<u>6,172</u>
Total assets	\$ <u>218,853</u>	\$ <u>187,164</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 6,363	\$ 9,247
Annuity liabilities	2,907	2,907
Bank debt	1,971	3,005
Obligations under split-interest agreements	7,289	6,744
Obligations for funds managed for others	62,579	45,071
Accumulated postretirement benefit obligation	1,992	1,663
	<u>1,992</u>	<u>1,663</u>
Total liabilities	<u>83,101</u>	<u>68,637</u>
Net assets:		
Unrestricted	18,545	13,276
Temporarily restricted	59,452	48,637
Permanently restricted	57,755	56,614
	<u>57,755</u>	<u>56,614</u>
Total net assets	<u>135,752</u>	<u>118,527</u>
Total liabilities and net assets	\$ <u>218,853</u>	\$ <u>187,164</u>

UNITARIAN UNIVERSALIST ASSOCIATION

Statements of Changes in Net Assets

(in thousands)

	<i>For the Years Ended June 30,</i>				<i>2010</i>
	<i>2011</i>				
	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>	<i>Total</i>
Support and revenue:					
Fundraising and gifts and bequests	\$ 11,952	\$ 1,518	\$ 240	\$ 13,710	\$ 11,246
Net sales from publishing activities	6,021	-	-	6,021	5,720
Sales and administrative services	1,854	-	-	1,854	1,699
Investment return authorized for operations	3,665	-	-	3,665	4,446
Distributions from Holdeen	-	1,248	-	1,248	1,348
Other investment income	405	-	-	405	413
Other income	5,009	-	-	5,009	4,697
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>	<u>29,569</u>
Expenditures:					
Programs	24,668	-	-	24,668	24,216
General and administration	4,810	-	-	4,810	4,940
Stewardship and development	1,829	-	-	1,829	1,885
Total expenditures	<u>31,307</u>	<u>-</u>	<u>-</u>	<u>31,307</u>	<u>31,041</u>
Changes in net assets from operations	<u>280</u>	<u>85</u>	<u>240</u>	<u>605</u>	<u>(1,472)</u>
Nonoperating income (expense):					
Investment income	4,015	7,102	-	11,117	5,263
Increase in value of funds held in support of split-interest agreements and trusts	152	4,817	1,138	6,107	3,371
Postretirement benefit plan expense	(399)	-	-	(399)	-
Other releases and changes in net assets	1,221	(1,189)	(237)	(205)	350
Change in net assets from nonoperating activities	<u>4,989</u>	<u>10,730</u>	<u>901</u>	<u>16,620</u>	<u>8,984</u>
Change in net assets	5,269	10,815	1,141	17,225	7,512
Net assets, beginning of year	<u>13,276</u>	<u>48,637</u>	<u>56,614</u>	<u>118,527</u>	<u>111,015</u>
Net assets, end of year	<u>\$ 18,545</u>	<u>\$ 59,452</u>	<u>\$ 57,755</u>	<u>\$ 135,752</u>	<u>\$ 118,527</u>

See accompanying notes to financial statements.

UNITARIAN UNIVERSALIST ASSOCIATION

Statement of Changes in Net Assets

For the Year Ended June 30, 2010

(in thousands)

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Support and revenue:				
Fundraising and gifts and bequests	\$ 10,357	\$ 75	\$ 814	\$ 11,246
Net sales from publishing activities	5,720	-	-	5,720
Sales and administrative services	1,699	-	-	1,699
Investment return authorized for operations	4,446	-	-	4,446
Distributions from Holdeen	-	1,348	-	1,348
Other investment income	413	-	-	413
Other income	4,697	-	-	4,697
Net assets released from restriction	4,238	(4,238)	-	-
Total support and revenue	<u>31,570</u>	<u>(2,815)</u>	<u>814</u>	<u>29,569</u>
Expenditures:				
Programs	24,216	-	-	24,216
General and administration	4,940	-	-	4,940
Stewardship and development	1,885	-	-	1,885
Total expenditures	<u>31,041</u>	<u>-</u>	<u>-</u>	<u>31,041</u>
Changes in net assets from operations	<u>529</u>	<u>(2,815)</u>	<u>814</u>	<u>(1,472)</u>
Nonoperating income (expense):				
Investment income	1,709	3,554	-	5,263
Increase in value of funds held in support of split-interest agreements and trusts	33	2,766	572	3,371
Other changes in net assets	(1,627)	1,977	-	350
Change in net assets from nonoperating activities	<u>115</u>	<u>8,297</u>	<u>572</u>	<u>8,984</u>
Change in net assets	644	5,482	1,386	7,512
Net assets, beginning of year, as restated	<u>12,632</u>	<u>43,155</u>	<u>55,228</u>	<u>111,015</u>
Net assets, end of year	<u>\$ 13,276</u>	<u>\$ 48,637</u>	<u>\$ 56,614</u>	<u>\$ 118,527</u>

