

**Unitarian Universalist Association
Annual Report of the Treasurer
To the 2011 General Assembly in Charlotte, North Carolina**

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

Financial Condition of the Association

While the slow economic recovery has been challenging, the finances of the Association are solid. After two years that required layoffs and other significant spending cuts to balance the budget, the current fiscal year has seen no further erosion in revenues, but at the same time, there has not been a strong recovery. As the financial markets have surged over the last two years, our invested assets in the endowment and outside trusts have returned to near their previous peaks. The picture in the real economy has not been so rosy. Our congregations continue to struggle and this affects their support to the Association through the Annual Program Fund. Charitable donations throughout the nonprofit sector have not recovered to pre-crash levels, and the UUA is not immune. Looking forward to the fiscal year beginning July 1, 2011, we are anticipating only modest growth in revenues.

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 aspects of the Association's financial activities including budgeting, financial reporting, lending, bank loans, investments, outside trusts, and our retirement and health plans.

Audited Financial Statements

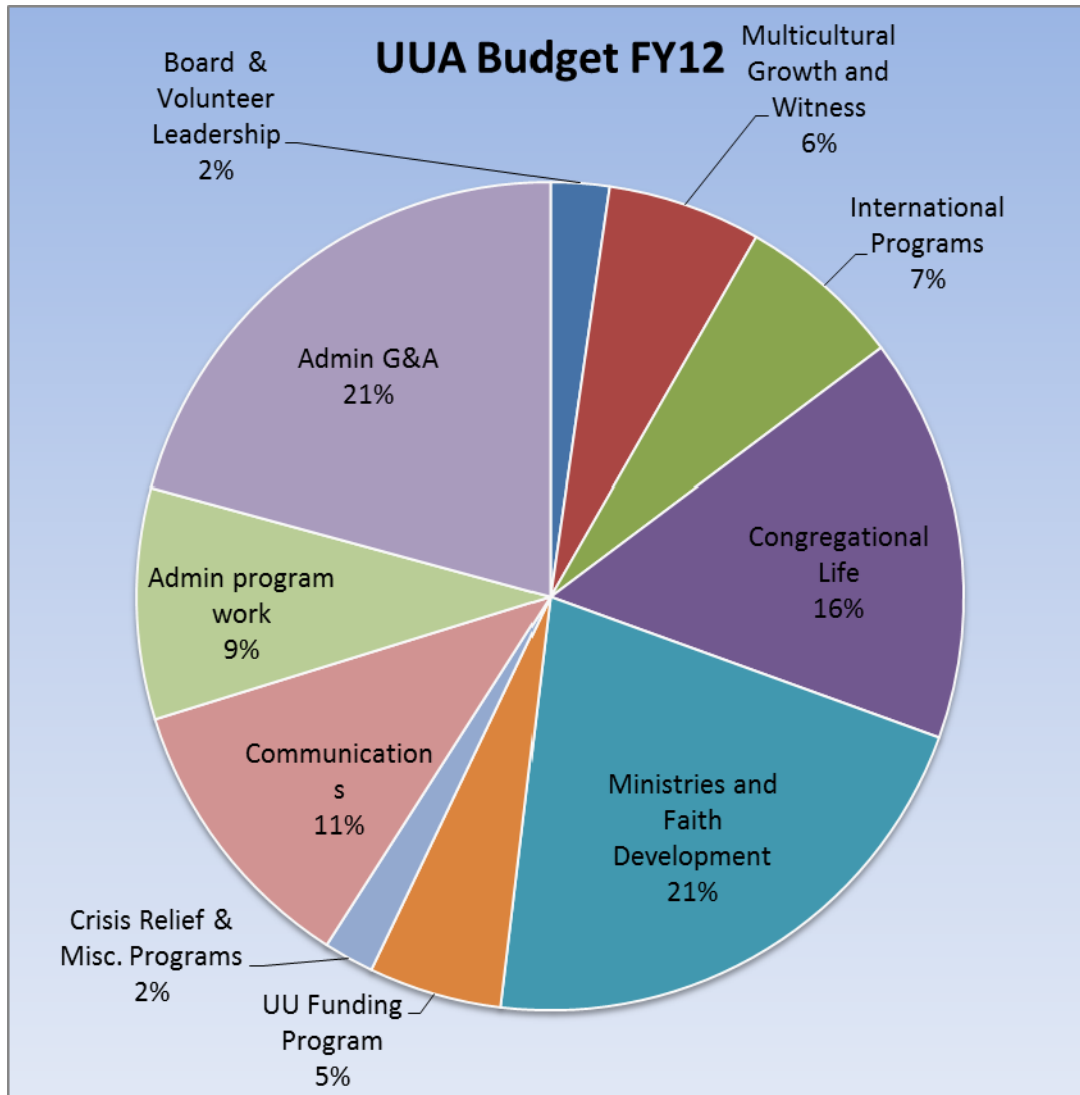
At the end of these UUA 2011 Annual Reports you will find the audited financial statements for the years ending June 30, 2010 for the UUA and the UU Organizations Health Plan (which is organized as a separate trust). The UUA's statements were audited by Mayer, Hoffman McCann – Tofias New England Division and judged to fairly present the financial condition of the Association in all material respects. The Health Plan's statements were audited by McGladrey & Pullen, LLP and similarly found to fairly present the financial condition of the Plan. 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, General Assembly, Beacon Press, Congregational Properties and Loan Fund, and the UU Common Endowment Fund (UUCEF).

