

**Unitarian Universalist Association  
Annual Report of the Treasurer  
To the 2010 General Assembly in Minneapolis, Minnesota**

**Submitted by  
Tim Brennan, Treasurer & Chief Financial Officer**

**Financial Condition of the Association**

Despite the downturn in the economy in 2008 and 2009, the Association remains in solid financial condition. We can say this because significant budget reductions were implemented during FY09 and a balanced budget was created for FY10 that relied on lower revenue expectations. Those projections have proved to be accurate on the whole, and the result is a projected balanced budget for FY10. Looking forward to FY11, we do not anticipate a rapid recovery in revenue, and therefore further expense reductions have been necessary for next year's plan. The good news is that the last year has seen a significant recovery in all of the UUA's invested assets, including the UU Common Endowment Fund, the Holdeen Fund and other outside trusts, the assets supporting planned giving arrangements, and the assets of our retirement plan participants. Current balances remain below the peaks achieved in 2007, but the recovery from the trough in early 2009 has been dramatic.

**Role of the Treasurer**

The Treasurer's 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 assets, including our headquarters, 25 Beacon Street and nearby buildings. The Treasurer serves as Chief Financial Officer of the association, overseeing all financial aspects of the Association's activities including budgeting, financial reporting, lending, bank loans, investments, outside trusts, and our retirement and health plans.

**Audited Financial Statements**

At the end of these UUA 2010 Annual Reports you will find the audited financial statements for the years ending June 30, 2009 and 2008 for the UUA and the UU Organizations Health Plan (which is organized as a separate trust). The UUA's statements were audited by KPMG and judged to fairly present the financial condition of the Association in all material respects. The Health Plan's statements were audited by Caturano & Company and similarly found to fairly present the financial condition of the Trust. This result is due to the diligent and careful work of the financial services and Health Plan staffs of the UUA, as well as the oversight of the Finance and Audit Committees and the Health Plan trustees. The UUA's statements include Supplemental Schedules of assets, liabilities and net assets that detail business segment information for Current Operations, Beacon Press, Congregational Properties and Loan Fund, and the UU Common Endowment Fund (UUCEF). Detailed schedules on the UUCEF are also included.

The Audit Committee, which is appointed by the board of trustees, recommends the Association's audit firm to the Board of Trustees. 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 the Fall of 2009, the Audit Committee determined that after five years with KPMG it would be prudent to issue a Request for Proposal and consider other firms for appointment as the UUA's auditor. After a thorough process of reviewing proposals from six firms, they selected CBIZ Tofias, a Cambridge-based firm that is the New England division of the national firm, Mayer, Hoffman McCann. Tofias, which has an extensive nonprofit practice, demonstrated a deep understanding of the financial and reporting issues facing the UUA. Their first audit report covering the year ending June 30, 2010 will be issued in the Fall.

## **Operating Budgets**

The process of preparing the budget for FY11 was extremely challenging, perhaps even more so than last year when we were facing the depths of the market collapse. Our congregations are still hurting, and their support of the Association through the Annual Program Fund is not expected to increase next year.

