

Unitarian Universalist Association Annual Report of the Treasurer To the 2007 General Assembly in Portland, Oregon

Introduction

I was appointed as Treasurer of the Association by the Board of Trustees at their meeting just prior to the 2006 General Assembly in St. Louis. Now, approaching the completion of my first year in office, I can say that it is both a privilege and a joy to serve the UUA in this position.

As treasurer, my role is to insure the effective stewardship of the Association's resources in service of our collective purposes. This includes how funds are expended, how they are invested, and the proper care of our physical resources, including our headquarters, 25 Beacon Street. In this report I will present some key information on the budget of the Association, its financial performance, its investments, and measures we are taking to improve the care for our assets.

Financial Condition of the Association

The Association is in solid financial condition having added over three million dollars to its net assets in each of the last two years. When one looks at changes in unrestricted net assets, which is perhaps a better barometer of current financial health, the results are equally encouraging. Fiscal 2006 was basically a breakeven year with a very slight decrease in unrestricted net assets (before a one-time, non-cash accounting adjustment) following two years of increases. Beacon Press generated a small surplus in FY 2006 after showing similar results in FY 2005.

Audited Financial Statements

At the end of these UUA 2005 Annual Reports are the UUA's financial statements for the years ending June 30, 2006 and 2005. These statements have been audited by KPMG and judged to fairly present the financial condition of the Association in all material respects. This result is due to the diligent and careful work of the financial services staff of the UUA, which meticulously accounts for all receipts, disbursements and assets. The statements include Supplemental Schedules of assets, liabilities and net assets on pages 17 - 19 that include business segment information for Current operations, Beacon Press, Congregational Properties and Loan Commission, and the General Investment Fund (GIF). Additional GIF reporting begins on pages 20 including the investment portfolio detail.

The Association's audit firm is selected by the Audit Committee appointed by the board of trustees and their report is presented to the committee. The committee then reports these results to the full board. The staff does not select the auditors nor is the report presented to them. In addition to the financial statements, the auditors each year presents a set of recommendations designed to improve the UUA's financial systems. In their 2006 Management Letter, KPMG suggested that the UUA review and update its documentation of policies and procedures, a process which is underway. In addition, they advised that we take further steps to insure that certain investments in the General Investment Fund are valued accurately. This has now been incorporated into our regular investment management process.

Operating Results and Budgets

The period covered by the audited financial statements is now a year past. For more current information and comparisons among years, you can consult the schedules following this narrative. They show the operating results for FY 2006, the projected FY 2007 income and expense, and the budget for FY 2008 adopted by the Board of Trustees at its January 2007 meeting. The Operating Budget Supplement and Operating Budget Graphs provide explanation and analysis of the numbers.

Changes and Trends – Actual FY06 to Budget FY07

As was reported to the Board of Trustees at its April meeting, actual results for FY07 are expected to come in very close to budget. Therefore, the numbers in the Budget FY07 column can be considered a reasonable proxy for projected results for this year.

Overall, both revenue and expense decreased slightly between FY06 and FY07. The most significant changes in income are as follows:

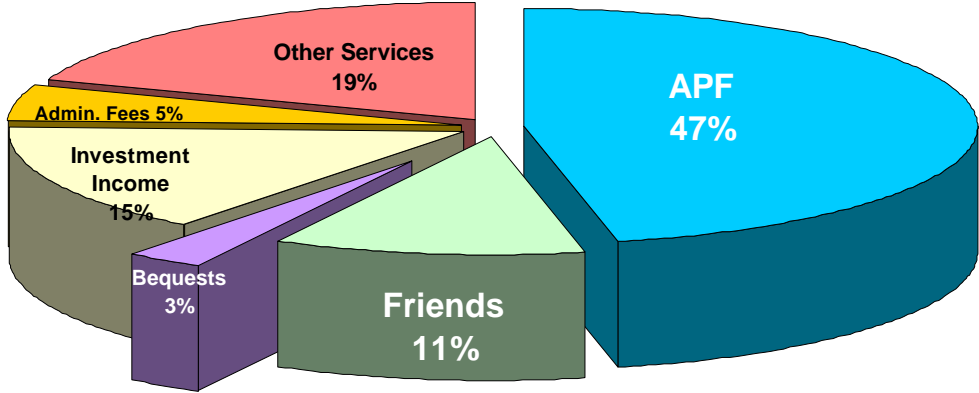
- APF and Friends donations increased steadily, leading to a 4.8% increase in Fundraising
- Cutting the management fee for the GIF in half caused Administrative Fees to drop by 23%
- The three capital campaigns showed a combined increase of over \$800K or 83% due to the ramp-up of the new campaign, Now is the Time
- Income from the Holdeen and other trusts increased due to strong investment performance
- Donations to the Gulf Coast Relief Fund are captured in the Income for Other Purposes category, thus showing a drop of \$1.5 million or 42%

