

**Unitarian Universalist Association
Annual Report of the Treasurer
To the 2013 General Assembly in Louisville, Kentucky**

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

Financial Condition of the Association

While the US economy is in a slow recovery, our congregations continue to struggle. This is not too different from the rest of the nonprofit charitable sector where donations have yet to recover to 2007 levels. Since the largest share of general operating support to the UUA comes from generous contributions from congregations through the Annual Program Fund, the financial challenges of congregations are shared by the Association. Overall membership in our congregations remains steady, which is a positive sign, but many congregations are experiencing flat or declining resources. As a result, the Association is attempting to do more with less. We are seeking efficiencies and reducing staff in order to balance the budget. As we near the end of the fiscal year, we are anticipating a small operating deficit and slightly lower operating revenue next year. The move to a new headquarters facility, described below, will lower operating expenses and improve the overall financial position of the Association.

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 2013 Annual Reports you will find the audited financial statements for the years ending June 30, 2012 and 2011 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

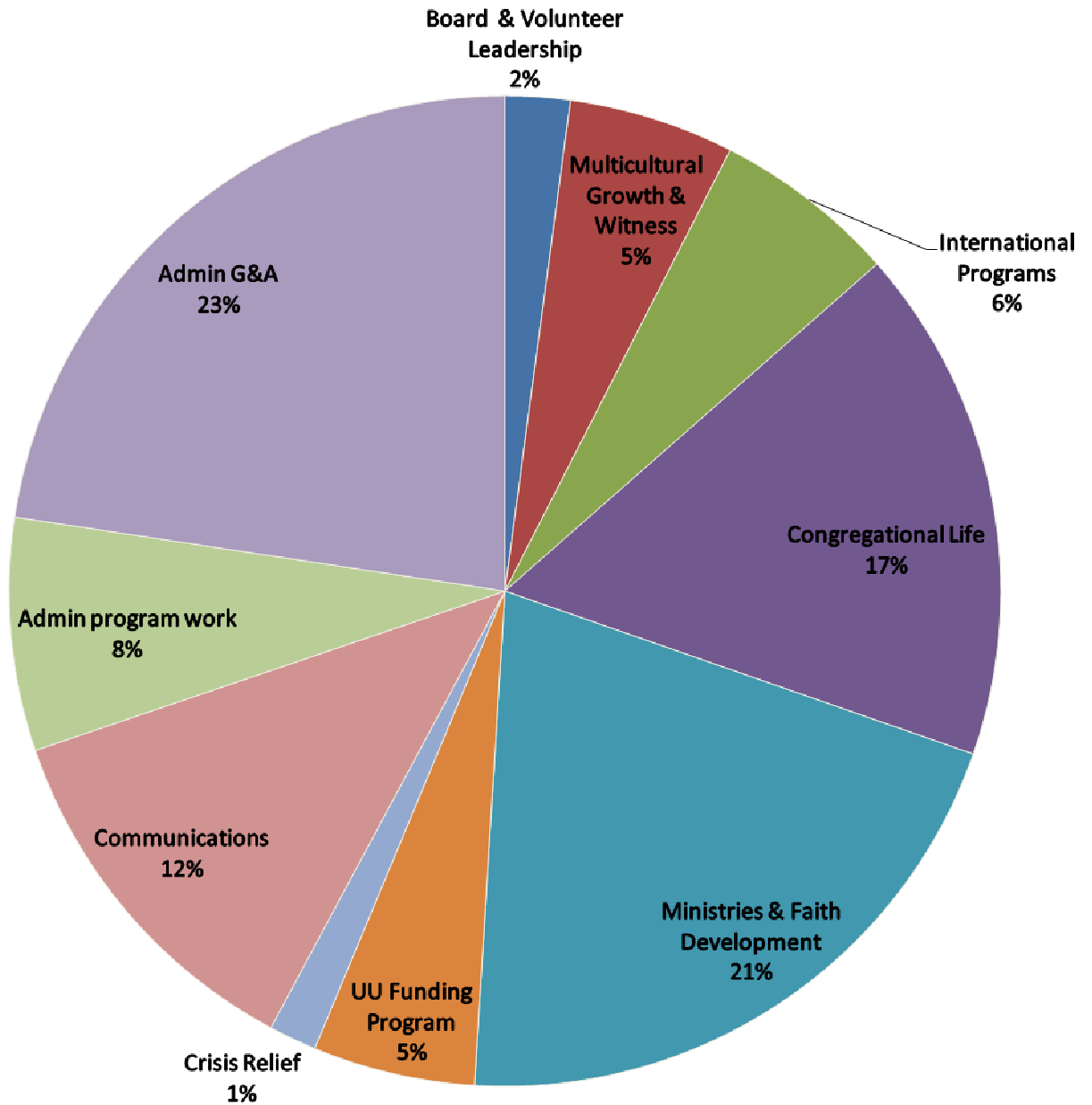
Our forecast for the fiscal year starting on July 1, 2013 shows relatively stagnant revenues and upward pressure on costs in some areas. Therefore several changes were necessary to bring the budget into balance as follows:

- Reduction in force of 10.15 full-time equivalents saving \$762,000. (Resulting severance costs were charged to fiscal year 2013.)
- Launch of the next comprehensive campaign focused on the new headquarters, projected to yield \$550,000 in additional major gift donations.
- Increased fees from the insurance and retirement plans to fully recover the costs of operating the programs and a fee charged on legacy gifts. About \$100,000.
- Beacon Press payment of \$100,000 towards its occupancy expenses.
- Program reductions across the board of approximately \$200,000.

Therefore, in order to devote resources to programs that help to achieve the Global Ends through the President's priorities, resources had to be reallocated within the budget. The Fiscal Year 2014 budget is shaped by the following key priorities:

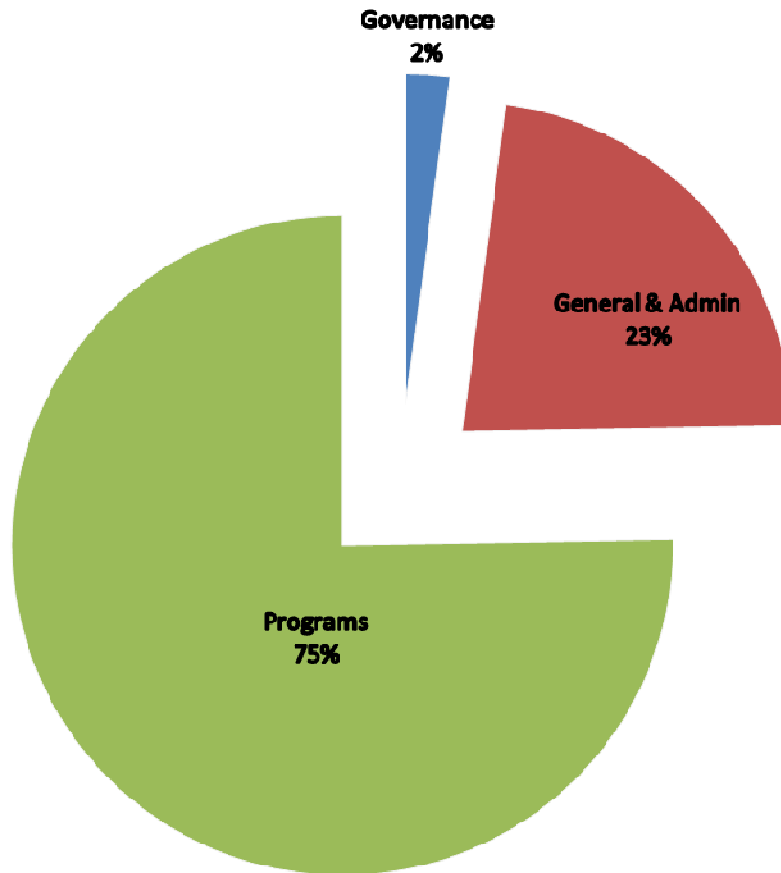
- Direct service to congregations: We protected our field operations that consult directly with our congregations. In spite of the fact that 10 positions were cut from the staff, we maintained the staffing level in the field. In addition, we are committed to proceeding with the regionalization of services throughout the Association.
- Reaching beyond our membership: While we had to find economies in a number of areas, we preserved our efforts to create a communications strategy designed to reach beyond the walls of our current congregations.
- Strategic Review of Professional Ministries: We are in the process of implementing the recommendations of this review. Further implementation this year involves dissemination of the "Beyond the Call" professional development initiative, completing design of a program for developing entrepreneurial ministry, and the Panel on Theological Education's work to develop a recruitment program.

FY14 Current Section Budget By Program



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.

FY 14 Budget Current Section Budget Program vs. G&A



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 structured 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, 2013 the UUCEF held assets valued at \$157 million. Just under \$76 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 \$69 million. Individuals may not invest in the UUCEF. So far in FY13, 17 new congregations have invested their assets in the Fund representing \$3.8 million in new investments from congregations.