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.

This is the first audit of the UUA’s finances conducted by CBIZ Tofias, which replaced KPMG this year. Approximately one year ago, McGladrey acquired Caturano & Co., which conducted the audit of the Health Plan’s fiscal year 2009, but since the key personnel working on our account remained the same, continuity was maintained.

Operating Budgets

For the third year in a row, constructing a budget for the UUA has been extremely challenging. The good news is that it appears that the erosion of our revenue base has stopped, but the recovery is slow, and revenues are still below FY08 levels. We are projecting only modest increases in the Annual Program Fund and unrestricted annual giving (Friends of the UUA). The new endowment spending policy ties the payout to inflation and asset growth with the weight towards the former. The result is that despite the very healthy growth in endowment assets, the payout has only increased modestly. This conservative spending policy will help to conserve capital in the inevitable down markets of the future.



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

- Raises have been postponed until January 2012, thus impacting only six months of the fiscal year.
- No positions have been eliminated, although some reorganization is planned to improve the delivery of services to our congregations.
- As in the current fiscal year, we will use all unrestricted bequests available to us to fund current year operations.

As we look forward to the fiscal year beginning July 1, 2011, we are anticipating total revenues that will be up by 4.3% from the current year.

- **Fundraising – up 3.0%**

The Annual Program Fund is projected to recover to close to pre-recession levels. Friends of the UUA is essentially flat due to generally unfavorable conditions in direct mail fundraising. Bequest income is projected to be \$1.05 million, more than half of which will be received in this fiscal year.

- **Endowment Income – up 2.0%**

This is the spending from the unrestricted portion of the endowment. The increase reflects the UUA's new spending policy under which allowable spending for the upcoming year is based on the current year's spending increased by inflation, or 1.5%, weighted 70% and the change in asset value for the four quarters ending December 31 weighted 30%. So while the endowment fund grew substantially in 2010, the heavy weighting towards inflation-adjusted spending held down the increase.

