

**Unitarian Universalist Association
Annual Report of the Treasurer
To the 2012 General Assembly in Phoenix, Arizona**

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

Financial Condition of the Association

As the nation has struggled through a sluggish recovery, so has the Association. Compared to the tumultuous 2008-2009 period, our finances have stabilized and are growing very modestly. Our projection for next fiscal year is that revenues will increase by 2.5%, slightly below anticipated inflation of 3%. As always, the foundation of the Association's finances is the Annual Program Fund. Thanks to the generosity of our congregations, APF has steadily increased over the last two years, and we anticipate further increases next year. Without the unrestricted revenue from APF, the Association would be unable to deliver essential services such as ministerial credentialing, support for searches, youth and young adult programs, religious education resources, support for congregations aspiring to multiculturalism, and proclaiming our values through public witness.

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

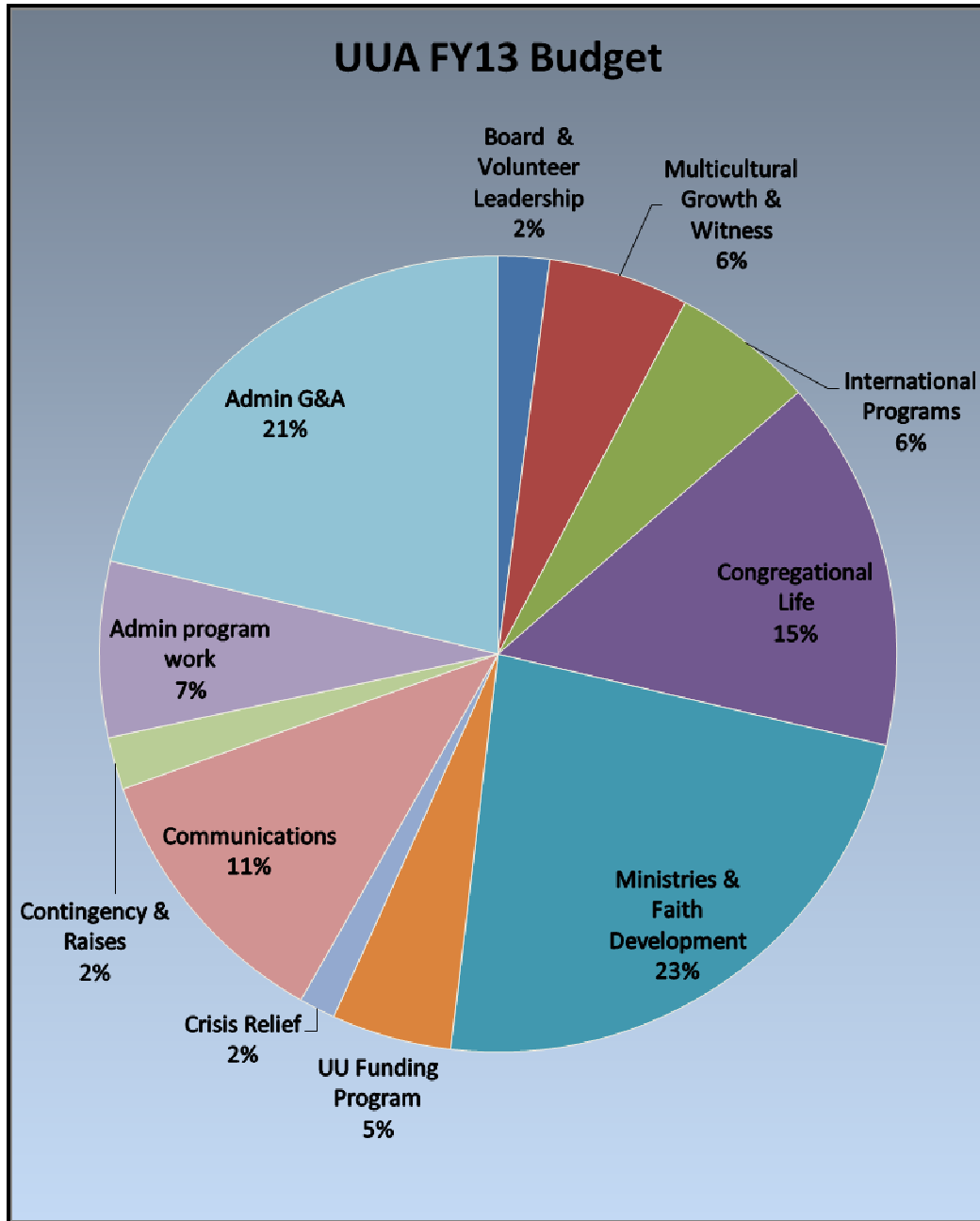
At the end of these UUA 2012 Annual Reports you will find the audited financial statements for the years ending June 30, 2011 and 2010 for the UUA and for the UU Organizations Health Plan (which is organized as a separate trust). The UUA's statements were audited by Mayer, Hoffman McCann – Tofias New 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

