

**Unitarian Universalist Association  
Annual Report of the Treasurer  
To the 2008 General Assembly in Fort Lauderdale, Florida**

**Submitted by  
Tim Brennan, Treasurer & Vice President of Finance**

**Introduction**

As treasurer, my role is to insure the effective stewardship of the Association's resources in service of our common 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 and nearby buildings. 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 fifteen million dollars to its net assets over 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. In fiscal 2007 we experienced a \$4.2 million increase in unrestricted net assets following a break-even year in 2006. Beacon Press generated a small surplus in FY 2007 after showing similar results in FY 2006.

**Audited Financial Statements**

At the end of these UUA 2008 Annual Reports are the UUA's financial statements for the years ending June 30, 2007 and 2006. 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, as well as the oversight of the Finance and Audit Committees. The statements include Supplemental Schedules of assets, liabilities and net assets that detail business segment information for Current Operations, Beacon Press, Congregational Properties and Loan Commission, and the General Investment Fund (GIF). Additional GIF reporting, including the investment portfolio detail, is appended.

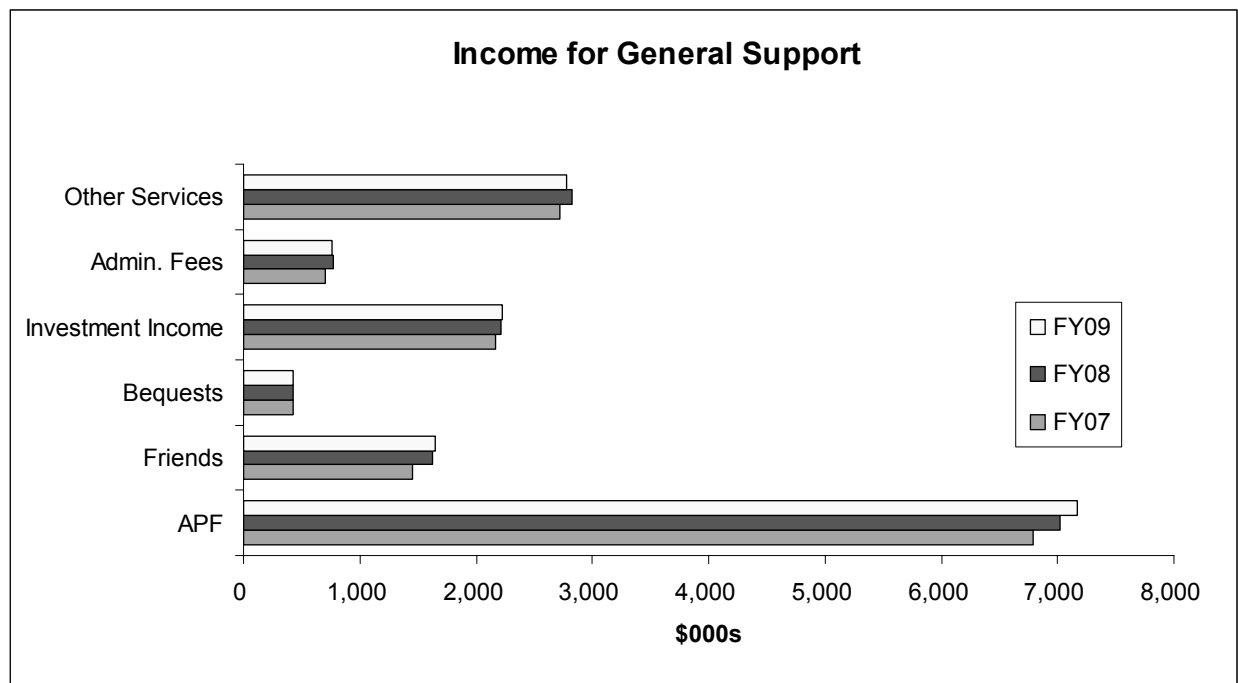
The Audit Committee, which is appointed by the board of trustees, selects the Association's audit firm. The auditors conduct their review of the Association's books and records and present their report to the committee. The committee then reports these results to the full board. The staff does not select the auditors nor is the report directed to them. In addition to the financial statements, the auditors each year prepare a "management letter" containing a set of recommendations aimed at improving the UUA's financial systems. In their 2007 management letter, KPMG suggested that the UUA reduce the amount of time it takes to close the books for the year and the interim periods. During FY08 we have succeeded in speeding up closings for both monthly and quarterly periods.