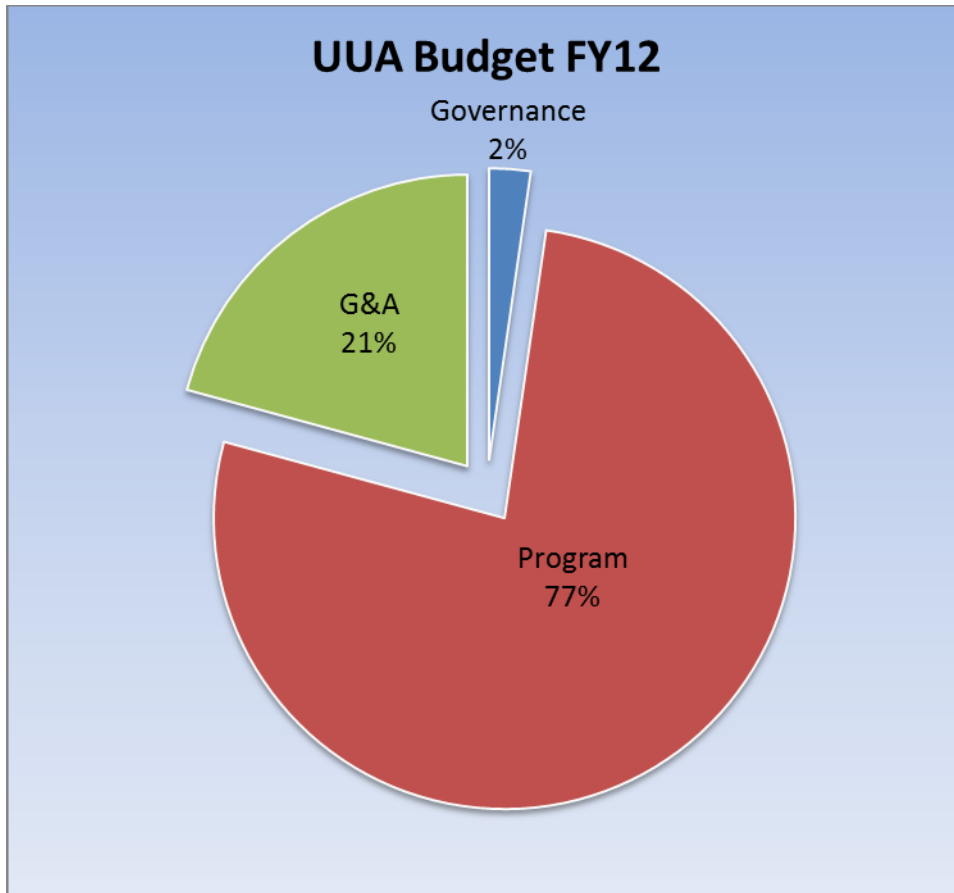
- **Campaign Income – up 10.5%**

The increase is entirely accounted for by Association Sunday, which in FY11 is projected at \$250,000 and in FY12 at \$600,000. However, note that in the current fiscal year Association Sunday's proceeds supported expenses within the operating budget. In FY12, two-thirds of the proceeds will be granted to other organizations for the purpose of advancing ministry. 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.

- **Restricted endowment spending: Ministerial Aid – up by 4.5%**

The increase is primarily due to drawing on unexpended funds that were distributed from the endowment in previous years in accordance with the distribution policy.

The following pie chart shows how the UUA budget is allocated among governance (board and volunteer committees), general and administrative expenses (G&A), and program activities.



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 (principally congregations), 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, 2011 the UUCEF held assets valued at \$138 million. This is up from \$89 million two years ago and in excess of the previous peak reached in 2007. 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 14.2% net of all fees and expenses compared to a weighted average benchmark of 11.3%. 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 top 10% of the endowments in the comparison group.

Under the oversight of the Investment Committee, the UUCEF pursues a strategy with a goal of achieving long term 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), and hedge funds), geography (U.S., developed international, emerging markets), and managers (the UUCEF uses 17 money management firms, each with its own specialty).

During FY11 the Investment Committee allocated 5% of the fund to emerging equity markets. Many economists believe that the emerging economies will see much higher economic growth over the next decade than the developed economies. The particular fund the Committee selected, Dimensional Emerging Markets Fund, is an SRI fund that screens out industry sectors such as weapons, gambling and tobacco. 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. As mentioned above, the Dimensional Fund is fully screened, and Boston Common Asset Management manages approximately one-third of the UUA's developed international equities in a way that is consistent with our values. The balance of the Fund's investments is in pooled vehicles 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 2010-2011 shareholder season, the UUA filed or co-filed eleven shareholder resolutions addressing several issues. Two companies – Dr Pepper Snapple Group and Lowe's – agreed to add gender identity/expression non-discrimination policies as a result of our action.