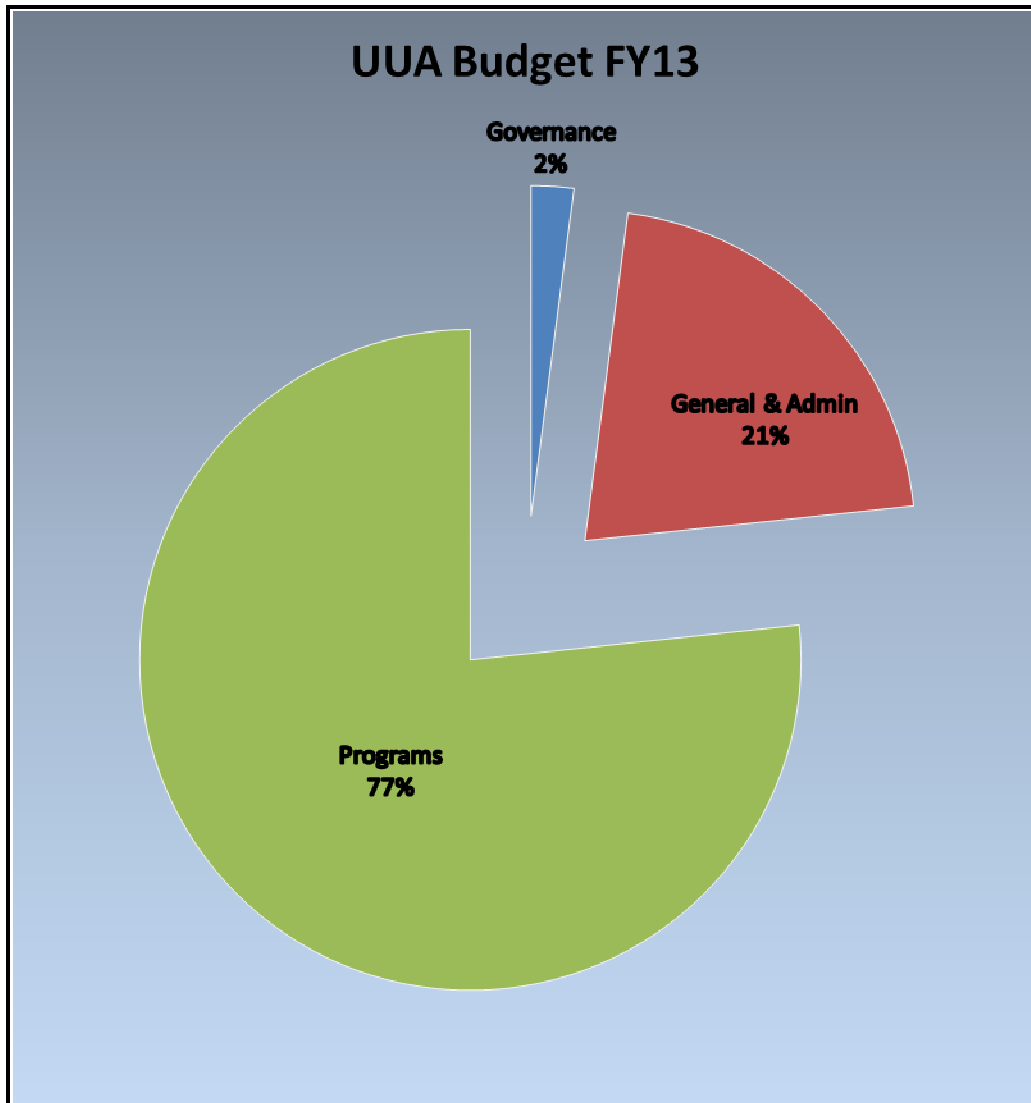
reports these results to the full board. The staff does not select the auditors nor is the report directed to them.

