

**Unitarian Universalist Association
Annual Report of the Treasurer
To the 2018 General Assembly in Kansas City, Missouri**

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

Financial Condition of the Association

From many perspectives, fiscal year 2017 was a challenging one for the Unitarian Universalist Association. The hiring controversy of the spring that led to the resignations of the president and chief operating officer had negative financial impacts. In the transition to new leadership, unbudgeted expenses were incurred, including the costs of interim leadership and severance payments to certain staff. In addition, congregational support through the Annual Program Fund slowed in the last quarter. But due to a reduction in expenses – primarily unfilled staff positions – and a restricted bequest that was used to fund the board’s financial commitment to Black Lives of Unitarian Universalism, the Association was able to avoid significant losses.

In late June, Susan Frederick-Gray, the first woman elected president of the Association in its history, assumed office. Under her leadership, the UUA has refocused on mission and energized its fundraising efforts. The membership of the Association’s congregations has shown a small increase in the annual certification process, and congregational support of the Annual Program Fund has strengthened. At this writing, the UUA is tracking towards breakeven for the 2018 fiscal year. Here are a few highlights:

- The audited financial statements of the UUA, which follow this report, were accepted by the UUA board of trustees at their April meeting after thorough vetting by the Audit Committee. The Association’s auditors, Mayer, Hoffman McCann – Tofias New England Division, issued a “clean opinion.” That is, they certified that the statements, which were prepared by the UUA staff, fairly present the financial condition of the Association in all material respects.
- In fiscal 2017, the auditors conducted an audit of the Unitarian Universalist Common Endowment Fund, LLC, which is organized as a separate legal entity. Because the entity is controlled by the UUA’s board of trustees, it is treated as a subsidiary and consolidated into the UUA financial statements. A stand-alone report has also been issued primarily for the benefit of congregations investing in the fund.
- Likewise, the financial statements of the UUA Health Plan, which is organized as a separate trust (officially the UUA Employee Benefits Trust), were audited by RSM, who issued a clean opinion. They follow this report.
- The income statement of the UUA for fiscal year 2017 shows a surplus for the year from operations of \$1.8 million, primarily representing donations held for future periods. There were also significant non-operating gains, primarily due to financial market returns that resulted in an overall gain of \$21.4 million.

- The third quarter forecast presented to the board of trustees at their April meeting shows break-even for fiscal year 2018.
- In October of 2016 the UUA Board of Trustees made an historic commitment to provide \$5.3 million in funding for Black Lives of Unitarian Universalism. During fiscal year 2017 a major fundraising campaign, to which the UUA has committed \$1 million of its own assets, attracted significant support from donors and congregations to fund this commitment.

Operating Budgets

The budget for the fiscal year starting on July 1, 2018 was approved by the Board of Trustees at their April meeting. The summary operating budget for fiscal year 2019 can be found at the end of this report.

UU Common Endowment Fund

The UU Common Endowment Fund holds the Association's endowment (including restricted, board 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. More information about the UU Common Endowment Fund is available on the [UUCEF website](#).

- As of March 31, 2018 the UUCEF held assets valued at \$190 million. Just over \$91 million is the Association's endowment, both restricted and unrestricted, \$16 million is held in trust for the benefit of congregations, and the balance represents investments from congregations and other related organizations of \$83 million. Individuals may not invest in the UUCEF.
- For the 12 months ending March 31, 2018, the Fund achieved a gross return of 13.4% compared to a weighted average benchmark of 10.9%. Net of all fees and expenses the fund returned 12.6% ranking near the top similarly sized endowments. This is a welcome turnaround from the last two years during which returns were well below median.

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, global tactical asset allocation funds, private capital and hedge funds), geography (U.S., developed international, emerging markets), and managers. The UUCEF uses 19 money management firms, each with its own specialty.