## 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, please see the Budget Overview – Current Operations at the end of this narrative. It shows the actual results for FY 2007, the budgeted income and expenses for FY 2008, and the budget for FY 2009 adopted by the Board of Trustees at its April 2008 meeting.

### *Changes and Trends – Actual FY07 to Budget FY08*

As was reported to the Board of Trustees at its April meeting, actual results for FY08 are expected to come in very close to budget. Therefore, the numbers in the Budget Overview for FY08 budget can be considered a reasonable proxy for projected results for this year.

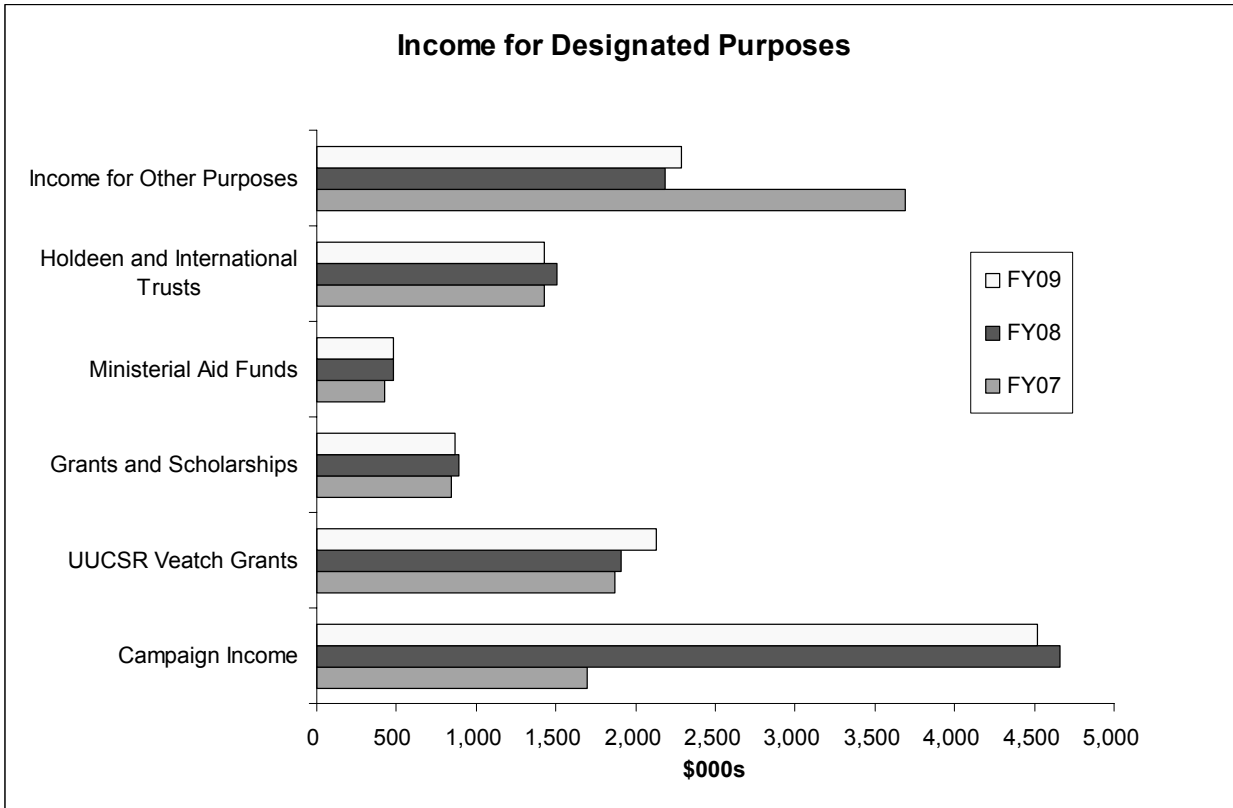


Overall, both revenue and expense increased over 7% between FY07 and FY08. The most significant changes in income are as follows:

- APF and Friends donations increased slightly, leading to a 1.5% increase in Fundraising
- The three capital campaigns showed a combined increase of nearly \$3 million or 175% due to the ramp-up of the new campaign, Now is the Time
- Income for Other Purposes category dropped 40% due to the winding up of the fundraising for the Gulf Coast Relief Fund

The most significant changes in expenses are as follows:

- Congregational Services increased by 64% due to the regional and national marketing campaigns funded with campaign donations
- District Services includes \$250,000 for District Growth Grants funded by Association Sunday
- Identity Based Ministries benefited from generous campaign donations to fund the Diversity of Ministry Initiative and a Spanish-language hymnal
- The Tapestry of Faith program grew in 2008, again through the generosity of capital campaign donors, leading to an increase of 28% in Lifespan Faith Development
- Expenses for Stewardship and Development grew by 14% to support the Now is the Time Campaign
- Information Technology Services grew by 14% as well, as new staff was added to support program activities
- Beacon Press required no UUA subsidy in 2007 and is expected to generate a surplus again in 2008



## ***Changes and Trends – Budget FY08 to Budget FY09***

As we look forward to the next fiscal year, we are anticipating a challenging financial environment. Given the slowdown in the US economy and the decline in the stock market, we believe it is prudent to project little growth in revenues. Overall, the proposed budget assumes an increase of 0.4% in income and a like increase in expenses. Expense growth was contained by allowing only 2% of total payroll for raises, but cutting travel expenses by 5%, and by containing other expenses throughout the budget. (Note that the assumption of a 2% increase in salaries does not imply that there will be a 2% across-the-board raise.)

As a further precaution, certain expenses, which are anticipated to be funded through campaign gifts, have been identified as “conditional.” This means that although the expenses are included in the budget, expenditures will not be authorized until the associated donations are committed.

### **Overall Income – up 0.4%**

#### *Fundraising – up 0.7%*

APF is projected to grow by \$125,000 while Friends and bequests are essentially flat. APF is currently ahead of budget and Friends income is now tracking just slightly below budget.

#### *General Investment Income – up 0.7%*

We have assumed no growth in assets for FY08 and an increase of 5% in FY09. Our policy of averaging assets over 13 quarters in calculating endowment payout diminishes the effect of market fluctuations.

#### *Campaign Income – collectively down by 3.0%*

Note that income from campaigns included in the operating budget includes funds that will be expended on programs during the fiscal year, not the total amounts pledged or collected. Payments from the Handing on the Future campaign, primarily matured planned gifts, and withdrawals of spendable accounts produce a doubling in spending. CFUU, on the other hand, now includes mostly earnings from endowed accounts and is down 77% from last year. Now is the Time Campaign (up 8%) – is projected to essentially hold steady with this fiscal year.

#### *Veatch Grants – up by 11.4%*

The Veatch Fund has increased their support of the UUA.

#### *Holdeen Trusts – down by 5.2%*

Due to decreased spending from Trust income, primarily due to lowering our support to IARF.

#### *Income for Other Purposes – up by 4.8%*

Mostly due to increased payments from Health Plan Trust to offset personnel, administrative, overhead, and occupancy expenses of the Plan.

### **Overall Expenses – up 0.4%**

With the FY09 budget, we initiated the practice of allocating occupancy costs (depreciation, utilities, maintenance, etc.) to each staff group based on square footage used. In the case of Beacon Press, the occupancy cost allocation is offset by a support payment recorded in the Communications staff group budget. While there is no effect on the bottom line, one effect of

this change is that the FY08 and FY09 budgets are not directly comparable. The notes below comment on changes not related to occupancy cost.

*Board and Volunteer Leadership – down by 5.1%*  
Youth consultation was completed in FY08.

*Congregational Services – down by 20.0%*  
Following on the Youth Consultation process, all Youth activities have been consolidated in the Lifespan Faith Development Staff Group. Young Adult and Campus Ministry represented \$445K in the FY08 budget.

*Identity Based Ministries – increase of 12.8%*  
The increase is due to spending on the Diversity of Ministry program, most of which will be funded from Campaign donations and Association Sunday.