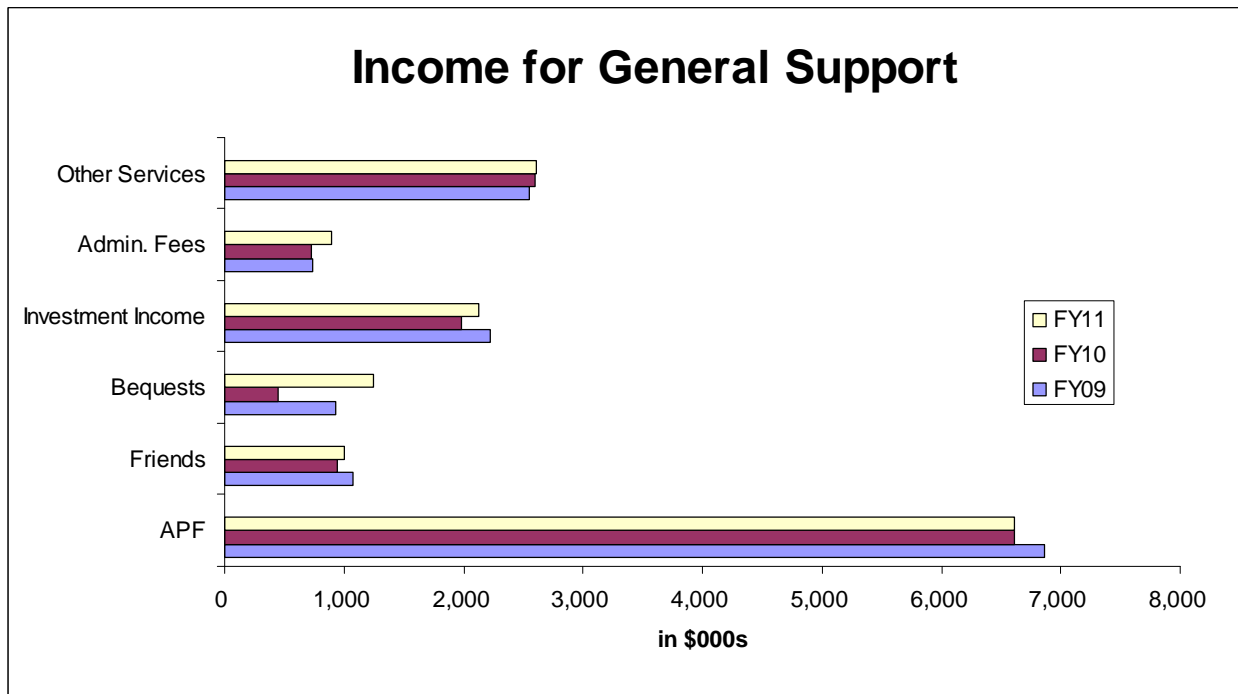
For FY11 we anticipate no recovery in our regular unrestricted revenue. Specifically, the Annual Program Fund, which funds about half of the unrestricted portion of our budget, is projected to be flat with the current budget. The same is true for annual giving through the Friends of the UUA program. At its January meeting, the Board voted to institute a new spending policy, which is more prudent but which provides less current income to the operating budget from our endowment.

The budget adopted by the Board at its April meeting addresses these challenges in several ways:

- Expenses have been reduced through reorganization and staff reductions. Thirteen positions equivalent to eight full-time employees were eliminated.
- \$800,000 in unrestricted bequests received but not spent in FY10 will be applied to FY11.
- For our programs funded through restricted gifts and endowed funds, we will recognize something closer to the full cost of these activities by including 15% for administrative overhead.
- A special fundraising effort will raise \$350,000 in major gifts for the President's strategic priorities.
- The budget includes an allowance for salary increases of 3%. This follows a year with no salary increases and several years in which raises have lagged inflation. We believe these increases are necessary for staff retention and morale.

The UUA's staff groups are undergoing significant reorganization. This is being undertaken to reduce expenses and to better align the organization with strategic goals. The staff group restructuring is underway and is not fully reflected in the details of the budget passed by the Board of Trustees.

The bottom line for the FY 2011 budget yields a surplus of \$101,148, which is necessary to fund certain capital expenditures that are in excess of the depreciation expenses included in the budget.