UUCEF Annualized Return

Periods ending 3/31/13

	1 Year	3 Years	5 Years
Gross return	8.9%	9.2%	6.2%
Weighted average benchmark	8.2%	6.8%	5.1%
Percentile rank compared to like-sized endowments <i>1 = highest 1% 100 = lowest 1%</i>	67	18	1
Net return	7.7%	8.1%	5.1%

For the 12 months ending March 31, the Fund gained 7.7% net of all fees and expenses compared to a weighted average benchmark of 8.2% 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 three-year period, the fund ranked in the 20% of the endowments in the comparison group, and over the five-year period, in the top 1%.

Last year, 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 was formed as a Massachusetts 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 have submitted an application to the IRS for nonprofit, charitable status for the new LLC, a process that should be completed by the end of the calendar year. No assets will be moved to the new entity without the expressed written permission of each congregation. Congregations that choose not to have their assets moved to the new entity will have their funds returned to them.

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 FY13 the Investment Committee voted to hire two new International Equity managers, MFS and Schroders Investment Management and to allocate 5% of the Fund's assets to each. In addition, they voted to terminate three managers: Artio (international equity), Templeton (international equity), and Seix Advisors (high yield bonds). Both MFS and Schroders are signatories to the UN's Principles for Responsible Investment and incorporate environmental, social, and governance (ESG) factors into their investment processes. 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 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.

Socially Responsible Investing

The Investment Committee and the Socially Responsible Investing Committee (SRIC) have worked together to strengthen the UUCEF's socially responsible investing (SRI) practices. The three principle strategies are: investment and manager selection, shareholder advocacy, and community investments.

Investment and manager selection. The UUCEF portfolio holdings include both individual securities and pooled funds (mutual funds and private co-mingled funds). Individual security holdings (also called separate accounts) are primarily US equities, or individual stocks. The UUA instructs its managers to avoid companies that are poor performers on environmental, social, and governance issues. To accomplish this, the UUA has engaged Sustainalytics, one of the leading SRI analyst firms in the world. Sustainalytics evaluates the 1000 largest companies in the US against an array of ESG criteria enumerated in the UUA's socially responsible investing policy and identifies those that fall below the investment threshold established by the SRI Committee. The result is the exclusion of companies representing 15% to 20% of the market. Roughly half of the US equity portfolio is indexed, but with a twist – the fund tracks the return of the index but weights the stocks towards the better ESG performers.

With pooled funds, the UUA cannot control which securities are included. Therefore, the Investment Committee incorporates values criteria into the selection of investment managers. When looking for new investment vehicles, the Investment Committee, with the assistance of our

investment consultant, New England Pension Consultants, and the advice of the SRI Committee, evaluates prospective managers on long-term return, risk management, and, to the greatest extent possible, incorporation of SRI/ESG practices. In some asset classes, no suitable SRI/ESG options are available at this time. Currently, 100% of domestic stocks held directly by the UUCEF are screened according to the custom process described above. Some funds employ "negative screening," which means that certain industry sectors that are found objectionable by religious investors are excluded. Other managers are signatories to the UN's Principles for Responsible Investment and include ESG factors in their investment process. Overall, approximately 62% of the UUCEF's assets are with managers who use SRI and/or ESG strategies.

Shareholder engagement. The UUA is an active shareholder, witnessing for social justice through its ownership position in companies. For the last several years, our engagement efforts have focused on promoting non-discrimination policies based on gender identity or expression, disclosure of political and lobbying spending, and taking action to address climate change. During the 2012-2013 shareholder season, the UUA engaged with nine companies addressing several issues as shown in the chart below. Bristol-Myers Squibb Co. and Dow agreed to shareholder requests, so the resolutions were withdrawn or not filed at all. Shareholder proposals (as opposed to management proposals) rarely "pass," that is, receive support greater than 50%. Nevertheless, they can be very effective in changing corporate behavior. They serve as a way for shareholders to express concerns to company management and the board of directors. When approval rates climb from year to year, and when they exceed 20%, companies take notice. Frequently a company will request a dialogue with shareholders to negotiate a resolution and keep the proposal from being raised at their annual meeting. For example, over the last four years, as a result of UUA shareholder advocacy, companies with 2.9 million employees have agreed to add gender identity and expression protection to their non-discrimination policies.