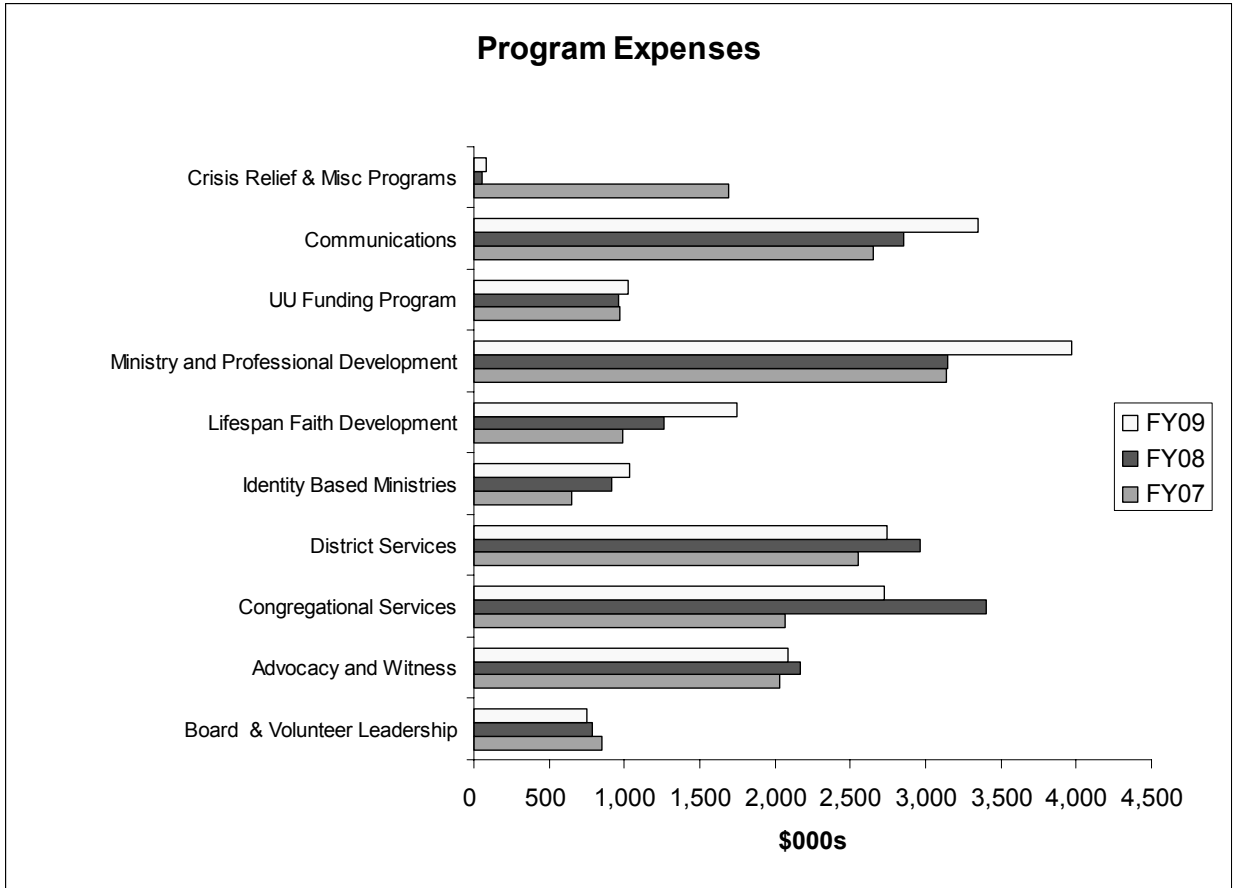
*Lifespan Faith Development – 37.7% increase*  
This reflects the transfer of the YACM budget from Congregational Services and the consolidation of all Youth activities in LFD.

*Ministry and Professional Leadership – up 26.3%*  
Increased spending on Excellence in Ministry and Lay Theological Education funded with \$500,000 from Association Sunday. These expenses are conditioned on achieving the revenue goal. Also includes a new program for supporting congregations with worship and music resources funded entirely through a generous donation (\$87,000 in FY09). These funds are already committed.

*Communications – up by 17.1%*  
In addition to the occupancy cost allocation and the Beacon support payment (together \$443K), periodicals expenses have increased by \$30K due to printing and postage costs.