The most significant changes in expenses are as follows:

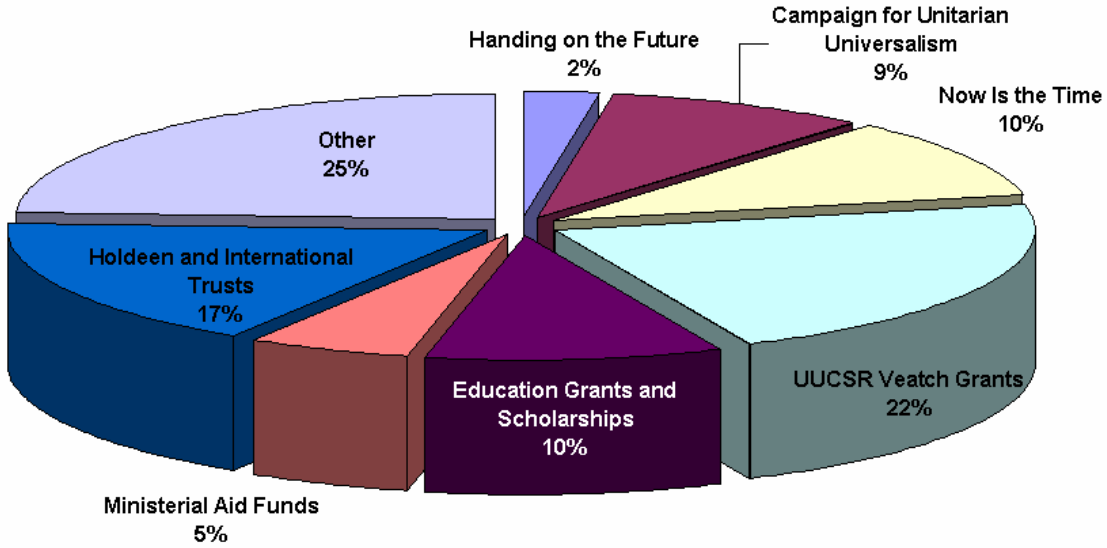
- District Services increased by 11.6% as staff compensation was increased
- Additional program funds were made available to Identity Based Ministries through the generosity of capital campaign donors, increasing this line by 34%
- The Tapestry of Faith program grew in 2007, again through the generosity of capital campaign donors, leading to an increase of 25% in Lifespan Faith Development
- The increase in Communications reflects the shift of website programs from ITS to this department
- Beacon Press required no UUA subsidy in 2006 and is expected to generate a surplus again in 2007
- Internal Services is where grants and expenses related to the Gulf Coast Relief effort accounted for thus showing a 43% decline as this program winds down

Changes and Trends – Budget FY07 to Budget FY08

FY07 Income for General Support: \$14,410,229



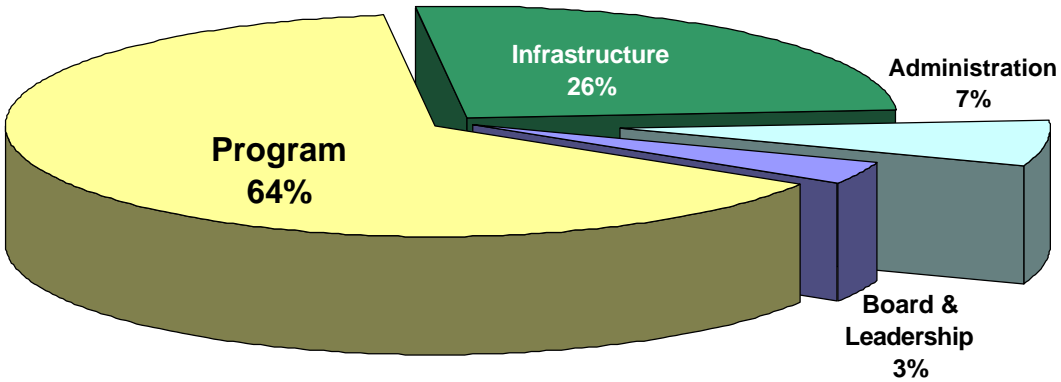
FY07 Income for Designated Purposes: \$8,573,733