Operating Budgets

Unlike the last three years, we are anticipating that the improving economy and a new focus on core fundraising will lead to a modest increase in revenue for Fiscal Year 2013. Most of the growth is anticipated to come from the Annual Program Fund to which our professional fundraising team will be devoting additional resources. At the same time, we expect bequests to decline to historical averages, endowment income to increase at just under inflation, and major gifts to be flat compared to last year.



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.



Therefore, in order to devote resources to programs that are in support of the President’s priorities and aligned with the Global Ends, resources had to be reallocated within the budget. The Fiscal Year 2013 budget is shaped by the following key priorities:

- A 3% cost of living raise for staff starting January 1, 2013. (The previous raise was January 1, 2012.)
- Implementation of recommendations from the Strategic Review of Ministry.
- Hiring of a fundraiser to focus on foundation grants for Beacon and UUA.

- UUA-UUSC Joint Venture for service learning opportunities through the College of Social Justice.
- Implementation of recommendations from the Comprehensive Communications Review.
- Resources for Congregations and Beyond.
- Funding for core programs and essential services.

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, 2012 the UUCEF held assets valued at \$143 million. Just under \$75 million is the Association’s endowment, both restricted and unrestricted, \$12 million is held in trust for the benefit of congregations, and the balance represents investments from congregations and other related organizations of \$56 million. Individuals may not invest in the UUCEF. So far in FY12, 20 new congregations invested their assets in the Fund representing \$7 million in new investments from congregations. Three congregations withdrew from the Fund.

UUCEF Performance compared to like-sized endowments

Periods ending 3/31/12

	1 Year	3 Years	5 Years
Percentile rank <i>1 = highest 1% 100 = lowest 1%</i>	48	13	11

For the 12 months ending March 31, the Fund gained 3.4% net of all fees and expenses compared to a weighted average benchmark of 1.2% in an extremely volatile market. 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 period, the fund ranked in the top half of the endowments in the comparison group, and over the three-year period, in the top 13%.

At its April meeting, the UUA Board of Trustees voted to form a new legal entity to hold the assets of the UU Common Endowment Fund. The new organization will be a limited liability company fully under the control of the UUA Board. The purpose of the new structure is to insulate the congregations’ assets from the UUA’s liabilities, thus providing a more secure investment structure. Under the guidance of legal counsel, we are now applying for nonprofit, charitable status for the new LLC, a process which could take up to nine months. No assets will be moved to the new entity without the expressed written permission of each congregation.

Under the oversight of the Investment Committee, the UUCEF pursues a goal of achieving long-term real returns (after inflation) sufficient to allow regular distributions while maintaining the

purchasing power of the corpus 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 15 money management firms, each with its own specialty).

During FY12 the Investment Committee voted to allocate 3% of the fund to emerging market local currency debt and to reduce the number of managers in the international equity space. These changes will be executed over the summer. 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 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 securities included.

The UUA is an active shareholder, witnessing for social justice through its ownership position in companies. During the 2011-2012 shareholder season, the UUA engaged with nine companies addressing several issues. Two companies – Walmart and Verizon – 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 \$214 million as of March 31, 2012 compared to \$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 \$65,000.

During this fiscal year, the UUA Board of Trustees voted to establish the Retirement Plan Committee whose sole responsibility is the oversight of our retirement plan. The committee is advised by Fiduciary Investment Advisors, a leading investment consulting firm.