See accompanying notes to financial statements.

UNITARIAN UNIVERSALIST ASSOCIATION

Statements of Cash Flows

(in thousands)

	<i>For the Years Ended June 30,</i>	
	<i>2011</i>	<i>2010</i>
Cash flows from operating activities:		
Change in net assets	\$ 17,225	\$ 7,512
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	469	591
Net realized and unrealized gains on investments	(13,189)	(8,682)
Contributions restricted for long-term investment	(240)	(814)
Net change in value of funds held in support of split-interest agreements and trusts	(6,107)	(3,371)
Changes in assets and liabilities:		
Accounts receivable, net	148	585
Pledges receivable, net	609	247
Inventories	(140)	(140)
Other assets	(31)	38
Accounts payable and accrued expenses	(2,884)	294
Annuity liabilities	-	172
Accumulated postretirement benefit obligation	329	(26)
	<u>(3,811)</u>	<u>(3,594)</u>
Net cash used in operating activities		
Cash flows from investing activities:		
Cost of purchases of investments	(35,629)	(50,554)
Proceeds from sales of investments	20,517	49,192
Purchases of property and equipment	(306)	(376)
Proceeds from sales of property and equipment	-	4
Change in obligations for funds managed for others	17,508	6,136
Change in obligations under split-interest agreements	545	483
Change in loans to member congregations	777	(792)
	<u>3,412</u>	<u>4,093</u>
Net cash provided by investing activities		
Cash flows from financing activities:		
Repayment of bank debt	(1,034)	(913)
Proceeds from bank debt	-	1,552
Contributions restricted for long-term investment	240	814
	<u>(794)</u>	<u>1,453</u>
Net cash (used in) provided by financing activities		
Change in cash and cash equivalents	(1,193)	1,952
Cash and cash equivalents as of beginning of year	<u>10,959</u>	<u>9,007</u>
Cash and cash equivalents as of end of year	\$ <u>9,766</u>	\$ <u>10,959</u>
Supplemental disclosure:		
Cash paid for interest	\$ 118	\$ 104

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 and changes in value of certain split-interest agreements.

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, 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. 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 period 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 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.

Charitable lead trusts established by Jonathan Holdeen (the Holdeen Trusts) are 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 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.

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

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. 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.

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. 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.

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.

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

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 \$1,011 and \$1,245 for the years ended June 30, 2011 and 2010, 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 \$539 and \$516 for the years ended June 30, 2011 and 2010, respectively, for its estimated asset retirement obligations, which is included in accrued expenses.

Reclassifications

Certain 2010 amounts have been reclassified to conform to the 2011 presentation. There was no change to net assets as a result of the reclassifications.

Subsequent Events

The Association has evaluated subsequent events through November 3, 2011, the date the financial statements were authorized to be issued.

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

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 6% as of June 30, 2011 and 2010.