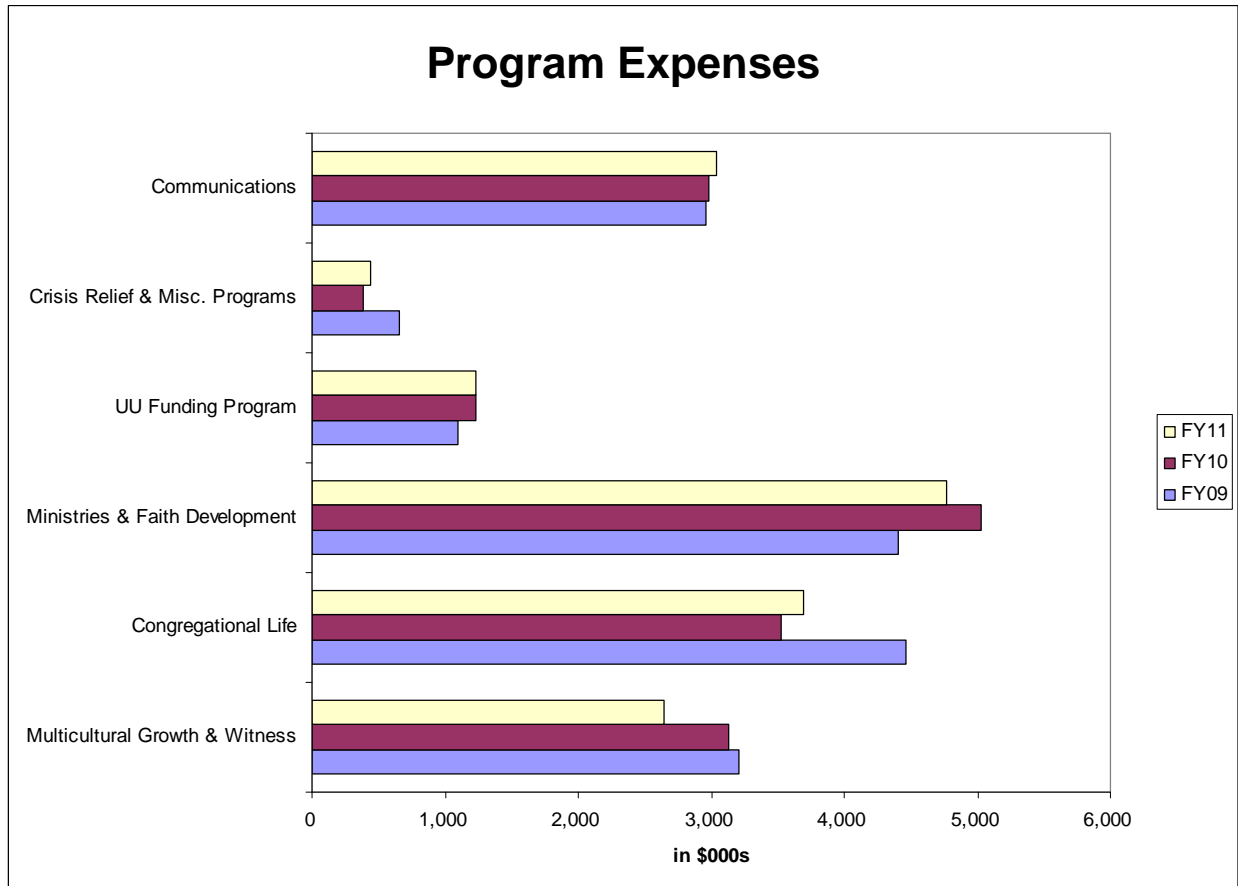


*Compares actual FY09, projected FY10, adopted budget FY11*

As we look forward to the fiscal year beginning July 1, 2010, we are anticipating total revenues that will be down by 2% from the current year.

- Fundraising – up 10.7%** All of the increase comes from unrestricted bequests. Both APF and Friends are projected to show no increase over FY10. Regarding bequests, we are projecting \$450,000 in new bequests, the same budget as the current fiscal year, and adding to that \$800,000 in unrestricted bequests in excess of the budgeted amount received in this fiscal year. These are bequests that are either received or are in process. Thus these funds are expected to be collected before the start of FY11.
- Endowment spending – up 7.7%** This is the spending from the unrestricted portion of the endowment. The increase reflects the change of the UUA’s spending policy from a base rate of 5% to 5.5%. At the same time, the 2% additional draw for fundraising campaign expenses on all UUA endowment funds, both restricted and unrestricted, has been eliminated. This income had been accounted for in Income for Other Purposes section of the budget, which shows a drop of 67%.
- Campaign Income – down 6.9%** Note that income from campaigns included in the operating budget includes funds that will be expended during the fiscal year, not the total amounts pledged or collected. *Handing on the Future* income increases by 46.6% reflecting the redeployment of funds previously included in the site acquisition fund to other growth programming. The decline in *Campaign for Unitarian Universalism* by 44.2% is caused by the depletion of nearly all spendable funds. Major gifts to the Now is