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 March 31, 2012, the Holdeen Trusts were valued at \$31 million.

Stewardship of Physical Assets

The UUA, and before it the American Unitarian Association, have occupied our venerable headquarters at 25 Beacon Street since 1927. While many who visit 25 have the impression that it was a 19th century residence converted to office use, in fact it was built as an office building specifically for the AUA. Over the years, we have acquired other buildings on Beacon Hill to accommodate our needs. While our facilities staff has worked diligently to keep our facilities in good repair, they are now in need of major systems upgrades including the roof, windows, elevator, and HVAC systems. These would require significant investment.

Meanwhile, it has become clear that having offices and meeting space in three different buildings on fourteen floors is not efficient or conducive to collaboration. Therefore, at the April Board meeting, the Administration and the Board reached a consensus that we should begin a search for a new headquarters building in Boston. When the Administration finds a suitable building, it will make a recommendation to the Board for the final decision. It is likely that a move will not take place for 18 to 24 months.

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:

- Implementing the new legal structure for the Common Endowment Fund
- Overseeing the search for a new headquarters facility
- Expanding our shareholder advocacy on the issues of food and immigration

Unitarian Universalist Association – Operating Budgets and Results

Unitarian Universalist Association Budget Overview Current Operations	FY11 Results	FY12 Forecast	FY13 Budget	FY14 Budget Received	Inc/(Dec) FY 12 to FY 13
\$ in Thousands					
Income:					
Income for General Support					
Annual Program Fund	6,527	6,800	7,500	7,600	10.3%
Friends of the UUA	1,089	1,020	1,100	1,150	7.8%
Unrestricted Gifts	0	0	250	250	n/a
Bequest Income	1,109	1,050	873	873	-16.9%
Administrative Fees	930	1,164	1,187	1,205	2.0%
Endowment Income	2,132	2,175	2,228	2,300	2.5%
Other Current Fund Income	2,697	2,684	2,767	2,707	3.1%
Total Income for General Support	14,484	14,892	15,905	16,083	6.8%
Income for Designated Purposes					
Handing on the Future Income	592	415	420	420	1.2%
Campaign for Unitarian Universalism	73	37	43	43	14.8%
Now is the Time Campaign	1,550	2,079	1,731	1,716	-16.8%
UUCSR Veatch Grants	2,204	2,133	2,256	2,261	5.8%
Grants and Scholarships	841	927	912	912	-1.7%
Ministerial Aid Funds	566	485	494	494	1.9%
Holdeen and International Trusts	1,570	1,779	1,396	1,399	-21.5%
Income for Other Purposes	1,792	1,969	2,230	2,148	13.2%
Total Inc for Designated Purposes	9,188	9,824	9,481	9,391	-3.5%
Total Income	23,671	24,716	25,386	25,474	2.7%
Expenses:					
Board & Volunteer Leadership	584	551	528	528	-4.2%
Programs:					
Multicultural Growth and Witness	1,467	1,451	1,448	1,447	-0.2%
International	1,319	1,556	1,472	1,464	-5.4%
Congregational Life	3,792	3,926	3,835	3,951	-2.3%
Ministries and Faith Development	5,740	5,909	5,892	5,949	-0.3%
UU Funding Program	1,247	1,233	1,236	1,241	0.3%
Crisis Relief & Misc. Programs	632	484	372	373	-23.0%
Communications	2,658	2,745	2,859	2,887	4.2%
Total Programs	16,854	17,304	17,115	17,311	-1.1%
Administration	1,473	1,717	2,097	2,339	22.1%
Infrastructure					
Stewardship and Development	1,829	2,055	2,285	2,322	11.2%
Information Technology Services	1,322	1,445	1,603	1,661	11.0%
Internal Services	1,566	1,645	1,758	1,787	6.9%
Total Infrastructure	4,717	5,145	5,646	5,770	9.7%
Total Expenses	23,628	24,716	25,386	25,947	2.7%
Current Section Excess/(Deficit)	43	0	0	(473)	