Pledges receivable consisted of the following as of June 30, 2011 and 2010:

	<i>2011</i>	<i>2010</i>
Amounts due in:		
Less than one year	\$ 271	\$ 777
Two to five years	97	170
Over five years	4	10
	372	957
Less allowance for uncollectible pledges and present value discount	(138)	(114)
Pledges receivable, net	\$ 234	\$ 843

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, 2011 and 2010:

	<i>2011</i>	<i>2010</i>
Investment income	\$ 2,818	\$ 2,200
Net realized gain on investments	2,511	3,753
Net change in unrealized gain on investments	10,678	4,929
Less investment fee expense	(820)	(760)
Total return	\$ 15,187	\$ 10,122

Investments as of June 30, 2011 and 2010 are recorded in the statement of financial position by net asset class as follows:

	<i>2011</i>	<i>2010</i>
Unrestricted	\$ 6,276	\$ 4,197
Temporarily restricted	24,820	16,640
Permanently restricted	42,811	42,862
Total investments - UUA	73,907	63,699
Obligations for funds managed for others (member congregations)	62,579	45,071
Total	\$ 136,486	\$ 108,770

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 4 - Investments (Continued)

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, 2011 and 2010:

	<i>2011</i>	<i>2010</i>
Investment return authorized for operations	\$ 3,665	\$ 4,446
Other investment return - operating activities	405	413
Investment return in excess of amounts authorized for operations - nonoperating	4,015	1,709
Investment return - temporarily restricted	7,102	3,554
Total return	\$ 15,187	\$ 10,122

Given recent market declines in the equity markets worldwide, investment values may have fallen significantly after year-end.

Note 5 - Fair Values of Financial Instruments

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	\$ 27,534	\$ 5,340	\$ -	\$ 32,874
Foreign	18,650	8,728	-	27,378
Fixed income:				
Domestic	21,558	6,496	-	28,054
Foreign	16,659	-	-	16,659
Alternative assets	-	24,060	6,316	30,376
Community investments	-	-	1,064	1,064
Cash and equivalents	81	-	-	81
Total UUCEF Investments	\$ 84,482	\$ 44,624	\$ 7,380	\$ 136,486

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 5 - Fair Values of Financial Instruments (Continued)

		<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
Funds held by others:					
Holdeen trusts		-	-	31,786	31,786
Outside trusts		-	-	10,416	10,416
Total split-interest agreements and funds held by others	\$	<u>11,090</u>	\$ <u>-</u>	\$ <u>43,832</u>	\$ <u>54,922</u>

The following is a summary of investments as of June 30, 2010 valuing the Association's investments carried at fair value, using the hierarchy of values described previously:

		<i>UUCEF Investments</i>			
		<i>2010</i>			
		<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Equity securities:					
Domestic	\$	21,932	\$ -	\$ -	\$ 21,932
Foreign		15,260	5,312	-	20,572
Fixed income:					
Domestic		15,967	5,678	-	21,645
Foreign		13,763	8,199	-	21,962
Alternative assets		-	15,894	5,620	21,514
Community investments		-	-	1,064	1,064
Cash and equivalents		81	-	-	81
Total UUCEF Investments	\$	<u>67,003</u>	\$ <u>35,083</u>	\$ <u>6,684</u>	\$ <u>108,770</u>

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 5 - Fair Values of Financial Instruments (Continued)

	<i>Other Investments</i>			
	<i>2010</i>			
	<u><i>Level 1</i></u>	<u><i>Level 2</i></u>	<u><i>Level 3</i></u>	<u><i>Total</i></u>
Split-interest agreements:				
Charitable gift annuity	\$ 7,053	\$ -	\$ -	\$ 7,053
Charitable remainder trust	-	-	1,417	1,417
Pooled income funds	3,203	-	-	3,203
Funds held by others:				
Holdeen trusts	-	-	27,263	27,263
Outside trusts	-	-	9,294	9,294
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total split-interest agreements and funds held by others	\$ <u>10,256</u>	\$ <u>-</u>	\$ <u>37,974</u>	\$ <u>48,230</u>

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>2011</i>			
	<u><i>UUCEF</i></u>	<u><i>Holdeen</i></u>	<u><i>Outside</i></u>	<u><i>Charitable</i></u>
	<u><i>Investments</i></u>	<u><i>Trusts</i></u>	<u><i>Trusts</i></u>	<u><i>Remainder Trust</i></u>
Beginning balance	\$ 6,684	\$ 27,263	\$ 9,294	\$ 1,417
Additions/purchases	22	762	626	-
Redemptions/sales	(62)	(825)	(989)	-
Unrealized gain	736	4,586	1,485	213
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Ending balance	\$ <u>7,380</u>	\$ <u>31,786</u>	\$ <u>10,416</u>	\$ <u>1,630</u>