*Administration – up by 11.1%*  
The increase is due largely to the fact that the pool for raises is carried in this line (\$149K). Human Resources expenses, which include benefits, are flat with the FY08 budget due to the UUA Health Plan, which is helping to contain costs.

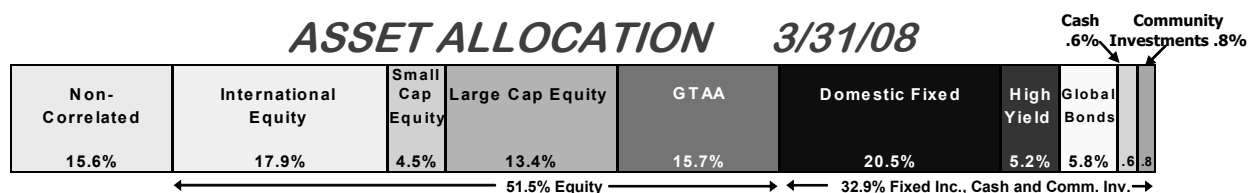
*Internal Services – down 39.1%*  
Reflects the allocation of facilities expenses to the staff groups.



### 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 fund, 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 \$127 million. About \$90 million of that is the Association’s endowment, and the balance represents investments from other institutions. Individuals may not invest in the GIF. 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, global tactical asset allocation funds (GTAA), non-correlated), geography (U.S. and international), and managers (the GIF uses 13 money management firms, each with its own specialty). The allocation of the assets in the GIF is depicted in the following chart.



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:

- Decreased the target allocation to U.S. large cap equities from 25% to 15%
- Added a two Global Tactical Asset Allocations Funds
- Eliminated one non-correlated fund manager

The Investment Committee and the Committee on Socially Responsible Investing (CSRI) have worked together to strengthen the GIF's socially responsible investing (SRI) practices. Currently, 100% of domestic stocks held directly by the GIF are screened as is the domestic fixed income fund. In addition, core fixed income, high yield fixed income, and one of our two international funds screens out tobacco and/or weapons. The balance is in pooled funds where the UUA's investments are co-mingled with those of other institutions so that the UUA cannot control the individual assets included.

The UUA is an active shareholder, witnessing for social justice through its ownership position in companies. During the 2007-2008 shareholder season, the UUA filed shareholder resolutions addressing global warming, workplace diversity, LGBT non-discrimination, and executive compensation. Several of these filings led to dialogues with company management, in two cases with CEOs.

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 March 31, 2007, the Unitarian Universalist Organizations Retirement Plan had a total balance of \$174 million with 2,707 plan participants and nearly 700 congregations and other Unitarian Universalist organizations. During 2007, the plan's assets increased by 11%, but due to declining securities markets, assets decreased by 5.9% in the first quarter of 2008. The Plan currently offers 24 fund options, including a socially responsible fund option in each asset class. The Plan is administered by Fidelity Investment's Tax-Exempt Services Company.

In 2007 it was widely reported that several of Fidelity's mutual funds held shares of companies that provided significant financial resources to the government of the Sudan, thus abetting the Darfur genocide. In 2008 some mutual fund investors began submitting shareholder proposals

asking Fidelity to avoid investments that support genocide. Fidelity management has opposed these resolutions. The UUA has joined with other concerned investors to support these resolutions.

### **Holdeen and Outside Trusts**

Under the terms of the Holdeen and certain other trusts, the Association has an 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, 2007, in accordance with Generally Accepted Accounting Principles, the fair value of the trust assets was recorded as temporarily and permanently restricted net assets amounting to \$47.4 million, comprised of the Holdeen and other trusts.

### **Stewardship of Physical Assets**

In the Fall of 2007, we conducted a Facilities Condition Assessment of the UUA's physical plant and developed a long-term plan for its upkeep. In addition, we have commissioned an engineering firm to develop an energy masterplan with the goal of reducing the environmental footprint of our operations. We are also reviewing the requirements for having our buildings LEED certified.