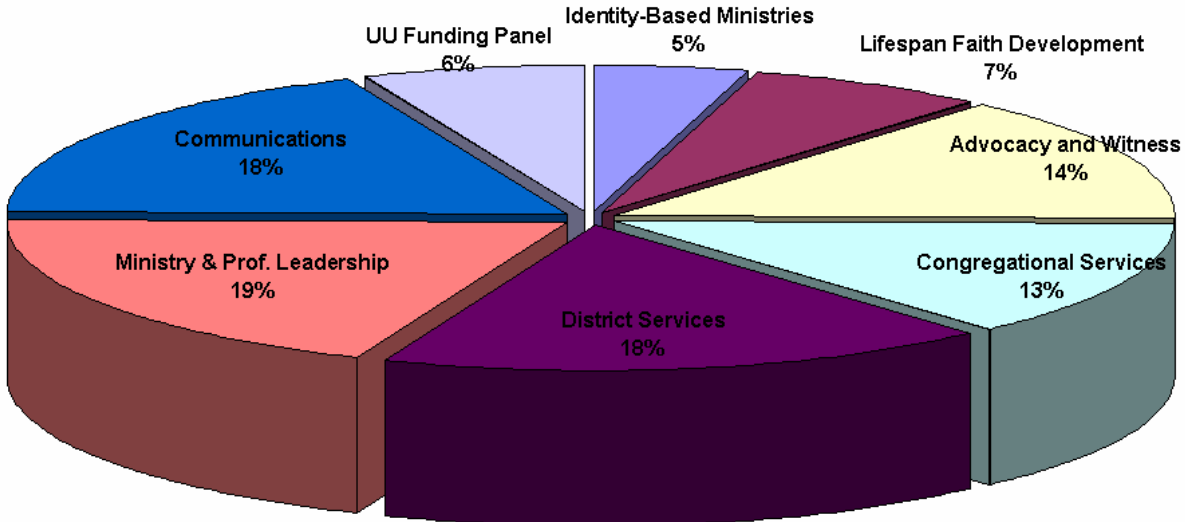
Overall income is budgeted to increase by \$1.5 million. This is principally due to the following items:

- Fundraising: Budgeted to increase by \$500K, \$300K from APF and \$200K from Friends. The latter is tied to the phone solicitation program.
- Capital Campaigns: Projected to increase by \$755K due to the ramping up of the Now is the Time campaign.

FY07 Total Expenses: \$22,983,963



FY07 Program Expenses: \$14,754,322



Overall expenses increase by about \$1.5mm as well. Nearly all of that change is made up of the following five items:

- Health insurance: FY 2008 will be the first full fiscal year under the new health plan, increasing by \$200K from the 07 budget. The cost will increase from \$726K in FY06 to \$1.07 million in FY08, a 47% increase. This sum, along with all other benefits, are spread throughout the departments proportional to salaries. Total benefits in FY08 are projected to be \$2.2mm.

- Salaries: we have set aside \$260K for raises, representing an average of 4%. This is currently carried in Administration, but will be applied to staff groups after raises are awarded.
- Congregational Services: Includes \$500K for a national marketing campaign that will be funded through "Association Sunday."
- District Services: increases by \$125K reflecting the multi-year commitment to increase salaries.
- Stewardship & Development: Increases by \$300K, most of which is for an expanded phone campaign. Associated revenue is reflected in the Fundraising line.
- Information Technology: Increases by \$120K due to increased staffing dedicated to Tapestry of Faith. This is largely funded through generous campaign gifts.

General Investment Fund

The UUA's General Investment Fund holds the Association's endowment (including both restricted and unrestricted funds), trusts invested on behalf of others, and funds invested by congregations and other UU organizations. The GIF is organized as a unitized common trust, which means it operates like a mutual fund with investing organizations (including the UUA) purchasing units and sharing proportionally in the income, gains, losses, and expenses of the fund.

As of March 31, the GIF held assets valued at \$135 million. About \$100 million of that is the Association's endowment, and the balance represents investments from others. Under the oversight of the Investment Committee, the GIF pursues a strategy designed to achieve real returns (after inflation) of 5% per year within a moderate risk tolerance. It pursues this goal through diversification – diversification among asset classes (large cap equities, small cap equities, fixed income, high-yield fixed income, alternative assets), geography (U.S. and international), and managers (the GIF uses 12 money management firms, each with its own specialty).