UNITARIAN UNIVERSALIST ASSOCIATION

Notes to Financial Statements (in thousands)

Note 5 - Fair Values of Financial Instruments (Continued)

<i>Level 3 Roll Forward</i>				
<i>2010</i>				
	<i>UUCEF</i>	<i>Holdeen</i>	<i>Outside</i>	<i>Charitable</i>
	<i>Investments</i>	<i>Trusts</i>	<i>Trusts</i>	<i>Remainder Trust</i>
Beginning balance	\$ 1,103	\$ 24,634	\$ 8,728	\$ 1,530
Additions/purchases	5,000	1,887	292	4
Redemptions/sales	(86)	(2,408)	(433)	-
Unrealized gain (loss)	667	3,150	707	(117)
Ending balance	\$ <u>6,684</u>	\$ <u>27,263</u>	\$ <u>9,294</u>	\$ <u>1,417</u>

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, 2011:

	<i>Fair Value</i>	<i>Unfunded</i>	<i>Redemption</i>	<i>Redemption</i>
	<i>(in thousands)</i>	<i>Commitments</i>	<i>Frequency (if</i>	<i>Notice</i>
			<i>Currently</i>	<i>Period</i>
			<i>Eligible)</i>	
Global asset allocation funds	\$ 24,060	\$ -	Monthly	5 days; prior month
U.S. equity fund	5,340	-	Annual	90 days; up to 12 months
Co-mingled international equity fund	8,728	-	Monthly	approx. 4 days
Hedge fund-of-funds	6,316	-	Quarterly	Max w/d = 50%
Co-mingled bond fund	6,496	-	Bi-monthly	30 days
Community investments	1,064	-	1-5 Years	Not applicable
	\$ <u>52,004</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, 2010:

	<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	\$ 20,314	\$ -		Monthly	5 days; prior month
U.S. equity fund	3,778	-		Annual	90 days; up to 12 months
Co-mingled international equity fund	5,312	-		Monthly	approx. 4 days
Hedge fund-of-funds	5,620	-		Quarterly	Max w/d = 50%
Co-mingled bond fund	5,678	-		Bi-monthly	30 days
Community investments	1,064	-		1-5 Years	Not applicable
	\$ 41,766	\$ -			

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.

U.S. Equity Fund - 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.

Co-mingled International Equity Fund - 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.

Co-mingled Bond Fund - 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. 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>2011</i>	<i>2010</i>
Mortgage loans to member congregations at interest rates from 0% to 6.9% due through 2035	\$ <u>7,814</u>	\$ <u>8,606</u>
Less allowance for uncollectible loans:		
Beginning of year	(390)	(407)
(Increases) decreases	15	(37)
Write-offs	<u>-</u>	<u>54</u>
End of year	<u>(375)</u>	<u>(390)</u>
Net	\$ <u><u>7,439</u></u>	\$ <u><u>8,216</u></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, 2011:

2012	\$	18
2013		-
2014		297
2015		239
2016		332
Thereafter		<u>6,928</u>
Total	\$	<u><u>7,814</u></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, 2011 and 2010, 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>
2011	\$ 6	\$ 176	\$ 182	\$ 7,632	\$ 7,814
2010	183	-	183	8,423	8,606

Note 7 - Property and Equipment

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

	<i>2011</i>	<i>2010</i>
Land, buildings and improvements	\$ 10,552	\$ 10,355
Computer equipment	1,129	1,033
Office furniture and fixtures	823	810
	<hr/>	<hr/>
	12,504	12,198
Less accumulated depreciation	(6,495)	(6,026)
	<hr/>	<hr/>
Property and equipment, net	\$ 6,009	\$ 6,172
	<hr/> <hr/>	<hr/> <hr/>

Note 8 - Bank Debt

The Association has the following bank debt:

	<i>2011</i>	<i>2010</i>
Member lending credit line	\$ 1,504	\$ 2,405
Line of credit	-	-
Mortgage note	467	600
	<hr/>	<hr/>
Total bank debt	\$ 1,971	\$ 3,005
	<hr/> <hr/>	<hr/> <hr/>

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 November 30, 2011, 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 April 30, 2017.