the Time Campaign (-12.3%) are projected to be down slightly as several donations are fully expended. We are projecting \$350,000 in new gifts to support the President's strategic priorities.



Compares actual FY09, projected FY10, adopted budget FY11

- Veatch Grants – down by 9.5%** Market pressures at the Veatch Fund have caused them to slightly reduce their annual grant to the UUA. The FY10 budget also includes certain one-time grants from Veatch/Shelter Rock that will not be repeated in FY11. The Veatch grant in support of the UU Funding Program is virtually unchanged.
- Restricted endowment spending: Grants & Scholarships and Ministerial Aid** Restricted endowment income shows increases from the previous year because of the increase in the base spending rate from 5% to 5.5%.
- Income for Other Purposes – down by 67%** As discussed above, the decrease reflects the elimination of the special endowment draw for campaign fundraising expenses.

### UU Common Endowment Fund

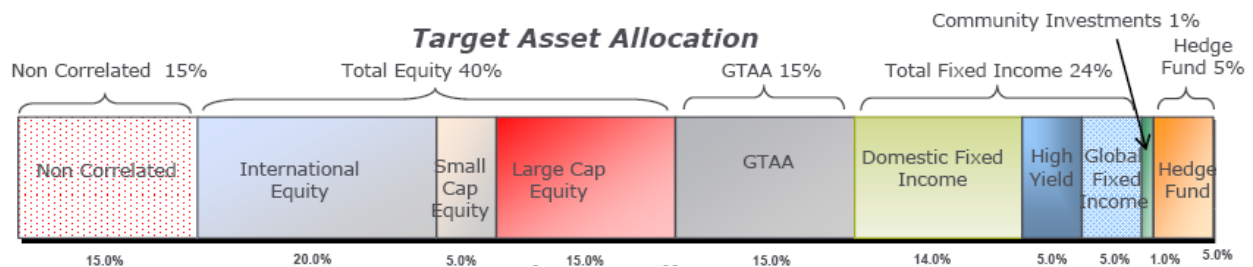
The UU Common Endowment Fund holds the Association's endowment (including both restricted and unrestricted funds), trusts invested on behalf of others, and funds invested by congregations and other UU organizations. The UUCEF is organized as a unitized common fund,

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, 2010 the UUCEF held assets valued at \$119 million. This is up from \$89 million one year ago. Roughly 70% of that is the Association’s endowment, both restricted and unrestricted, and the balance represents investments from congregations and other related organizations. Individuals may not invest in the UUCEF.

For the 12 months ending March 31, the Fund gained approximately 38% net of all fees and expenses. By comparison, the Fund lost 26% in the year ending March 2009. While the fund has not yet regained its 2007 peak, the recent performance has been outstanding. The UUA’s investment consultants, New England Pension Consultants, compare the performance of the UUCEF to a large group of other nonprofit endowments of roughly the same size. Over the last one-year and three-year time periods, the UUCEF has performed in the upper 25% of the endowments in the comparison group. The diversification strategy employed by the UUCEF did not prevent losses in the market crash, but positioned the Fund well for the recovery of 2009-10.

Under the oversight of the Investment Committee, the UUCEF 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), hedge funds, non-correlated), geography (U.S., developed international, emerging markets), and managers (the UUCEF uses 15 money management firms, each with its own specialty). The target allocation of the assets in the UUCEF is depicted in the following chart.



During FY10 the Investment Committee made allocations to two new asset classes: 5% each to a hedge fund of funds and to a credit opportunities fund. 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.