### **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:

- Improving financial controls and systems
- Improving timeliness of closings
- Cash management/funding of capital items
- Selection and installation of fixed asset system
- Investment information documentation and investor communications
- FCA/LEED certification/energy masterplan



**Unitarian Universalist Association  
Budget Overview  
Current Operations**

	FY07 Results	FY08 Budget	Percent Inc/Dec 07 to 08	FY09 Budget	Percent Inc/Dec 08 to 09
<b>INCOME</b>					
<b>Income for General Support</b>					
Fundraising	8,937,140	9,173,952	2.6%	9,241,004	0.7%
Administration Fees	705,152	766,783	8.7%	755,485	-1.5%
General Investment Income	2,164,738	2,213,889	2.3%	2,229,192	0.7%
Other Current Fund Income	2,719,833	2,827,875	4.0%	2,783,415	-1.6%
<b>Total Income for General Support</b>	<b>14,526,863</b>	<b>14,982,499</b>	<b>3.1%</b>	<b>15,009,096</b>	<b>0.2%</b>
<b>Income for Designated Purposes</b>					
Handing on the Future Income	174,095	257,500	47.9%	569,500	121.2%
Campaign for Unitarian Universalism	681,878	932,108	36.7%	216,450	-76.8%
Now is the Time Campaign	835,916	3,467,714	314.8%	3,731,464	7.6%
UUCSR Veatch Grants	1,871,314	1,910,685	2.1%	2,128,525	11.4%
Grants and Scholarships	845,193	887,514	5.0%	865,225	-2.5%
Ministerial Aid Funds	424,411	480,000	13.1%	480,000	0.0%
Holdeen and International Trusts	1,425,931	1,503,945	5.5%	1,426,417	-5.2%
Income for Other Purposes	3,687,442	2,182,102	-40.8%	2,286,073	4.8%
<b>Total Income for Designated Purposes</b>	<b>9,946,180</b>	<b>11,621,568</b>	<b>16.8%</b>	<b>11,703,654</b>	<b>0.7%</b>
<b>General Assembly - net</b>	<b>294,853</b>	<b>0</b>		<b>0</b>	
<b>Total Income</b>	<b>24,767,896</b>	<b>26,604,067</b>	<b>7.4%</b>	<b>26,712,750</b>	<b>0.4%</b>
<b>EXPENSES</b>					
<b>Programs</b>					
Board & Volunteer Leadership	846,871	788,315	-6.9%	747,873	-5.1%
Advocacy and Witness	2,025,989	2,170,209	7.1%	2,084,967	-3.9%
Congregational Services	2,071,521	3,402,757	64.3%	2,721,490	-20.0%
District Services	2,547,532	2,962,952	16.3%	2,739,356	-7.5%
Identity Based Ministries	653,629	915,145	40.0%	1,032,189	12.8%
Lifespan Faith Development	991,281	1,265,885	27.7%	1,743,273	37.7%
Ministry and Professional Development	3,135,434	3,142,794	0.2%	3,969,227	26.3%
UU Funding Program	970,509	958,485	-1.2%	1,026,525	7.1%
Crisis Relief & Misc. Programs	1,694,680	50,705	-97.0%	83,858	65.4%
Communications	2,654,619	2,854,689	7.5%	3,343,326	17.1%
<b>Total Programs</b>	<b>17,592,065</b>	<b>18,511,936</b>	<b>5.2%</b>	<b>19,492,084</b>	<b>5.3%</b>
<b>Administration</b>	<b>1,354,398</b>	<b>1,687,242</b>	<b>24.6%</b>	<b>1,874,411</b>	<b>11.1%</b>
<b>Infrastructure</b>					
Stewardship and Development	2,439,321	2,792,864	14.5%	2,655,445	-4.9%
Information Technology Services	1,045,271	1,199,047	14.7%	1,221,978	1.9%
Internal Services	2,292,510	2,412,978	5.3%	1,468,831	-39.1%
<b>Total Infrastructure</b>	<b>5,777,102</b>	<b>6,404,889</b>	<b>10.9%</b>	<b>5,346,254</b>	<b>-16.5%</b>
<b>Total Expenditures</b>	<b>24,723,565</b>	<b>26,604,067</b>	<b>7.6%</b>	<b>26,712,750</b>	<b>0.4%</b>
<b>Expenditures (over) under Income</b>	<b>44,331</b>	<b>0</b>		<b>0</b>	