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 has approximately 2,800 participating individuals with investments of \$189 million as of December 2010 compared to \$169 million in December 2009 and \$128 million at the low point in March 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 \$63,000.

On November 1, the UUA moved its retirement plan from Fidelity Investments to TIAA-CREF. This followed the three-year process of deliberation and dialogue with Fidelity. After ten years with Fidelity, during which the UUA received excellent service from the company, we came to

the realization that we had a fundamental difference in our respective philosophies with regard to corporate governance, voting on proxy questions, and policies on investing in companies doing business in the Sudan. In May 2010, the Compensation, Benefits, and Pension Committee voted unanimously to recommend to the Board of Trustees that the UUA engage TIAA-CREF as the recordkeeper for the Plan. The Board accepted this recommendation at its online meeting of May 20, 2010.

Holdeen 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 December 31, 2010, the Holdeen Trusts were valued at \$31 million.

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.

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:

- Investigating a new structure for the Common Endowment Fund
- Implementing a new, more robust chart of accounts
- Working with other socially responsible investors to encourage investment consulting firms to address environmental, social and governance issues

Unitarian Universalist Association – Operating Budgets and Results

| Budget Overview Current Operations | FY11 Forecast | FY12 Budget | Percent Inc/Dec 11 to 12 |
|---|------------------|----------------|--------------------------------|
| INCOME | | | |
| Income for General Support | | | |
| Fundraising | 8,844,700 | 9,110,000 | 3.0% |
| Administrative Fees | 902,222 | 904,158 | 0.2% |
| Endowment Income | 2,131,697 | 2,175,020 | 2.0% |
| Other Current Fund Income | 2,548,847 | 2,721,692 | 6.8% |
| Total Income for General Support | 14,427,466 | 14,910,870 | 3.4% |
| Income for Designated Purposes | | | |
| Handing on the Future Income | 522,939 | 671,421 | 28.4% |
| Campaign for Unitarian Universalism | 119,840 | 38,316 | -68.0% |
| Now is the Time Campaign | 1,921,526 | 2,113,021 | 10.0% |
| UUCSR Veatch Grants | 2,149,872 | 2,132,557 | -0.8% |
| Grants and Scholarships | 849,000 | 840,751 | -1.0% |
| Ministerial Aid Funds | 545,295 | 570,000 | 4.5% |
| Holdeen and International Trusts | 1,500,930 | 1,776,666 | 18.4% |
| Income for Other Purposes | 676,763 | 630,711 | -6.8% |
| Total Inc for Designated Purposes | 8,286,165 | 8,773,443 | 5.9% |
| Total Income | 22,713,631 | 23,684,313 | 4.3% |
| EXPENSES | | | |
| Board & Volunteer Leadership | 519,301 | 550,898 | 6.1% |
| Programs | | | |
| Multicultural Growth and Witness | 1,440,172 | 1,421,908 | -1.3% |
| International Programs | 1,222,037 | 1,533,204 | 25.5% |
| Congregational Life | 3,733,569 | 3,733,526 | 0.0% |
| Ministries and Faith Development | 4,800,801 | 5,062,175 | 5.4% |
| UU Funding Program | 1,230,558 | 1,232,557 | 0.2% |
| Crisis Relief & Misc. Programs | 463,587 | 466,467 | 0.6% |
| Communications | 2,609,889 | 2,638,663 | 1.1% |
| Total Programs | 15,500,613 | 16,088,500 | 3.8% |
| Administration | 1,702,510 | 2,012,614 | 18.2% |
| Infrastructure | | | |
| Stewardship and Development | 1,998,969 | 2,021,831 | 1.1% |
| Information Technology Services | 1,384,306 | 1,434,620 | 3.6% |
| Internal Services | 1,565,571 | 1,575,850 | 0.7% |
| Total Infrastructure | 4,948,846 | 5,032,301 | 1.7% |
| Total Expenses | 22,671,270 | 23,684,313 | 4.5% |
| Expenses (over) under Income | 42,361 | 0 | |