The Investment Committee and the Committee on Socially Responsible Investing (CSRI) have worked together to strengthen the UUCEF’s socially responsible investing (SRI) practices. Currently, 100% of domestic stocks held directly by the UUCEF are screened. In addition, core fixed income and one of our two international funds screen 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.

Recently, the Investment Committee selected two new managers for our international equities, Boston Common Asset Management and Global Currents, both of which are socially responsible managers. The UUCEF will retain the two current managers for a total of four, allocating 5% of the portfolio to each. The total allocation to international equities (20%) will not change, but the “tilt” towards SRI funds will increase. This change is in process and will be reflected in the asset allocation report for the period ending June, 2010.

The UUA is an active shareholder, witnessing for social justice through its ownership position in companies. During the 2009-2010 shareholder season, the UUA filed twelve shareholder resolutions addressing several issues. Two companies – Travelers Insurance and Home Depot – agreed to add gender identity/expression non-discrimination policies as a result of our filing. Similar proposals will be voted on at three other companies before General Assembly. Another proposal sent to three companies asks for a shareholder vote on executive compensation, or “say on pay.” This proposal was approved by 51% of the shareholders at EMC Corp and received 43.5% in favor at Abbott Labs. At Bristol-Myers Squibb the company agreed to institute the practice, so the UUA withdrew the resolution. Several other filings led to dialogues with company management.

The Association encourages member congregations, districts and affiliates to invest endowment funds in the UUCEF along with the UUA’s endowment. Investing with the UUA offers the advantage of investment and administrative stability, broad diversification, professional investment guidance, and the oversight of the Association’s Investment Committee.

## **Retirement Plan**

The UU Organizations Retirement Plan currently has 2,822 participating individuals with investments of \$175 million (as of April 2010) compared to \$140 million in April, 2009. This includes active participants, retirees and survivors, and individuals who are no longer employed by a UU organization, but have kept their funds in the Plan. The average plan participant is 55 years old and has an account balance of \$63,283.

More than three years ago, the UUA initiated a dialogue with Fidelity Investments, the recordkeeper for our retirement plan since 1999, regarding their philosophy toward corporate governance, voting on proxy questions, and their policies on investing in companies doing business in the Sudan. Some of these companies, particularly Petro China, are helping to finance the genocide in Darfur through their royalty payments to the Sudanese government. The dialogue with Fidelity, while cordial, was difficult. Fidelity eventually sold off a large portion of their holdings in Petro China, but made it clear that fund managers are free to increase their holdings if the economics dictate.

As a result of this, the Compensation, Benefits, and Pension Committee undertook an exhaustive review of firms capable of providing recordkeeping services to the UU Organizations Retirement Plan. The Committee issued a request for proposals for firms interested in providing recordkeeping services, and received two strong proposals, one from Fidelity Investments and the other from TIAA-CREF.

The CBPC’s rigorous due diligence process demonstrated that both companies had the capability to provide excellent service to Plan participants, and the proposed investment line-ups were very

close on performance and fees. However, in comparing the two companies on compatibility with our values, TIAA-CREF was clearly the better match. TIAA-CREF is an active shareholder, advocating for positions shared by the UUA. For example, over the last two years the UUA has filed 18 shareholder resolutions. TIAA-CREF has supported 17 of them while Fidelity has supported only five. TIAA-CREF also is a leader in community investing, providing capital to underserved communities. Finally, TIAA-CREF offers several socially responsible funds under its own management.

On April 8, 2010, the CBPC voted unanimously to recommend to the Board of Trustees that the UUA engage TIAA-CREF as the recordkeeper for the Plan. In their motion, the Committee stated their reasons for shifting to TIAA-CREF as the following: “1) it is a good business decision; 2) it is advantageous to our plan participants; and 3) it is an expression of our UU values.” The Board considered this recommendation at its online meeting of May 20, 2010. Assuming the Board accepted the recommendation, the transition will occur in the Fall of 2010.