The Investment Committee pursues its long-term investment strategy by focusing on asset allocation targets, manager selection, and the incorporation of UU values into its investment decisions. During the past year, the Committee has:

- Increased the allocation to international equities from 15% to 20%
- Decreased the allocation to small capitalization US equities from 10% to 5%
- Added a new international equities manager
- Replaced the US small capitalization growth manager

The Investment Committee and the Committee on Socially Responsible Investing (CSRI) have worked together to strengthen the GIF's socially responsible profile. As of __, 100% of domestic stocks held directly by the GIF are screened as is the domestic fixed income fund. Overall, 57%

of the assets in the fund are subject to SRI screens. The balance is in pooled, or co-mingled funds, where the UUA does not control the individual assets included. Over the last year, collaborating with the CSRI, the Investment Committee took the following steps:

- Commissioned an SRI consulting firm to rate the 1000 largest US companies according to how their performance measures up to UU values
- Established a cut-off point and instructed the GIF's fund managers to eliminate all stocks in companies falling below a specific threshold
- Adopted a policy to divest the GIF of any shares in companies providing significant support to the government of the Sudan
- Adopted a community investing policy and invested nearly one million dollars of the GIF's funds in these investments. This represents a major step towards meeting the goal set the Board of Trustees of investing 1% of the GIF's assets in community investments.

The UUA is an active shareholder, witnessing for social justice through its ownership position in companies. During the 2006-2007 shareholder season, the UUA filed 11 shareholder resolutions, four of them as the lead filer. The issues addressed included health care policies, workplace diversity, LGBT non-discrimination, and executive compensation. In response to the Statement of Conscience on Global Warming/Climate Change adopted at the 2006 General Assembly, the UUA filed its first resolutions on climate change. One, with Starwood Hotels and Resorts, resulted in the company acceding to the demands in the proposal and agreeing to work with shareholders to improve their disclosure of emissions data and management of energy resources.

The Association encourages member congregations, districts and affiliates to invest endowment funds in the GIF along with the UUA's endowment portfolio. Investing with the UUA offers the advantage of investment and administrative stability without the need for periodic retraining and with the comfort of having the Association's Investment Committee oversight.

Retirement Plan

As of April 30, 2007, the Unitarian Universalist Organizations Retirement Plan had a total balance of \$176,134,302 with 2,663 plan participants and 679 congregations and other Unitarian Universalist organizations. In the past year, the plan's assets increased by 13%. The Plan currently offers 24 fund options, including a socially responsible fund option in each asset category. We continue to appreciate the excellent customer service that we receive from Fidelity Investment's Tax-Exempt Services Company.

Early in 2007 we learned that the Fidelity Diversified International Fund owns shares in a company that pays significant royalties to the Sudanese government which has been implicated in the genocide in Darfur. Therefore, in April 2007, all plan participants received a letter from President Bill Sinkford and the UUA's Office of Church Staff Finances encouraging plan participants to divest their money from the Fidelity Diversified International, and move it into one of the other international alternatives – the Calvert International Equity Fund or the new Fidelity Spartan International Index Fund that was added to the plan on May 21, 2007.

Holdeen and Outside Trusts

Under the terms of the Holdeen and certain other trusts, the Association has an irrevocable right to receive and to use the income earned on the trust assets for designated purposes, but the principal itself will never be available to the Association nor does the UUA control how these funds are invested. As of June 30, 2006, in accordance with Generally Accepted Accounting Principles, the fair value of the trust assets was recorded as permanently restricted net assets amounting to \$41.6 million, comprised of the Holdeen and other trusts.

Future Priorities

Over the coming year, I look forward to working with the Financial Advisor, the Board of Trustees, and UUA committees to address the following issues:

- Complete documentation of policies and procedures
- Business practices review plan
- GIF – improving marketing and investor communications
- Facility Condition Assessment
- LEED certification/energy masterplan
- Cash management/funding of capital items

Submitted by

Tim Brennan, Treasurer & Vice President of Finance

The UUA Committee for Socially Responsible Investing
presents

Ben Cohen

Socially Responsible Investing and the Maturation of Capitalism

Thurs, June 21 at 1PM - 2:15 PM — Oregon Convention Center -- F150



Ben Cohen (co-founder of Ben & Jerry's) shares how ethical business models are transforming capitalism by adopting human rights and sustainability standards, and internalizing (not externalizing) costs to the environment and communities. SRI Committee Chair *Rev. Sydney Morris* and UUA Treasurer *Tim Brennan* respond with ways UUs can contribute to this 'maturation of capitalism.'

— Visit our booth in the exhibit hall! —

Making a Difference with Ideals, Impact, and Involvement — www.uua.org/finance/sri/