UUCEF Annualized Return
Periods ending 3/31/18

	1 Year	3 Years	5 Years
Gross return	13.4%	6.3%	6.7%
Weighted average benchmark	10.9%	6.2%	6.6%
Percentile rank compared to like-sized endowments (as of 12/31/17) <i>1 = highest 1% 100 = lowest 1%</i>	2	58	75
Net return	12.6%	5.3%	5.7%

The Association encourages member congregations, regions 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. More recently they have begun integrating their work more intentionally. The three principle SRI strategies are: security 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. When selecting managers for pooled funds, the Investment Committee incorporates values criteria into the selection process. Approximately 82% of the UUCEF's assets are with managers who use SRI and/or ESG strategies.
- [Shareholder advocacy](#): The UUA is an active shareholder, witnessing for social justice through its ownership position in companies. Over the last year, encouraged by the 2014

Business Resolution, our engagement efforts have focused on climate change, and particularly on companies in the fossil fuel industry. In addition, we have continued our work on disclosure of political and lobbying spending and human rights. During the 2017-18 season, the UUA filed or co-filed resolutions at 18 companies.

- 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. Approximately 41% of these investments are matching investments whereby a congregation makes a community investment of up to \$10,000 and the UUA matches it. See: <http://www.uua.org/finance/investment/sri/communitydevelopment/60928.shtml>

Holdeen Trusts

As of March 31, 2018, the Holdeen Trusts were valued at \$34 million, up \$1 million from the previous year. 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](#).

Retirement Plan

The [UU Organizations Retirement Plan](#) has 3,944 participating individuals with investments of \$362 million as of December 31, 2017 compared to 3,774 participants with \$308 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 balance is \$91,907, and the median balance is \$31,225.

The Plan is overseen by a [Retirement Plan Committee](#) appointed by the Board of Trustees. The committee is advised by [Fiduciary Investment Advisors](#), a leading investment consulting firm.

	C	D	E	F	G	H
2	Unitarian Universalist Association	FY17	FY18	FY19	Percent	FY20
3	Budget Overview	Results	2Q18 Fcst	Budget	Inc/(Dec)	Budget
4	Current Operations				E to F	
5						
6	\$ in Thousands					
7	Income:					
8	Income for General Support					
9	Annual Program Fund	6,376	6,750	6,760	0.1%	6,800
10	Annual Program Fund - Regional	1,559	1,636	1,659	1.4%	1,659
11	Unrestricted Gifts	1,169	1,145	1,199	4.7%	1,237
12	Leadership Annual Giving	40	500	600	20.0%	675
13	Grants Income - Unrestricted	0	0	0	0.0%	150
14	Bequest Income	500	500	500	0.0%	400
15	Administrative Fees	2,416	2,272	2,303	1.4%	2,305
16	Investment Income	2,971	3,001	2,858	-4.8%	2,634
17	Publications Income	1,228	1,368	1,262	-7.8%	1,262
18	Net Lease Income	978	992	1,012	2.0%	1,008
19	Other Current Fund Income	460	462	533	15.3%	538
20	Total Income for General Support	17,697	18,625	18,686	0.3%	18,668
21						
22	Income for Designated Purposes					
23	Campaign Income	1,931	1,387	1,105	-20.3%	1,112
24	UUCSR Veatch Grants	2,465	2,594	2,562	-1.2%	2,442
25	Grants and Scholarships	979	923	877	-5.0%	886
26	Ministerial Aid Funds	522	455	449	-1.5%	453
27	Holdeen and International Trusts	1,343	1,490	1,530	2.7%	1,531
28	Income for Other Purposes	2,292	2,914	2,541	-12.8%	2,436
29	Total Inc for Designated Purposes	9,532	9,763	9,064	-7.2%	8,860
30	Total Income	27,229	28,388	27,750	-2.2%	27,528
31						
32	Expenses:					
33	Board & Volunteer Leadership	482	752	712	-5.3%	523
34						
35	Programs:					
36	Program and Strategy Office	582	10	0	-100.0%	0
37	Multicultural Growth and Witness	1,071	1,220	1,230	0.9%	1,263
38	International Programs	1,451	1,564	1,519	-2.9%	1,520
39	Congregational Life	5,474	5,305	5,392	1.6%	5,395
40	Ministries and Faith Development	4,967	5,131	4,961	-3.3%	5,004
41	UU Funding Program	1,392	1,377	1,391	1.1%	1,391
42	Crisis Relief & Misc. Programs	440	663	390	-41.3%	274
43	Communications	2,672	2,888	2,946	2.0%	2,979
44						
45	Total Programs	18,049	18,158	17,829	-1.8%	17,826
46						
47	Administration	1,962	1,577	1,502	-4.8%	1,520
48	Contingency/Salary Increase	0	554	527	-4.9%	653
49						
50	Infrastructure					
51	Stewardship and Development	2,019	2,390	2,422	1.4%	2,424
52	Information Technology Services	1,463	1,597	1,657	3.7%	1,678
53	Internal Services	2,903	3,723	3,751	0.7%	3,748
54	Total Infrastructure	6,384	7,710	7,830	1.6%	7,850
55						
56	Total Expenses	26,877	28,751	28,400	-1.2%	28,372
57						
58	Depreciation Spending	0	450	550		550
59	Church Staff Finances Reserve	0	0	100		0
60						
61	Current Section Excess/(Deficit)	353	87	0		(294)
62						