Line of Credit

The Association also has a \$500 line of credit available with Eastern Bank of which no amounts were outstanding at June 30, 2011 and 2010. 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 November 30, 2011 at which time it will be reviewed for renewal.

Mortgage Note

The mortgage note bears interest at a fixed rate per annum equal to 5.78% and is payable quarterly with equal principal installments of \$33 plus interest with a final due date of any remaining principal at February 2012. 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 \$118 and \$104 for the years ended June 30, 2011 and 2010, 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, 2011 and 2010:

	<i>2011</i>	<i>2010</i>
Accumulated unspent gains:		
Unrestricted	\$ <u>6,412</u>	\$ <u>4,303</u>
Purpose restrictions:		
Split-interest agreements	2,073	1,739
Building loan fund	201	201
Scholarships for ministerial students	6,372	3,171
Other programs	<u>12,009</u>	<u>10,316</u>
Total	<u>20,655</u>	<u>15,427</u>
Time and purpose restrictions:		
Funds held in trust by others - Holdeen trusts	31,786	27,263
Amounts restricted by donors for programs	<u>599</u>	<u>1,644</u>
Total	<u>32,385</u>	<u>28,907</u>
Total	\$ <u><u>59,452</u></u>	\$ <u><u>48,637</u></u>

Net assets released from temporarily restricted net assets were as follows for the years ended June 30, 2011 and 2010:

	<i>2011</i>	<i>2010</i>
Ministerial programs	\$ <u><u>2,681</u></u>	\$ <u><u>4,238</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, 2011 and 2010 consisted of the following:

	<i>2011</i>	<i>2010</i>
Restricted as to purpose:		
General operating	\$ 27,248	\$ 26,984
Scholarships for ministerial students	11,520	11,723
Other programs	3,988	4,101
Funds held in trust by others for restricted purposes	10,416	9,294
Building loan fund	4,412	4,412
Amounts restricted by donors for programs	55	-
Split-interest agreement	61	45
Wilton Peace Prize Fund	55	55
	<hr/>	<hr/>
Total	\$ 57,755	\$ 56,614

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 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><u>8,933</u></u>	\$ <u><u>24,794</u></u>	\$ <u><u>42,756</u></u>	\$ <u><u>76,483</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, 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>

Changes in endowment net assets for the fiscal year ended June 30, 2010 are as follows:

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Endowment net assets, beginning of year	\$ <u>2,053</u>	\$ <u>15,016</u>	\$ <u>49,835</u>	\$ <u>66,904</u>
Investment return:				
Investment income (net of expenses)	352	290	-	642
Net appreciation (realized and unrealized)	<u>4,764</u>	<u>3,918</u>	<u>-</u>	<u>8,682</u>
Total investment return	5,116	4,208	-	9,324
Contributions	-	75	814	889
Investment return authorized for operations	(3,407)	(2,458)	-	(5,865)
Other net asset transfers	<u>559</u>	<u>949</u>	<u>(7,841)</u>	<u>(6,333)</u>
Endowment net assets, end of year	\$ <u>4,321</u>	\$ <u>17,790</u>	\$ <u>42,808</u>	\$ <u>64,919</u>

Endowment net asset composition by type of fund consists of the following at June 30, 2010:

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Donor-imposed endowment funds	\$ (539)	\$ 17,790	\$ 42,808	\$ 60,059
Unrestricted quasi endowment funds	<u>4,860</u>	<u>-</u>	<u>-</u>	<u>4,860</u>
Total endowed net assets	\$ <u>4,321</u>	\$ <u>17,790</u>	\$ <u>42,808</u>	\$ <u>64,919</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 \$180 and \$539 as of June 30, 2011 and 2010, 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 8.5% 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

On July 1, 2010, the Association amended its spending policy in an effort to provide consistency during periods of significant market fluctuation. Under the spending policy, the amount made available for expenditure from the Association's endowment in a fiscal year shall be 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.