Shareholder Advocacy 2013 Season			
Corporation by Topic	Lead Filer	Status	Results
Climate Change			
Alpha Natural Resources	UUA	Voted	17.9% approved
Sexual Orientation/Gender Identity Non-discrimination			
ConocoPhillips	UUA	Filed	Failed to come to a vote

Shareholder Advocacy 2013 Season			
Corporation by Topic	Lead Filer	Status	Results
Exxon Mobil	NY State Retirement Fund	Voted	19.8% approved
Political Spending/Lobbying Disclosure			
GEO Group	Province	Voted	32% approval
VISA Inc.	BCAM	Voted	37% approval
Bristol-Myers Squibb Co.	UUA	Settled	Agreement with company
Aetna, Inc	UUA	Voted	6.7% approval
Dow	UUA	Dialogue	Agreement with company
Separate CEO and Board Chair			
Chevron	UUA	Omitted	SEC allowed the company to omit

Looking forward to the next shareholder season, the UUA will be focusing more of its advocacy on climate change. This year the UUA filed one of the first resolutions addressing the valuation of fossil fuel reserves at Alpha Natural Resources. The company challenged the resolution at the SEC, but regulators required them to keep it on the agenda of the annual meeting where it received support from 18% of the voting shareholders, a strong result for a first-year resolution.

Community investments. The UUA allocates 1% of the Common Endowment to community investments. These include community loan funds, affordable housing, micro-finance, and credit unions. Generally, the Investment Committee's policy is to favor institutions that are not federally insured since the need is greater. Approximately 40% of these investments are matching investments whereby a congregation makes a community investment of up to \$10,000 and the UUA matches it.

Retirement Plan

The UU Organizations Retirement Plan has approximately 3,300 participating individuals with investments of \$253 million as of December 31, 2012 compared to 2900 participants with \$193

million one year previous. 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 has an account balance of \$76,000.

Last 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, 2013, the Holdeen Trusts were valued at \$33 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 its April meeting, the Board voted to move to a new headquarters building at 24 Farnsworth Street in the Seaport District of Boston and to sell our Beacon Hill properties. The Association has entered into a long-term lease with an option to purchase the building in January 2015. The UUA will occupy the first three floors of the six story building. The space is currently being designed and built out to meet our needs. We expect construction to be completed by the end of the year with a move following shortly thereafter.

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
- Expanding our shareholder advocacy on the issue of climate change

Unitarian Universalist Association – DRAFT Operating Budgets and Results

Budget Overview* Current Operations (in \$000s)	FY12 Results	FY13 3rd Qtr Forecast	FY14 Budget	FY15 Budget	FY14 Inc/(Dec) 13 to 14
Income:					
Income for General Support					
Annual Program Fund	6,757	6,750	6,900	7,000	2.2%
Friends of the UUA	1,183	1,073	1,200	1,250	11.8%
Unrestricted Gifts	0	20	250	250	1150.0%
Bequest Income	1,050	607	450	450	-25.9%
Administrative Fees	1,290	1,280	1,339	1,370	4.6%
Endowment Income	2,085	2,228	2,357	2,336	5.8%
Other Current Fund Income	2,541	2,695	2,804	2,649	4.1%
Total Income for General Support	14,905	14,653	15,300	15,305	4.4%
Income for Designated Purposes					
Campaign Income	2,437	2,878	2,494	2,836	-13.3%
UUCSR Veatch Grants	2,212	2,234	2,237	2,240	0.1%
Grants and Scholarships	914	912	924	924	1.3%
Ministerial Aid Funds	435	493	467	467	-5.3%
Holdeen and International Trusts	1,523	1,431	1,414	1,414	-1.1%
Income for Other Purposes	2,538	2,025	1,128	1,225	-44.3%
Total Inc for Designated Purposes	10,060	9,973	8,665	9,107	-13.1%
Total Income	24,965	24,627	23,965	24,412	-2.7%
Expenses:					
Board & Volunteer Leadership Programs:					
Multicultural Growth and Witness International	1,391	1,446	1,262	1,273	-12.7%
Congregational Life	1,606	1,490	1,405	1,413	-5.7%
Ministries and Faith Development	3,830	4,003	3,936	4,021	-1.7%
UU Funding Program	5,807	5,951	4,832	4,757	-18.8%
Crisis Relief & Misc. Programs	1,200	1,224	1,237	1,241	1.0%
Communications	678	377	364	362	-3.3%
Total Programs	2,652	2,801	2,800	2,826	0.0%
Administration	17,164	17,292	15,836	15,893	-8.4%
Contingency/Salary Increase	1,607	1,613	1,523	1,547	-5.6%
Infrastructure	60	54	464	588	N/A
Stewardship and Development	1,946	2,122	2,217	2,523	4.5%
Information Technology Services	1,331	1,489	1,597	1,615	7.2%
Internal Services	1,656	1,802	1,733	1,752	-3.8%
Total Infrastructure	4,933	5,412	5,547	5,890	2.5%
Total Expenses	24,261	24,905	23,965	24,412	-3.8%
Current Section Excess/(Deficit)	705	(279)	0	0	

*Budget as submitted by UUA President. Board of Trustees will consider at their June 2013 meeting.