### **Holdeen and Outside Trusts**

Under the terms of the Holdeen and certain other trusts, the Association has a 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. The Holdeen Trusts are used primarily to support the Association’s international work including the Holdeen India Program. As of June 30, 2009, 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 \$33.4 million, comprised of the Holdeen and other trusts.

### **Stewardship of Physical Assets**

Each year, we update the Facilities Condition Assessment of the UUA’s physical plant and develop a long-term plan for the upkeep of our buildings. While we believe that we are investing sufficient amounts in upkeep to avoid deterioration, over the long term additional funds will have to be invested in the physical plant. In addition we are working with an architect towards a goal of having our buildings LEED certified under the Existing Building program.

### **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 quarterly reporting to UUCEF investors
- Insuring a smooth retirement plan conversion process
- Elevating the fiduciary oversight of the retirement plan

## Unitarian Universalist Association – Operating Budgets and Results

Budget Overview Current Operations	FY09 Results Pro forma*	FY10 Forecast Pro forma*	FY11 Budget Adopted	Percent Inc/Dec 10 to 11
<b>INCOME</b>				
<b>Income for General Support</b>				
Fundraising	8,870,199	8,002,152	8,860,000	10.7%
Administration Fees	734,026	719,786	892,222	24.0%
Endowment spending	2,229,192	1,978,548	2,131,697	7.7%
Other Current Fund Income	2,552,267	2,600,475	2,612,666	0.5%
Total Income for General Support	14,385,683	13,300,961	14,496,585	9.0%
<b>Income for Designated Purposes</b>				
Handing on the Future Income	595,310	356,632	522,939	46.6%
Campaign for Unitarian Universalism	222,162	208,288	116,322	-44.2%
Now is the Time Campaign	1,403,517	2,109,399	1,850,857	-12.3%
UUCSR Veatch Grants	2,190,969	2,352,035	2,128,567	-9.5%
Grants and Scholarships	823,254	804,057	849,000	5.6%
Ministerial Aid Funds	479,443	480,000	545,295	13.6%
Holdeen and International Trusts	1,603,238	1,383,440	1,384,823	0.1%
Income for Other Purposes	2,022,206	2,022,997	668,356	-67.0%
Total Inc for Designated Purposes	9,340,100	9,716,848	8,066,159	-17.0%
<b>Total Income</b>	<b>23,725,783</b>	<b>23,017,809</b>	<b>22,562,744</b>	<b>-2.0%</b>
<b>EXPENSES</b>				
<b>Board &amp; Volunteer Leadership Programs</b>	663,326	628,694	504,969	-19.7%
Multicultural Growth & Witness	3,207,201	3,135,394	2,643,298	-15.7%
Congregational Life	4,466,294	3,520,764	3,689,813	4.8%
Ministries & Faith Development	4,411,528	5,023,596	4,765,635	-5.1%
UU Funding Program	1,094,663	1,230,094	1,228,564	-0.1%
Crisis Relief & Misc. Programs	658,320	385,875	444,944	15.3%
Communications	2,959,183	2,987,274	3,045,078	1.9%
<b>Total Programs</b>	16,797,189	16,282,997	15,817,332	-2.9%
<b>Administration</b>	1,480,085	1,497,313	1,607,289	7.3%
<b>Infrastructure</b>				
Stewardship and Development	2,141,735	2,155,353	1,997,601	-7.3%
Information Technology Services	1,092,881	1,003,635	1,031,315	2.8%
Internal Services	1,500,288	1,449,817	1,503,090	3.7%
<b>Total Infrastructure</b>	4,734,905	4,608,805	4,532,005	-1.7%
<b>Total Expenses</b>	<b>23,675,504</b>	<b>23,017,809</b>	<b>22,461,596</b>	<b>-2.4%</b>
<b>Expenses (over) under Income</b>	<b>50,279</b>	<b>0</b>	<b>101,148</b>	

\* Pro forma statements show actual, projected and budget from FY09 and FY10 that have been restated to reflect the reorganization of the staff groups.