Prior to fiscal 2011, the Association had a policy of appropriating for distribution each year 5% of its endowment fund's average fair value over the prior 13 quarters through the fiscal year-end preceding the fiscal year in which the distribution is planned. In addition, for a limited period ending June 30, 2010, the Association had a policy of appropriating an additional amount, up to 2% calculated as above, to fund campaign fundraising expenses. 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, 2011 were:

2012	\$	166
2013		151
2014		146
2015		<u>110</u>
Total	\$	<u>573</u>

Rental expense charged to operations was \$201 and \$202 for the years ended June 30, 2011 and 2010, respectively.

Guarantees

The Association guarantees certain loans extended by various lending institutions to member congregations. The outstanding guarantees were \$990 and \$1,860 as of June 30, 2011 and 2010, respectively, on loans totaling \$2,235 and \$4,481, 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, 2011 and 2010, 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, 2011 and 2010. 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 \$776 and \$784 for the years ended June 30, 2011 and 2010, 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 reconciled with amounts recognized in the Association's statement of changes in net assets at June 30, 2011 and 2010:

	<i>2011</i>	<i>2010</i>
Changes in benefit obligation:		
Benefit obligation at beginning of year	\$ 1,663	\$ 1,689
Service cost	5	5
Interest cost	106	106
Actuarial (gain) loss	419	-
Benefits paid	<u>(201)</u>	<u>(137)</u>
Benefit obligation at end of year	<u>1,992</u>	<u>1,663</u>
Change in plan assets:		
Employer contribution	201	137
Benefits paid	<u>(201)</u>	<u>(137)</u>
Fair value of plan assets at end of year	<u>-</u>	<u>-</u>
Accrued postretirement benefit obligation	\$ <u><u>1,992</u></u>	\$ <u><u>1,663</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, 2011 and 2010 are as follows:

Discount rate	5.00%	6.90%
Rate of increase in healthcare costs	8.00	8.40

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, 2011:

	<i>One- Percentage- Point Increase</i>	<i>One- Percentage- Point Decrease</i>
Effects on total service and interest cost components for 2011	\$ 123	\$ 102
Effects on year-end 2011 accumulated postretirement benefit obligation	2,169	1,839

The following expected future benefit payments are as follows as of June 30, 2011:

2012	\$	156
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, 2011 and 2010.

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

	<i>2011</i>	<i>2010</i>
Service cost	\$ 5	\$ 5
Interest cost	106	106
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>
Net periodic benefit cost	\$ 111	\$ 111
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>

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, 2011 and 2010 are as follows:

Discount rate	6.55%	6.90%
Rate of increase in healthcare costs	7.75	9.00

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 - Program Expenses

The Association's program expenses and costs in 2011 and 2010 were as follows:

	<i>2011</i>	<i>2010</i>
Multicultural growth & witness	\$ 1,467	\$ 2,000
Communications	2,335	2,391
Costs of goods sold and publishing expenses	5,607	5,196
Congregational life	5,031	4,701
Ministry and faith development	5,740	6,041
Other programs	<u>4,488</u>	<u>3,887</u>
Total	\$ <u>24,668</u>	\$ <u>24,216</u>

Supplemental Schedules

UNITARIAN UNIVERSALIST ASSOCIATION

Supplemental Schedule of Assets by Business Segment

June 30, 2011

(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	\$ 3,953	\$ 460	\$ 1,715	\$ 55	\$ 3,583	\$ -	\$ 9,766
Investments	81	-	74	1,232	136,405	(1,306)	136,486
Accounts receivable, net	1,374	-	543	-	-	(430)	1,487
Pledges receivable, net	234	-	-	-	-	-	234
Inventories	453	-	1,229	-	-	-	1,682
Amounts due from other business segments	459	-	-	-	-	(459)	-
Other current assets	57	-	-	-	14	-	71
Total current assets	6,611	460	3,561	1,287	140,002	(2,195)	149,726
Funds held in trust by others	42,202	-	-	-	-	-	42,202
Funds held in support of split-interest agreements	12,720	-	-	-	-	-	12,720
Other assets	200	-	-	-	-	-	200
Loans to member congregations, net	-	-	-	7,439	-	-	7,439
Property and equipment, net	6,004	-	5	-	-	-	6,009
Royalty advances	-	-	557	-	-	-	557
Total assets	\$ 67,737	\$ 460	\$ 4,123	\$ 8,726	\$ 140,002	\$ (2,195)	\$ 218,853

UNITARIAN UNIVERSALIST ASSOCIATION

Supplemental Schedule of Liabilities and Net Assets by Business Segment

June 30, 2011

(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	\$ 4,225	\$ -	\$ 1,258	\$ 2	\$ 878	\$ -	\$ 6,363
Current portion of annuity liabilities	407	-	-	-	-	-	407
Current portion of bank debt	467	-	-	83	-	-	550
Amounts due to (from) other business segments	408	-	13	-	38	(459)	-
Total current liabilities	5,507	-	1,271	85	916	(459)	7,320
Bank debt	-	-	-	1,421	-	-	1,421
Annuity liability and deferred revenue	2,500	-	-	-	-	-	2,500
Assets held in trust for others	7,289	-	-	-	62,603	(24)	69,868
Accumulated postretirement benefit obligation	1,992	-	-	-	-	-	1,992
Total liabilities	17,288	-	1,271	1,506	63,519	(483)	83,101
Net assets:							
Unrestricted	5,389	460	2,713	1,374	8,934	(325)	18,545
Temporarily restricted	34,473	-	98	1,182	24,793	(1,094)	59,452
Permanently restricted	10,587	-	41	4,664	42,756	(293)	57,755
Total net assets	50,449	460	2,852	7,220	76,483	(1,712)	135,752
Total liabilities and net assets	\$ 67,737	\$ 460	\$ 4,123	\$ 8,726	\$ 140,002	\$ (2,195)	\$ 218,853

UNITARIAN UNIVERSALIST ASSOCIATION

Supplemental Schedule of Unrestricted Activities by Business Segment

For the Year Ended June 30, 2011

(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	\$ 11,750	\$ -	\$ 200	\$ -	\$ 2	\$ -	\$ 11,952
Administration fees	929	-	-	-	-	(476)	453
Investment return authorized for operations	3,665	-	-	-	-	-	3,665
Other investment income	-	-	5	400	628	(628)	405
Other income	4,824	1,401	185	-	-	-	6,410
Net sales from publishing activities	1,060	-	4,961	-	-	-	6,021
Net realized gains and losses on investments	-	-	-	-	1,015	(1,015)	-
Net unrealized gains and losses on investments	-	-	-	-	4,154	(4,154)	-
Transfers to current section	-	-	-	-	(2,067)	2,067	-
Net assets released from restriction	2,681	-	-	-	-	-	2,681
Total support and revenue	24,909	1,401	5,351	400	3,732	(4,206)	31,587
Expenses:							
Board and volunteer leadership	584	-	-	-	-	-	584
Multicultural growth & witness	1,467	-	-	-	-	-	1,467
International	1,319	-	-	-	-	-	1,319
Congregational life	5,031	-	-	-	-	-	5,031
Ministry and faith development	5,740	-	-	-	-	-	5,740
UU Funding Program	1,247	-	-	-	-	-	1,247
Crisis Relief Program	632	-	-	-	-	-	632
Communications	2,335	-	-	-	-	-	2,335
Cost of goods sold and publishing expenses	322	-	5,285	-	-	-	5,607
Administration	1,473	-	-	-	-	-	1,473
Stewardship and development	1,829	-	-	-	-	-	1,829
Information technology services	1,322	-	-	-	-	-	1,322
Internal services	1,534	-	-	-	-	-	1,534
General Assembly	-	1,290	-	-	-	-	1,290
Expenses associated with investment pools	-	-	-	255	-	(476)	(221)
Interest expense	32	-	-	86	-	-	118
Total expenses	24,867	1,290	5,285	341	-	(476)	31,307
Increase (decrease) in unrestricted net assets from operations	42	111	66	59	3,732	(3,730)	280
Nonoperating:							
Other releases and changes in net assets	951	-	-	(607)	271	606	1,221
Postretirement benefit plan expense	(399)	-	-	-	-	-	(399)
Increase in value of funds held in support of split-interest agreements and trusts	152	-	-	-	-	-	152
Investment income	-	-	-	-	(326)	4,341	4,015
Total increase (decrease) in net assets from nonoperating activities	704	-	-	(607)	(55)	4,947	4,989
Increase (decrease) in unrestricted net assets	\$ 746	\$ 111	\$ 66	\$ (548)	\$ 3,677	\$ 1,217	\$ 5,269

UNITARIAN UNIVERSALIST ASSOCIATION

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

June 30, 2011

(in thousands)

Assets:	
Cash and cash equivalents	\$ 3,583
Investments in securities	136,405
Other current assets	<u>14</u>
Total assets	\$ <u><u>140,002</u></u>
Liabilities:	
Distributions payable	\$ 347
Uninvested principal	183
Accounts payable and accrued expenses	<u>386</u>
Total liabilities	916
Net UUCEF funds (equivalent to \$7.2287 per unit based on 19,240,846.0952 outstanding shares)	<u>139,086</u>
Total liabilities and net UUCEF funds	\$ <u><u>140,002</u></u>

UNITARIAN UNIVERSALIST ASSOCIATION

*Supplemental Schedule of UUCEF Operations**For the Year Ended June 30, 2011**(in thousands)*

Investment income	\$ <u>2,755</u>
Expenses:	
Investment manager fees	770
Consultant and other expenses	360
UUA administrative fees	256
Audit fees	<u>44</u>
Total expenses	<u>1,430</u>
Net investment income	<u>1,325</u>
Realized and unrealized gain from investments:	
Net realized gain from investments sold	4,417
Net change in unrealized appreciation	<u>18,402</u>
Net realized and unrealized gain from investments	<u>22,819</u>
Net increase in UUCEF funds from operations	\$ <u><u>24,144</u></u>

UNITARIAN UNIVERSALIST ASSOCIATION

*Supplemental Schedule of UUCEF Changes in Net Assets**For the Year Ended June 30, 2011**(in thousands)*

Increase in net UUCEF funds from operations:	
Net investment income	\$ 1,325
Net realized gain from investments sold	4,417
Net change in unrealized appreciation	<u>18,402</u>
Net increase in net UUCEF funds from operations	24,144
Distributions to participants	(4,681)
Net increase in net UUCEF funds from participant transactions	<u>9,633</u>
Net increase in net UUCEF funds	29,096
Net UUCEF funds:	
Beginning of year	<u>109,990</u>
End of year	\$ <u><u>139,086</u></u>

UNITARIAN UNIVERSALIST ASSOCIATION

*Supplemental Schedule of UUCEF Financial Highlights**For the Year Ended June 30, 2011**(For a unit of participation outstanding throughout the year)**(in thousands)*

Selected per unit data:

Net asset value - beginning of year	\$ 6.2934
Net investment income	0.0728
Net realized and unrealized gain from investments	<u>1.2609</u>
Total from investment operations	7.6271
Distributions to participants	<u>(0.3984)</u>
Net asset value - end of year	\$ <u><u>7.2287</u></u>
Total return (%) (a)	22.70%
Ratio of expenses to net assets (%)	1.11%

- (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, 2011 and 2010

(Dollars in thousands)

Note 1 - Investment Transactions

Purchases and proceeds from sales of securities were \$23,597 and \$20,517, respectively, during the year ended June 30, 2011 and \$43,441 and \$49,192, respectively, for the year ended June 30, 2010.

Note 2 - Units of Participation

Participant transactions for the 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>

Participant transactions for the UUCEF for the year ended June 30, 2010 were as follows:

	<i>Units</i>		<i>Amount</i>
Units issued	1,315,535	\$	5,421
Units redeemed	(1,659,721)		(7,725)
Reinvestments	755,536		4,911
	<u>411,350</u>	<u>\$</u>	<u>2,607</u>