	D	E	F	G	H	I
1	Unitarian Universalist Association	FY17	FY18	FY19	Percent	FY20
2	Forecast Summary	Results	2Q18 Fcst	Budget	Inc/(Dec)	Budget
3	Current Operations Expenses				F to G	
4						
5	<i>\$ in Thousands</i>					
6	Income:					
7	Income for UUA General Support					
8	Annual Program Fund	6,376	6,750	6,760	0.1%	6,800
9	Annual Program Fund – Regional	1,559	1,636	1,659	1.4%	1,659
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26	Income for Other Purposes	2,292	2,914	2,541	-12.8%	2,436
27		9,532	9,763	9,064	-7.2%	8,860
28	Total Income	27,229	28,388	27,750	-2.2%	27,528
29						
30	Board & Volunteer Leadership					
31	Board of Trustees	185	461	401	-13.1%	216
32	Board Committees	83	82	82	-0.5%	82
33	Board Task Forces	3	2	5	200.0%	5
34	Moderator	26	34	34	0.0%	34
35	Nominating Committee	28	25	25	0.0%	25
36	Commission on Appraisal	20	18	20	6.4%	22
37	Ministerial Fellowship Committee	108	103	109	5.8%	103
38	Commission on Social Witness	28	27	36	32.5%	36
39	Total Board & Volunteer Leadership	482	752	712	-5.3%	523
40						
41	Programs:					
42	Program Strategy Office (former Growth Strategies)	582	10	0	-100.0%	0
43						
44	Multicultural Growth and Witness	1,071	1,220	1,230	0.9%	1,263
45						
46	International Office	198	249	208	-16.2%	207
47	Holdeen International Partners	150	159	160	0.5%	160
48	Holdeen India Program	826	858	892	4.0%	894
49	UU-UNO	277	299	259	-13.4%	259
50	Total International	1,451	1,564	1,519	-2.9%	1,520
51						
52	Congregational Life					
53	Congregational Life	1,523	1,406	1,438	2.3%	1,443
54	Southern Region	1,080	1,161	1,219	5.0%	1,228
55	New England Region	1,188	992	1,045	5.3%	1,022
56	Central East Region	1,623	1,704	1,655	-2.9%	1,667
57	Office of Congregational Stewardship Services	59	42	35	-16.6%	35
58	Total Congregational Life	5,474	5,305	5,392	1.6%	5,395
59						
60	Ministries and Faith Development					
61	Resource Development Director	159	207	207	-0.2%	208
62	Resource Development Office	486	554	525	-5.3%	521
63	Youth and Young Adult Ministries	633	617	601	-2.6%	614
64	Director of Ministries and Faith Development	487	439	462	5.4%	466
65	Director of RE Credentialing	18	0	0	0.0%	0
66	Director of Ministerial Credentialing	189	192	192	-0.1%	194
67	Director of Transitions	315	327	326	-0.1%	328

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2	Forecast Summary	Results	2Q18 Fcst	Budget	Inc/(Dec)	Budget
3	Current Operations Expenses				F to G	
68	Office of Church Staff Finances	648	697	729	4.6%	734
69	Office of UUA Health Plan	242	220	219	-0.2%	221
70	Director of Professional Development	222	219	222	1.2%	224
71	Worship Arts	0	52	56	8.9%	57
72	Scholarships and Ministerial Ed Grants	334	321	311	-3.0%	317
73	Continuing Education	45	212	79	-62.9%	80
74	Aid Funds	595	520	512	-1.4%	517
75	Panel on Theological Education	596	555	520	-6.4%	523
76	Total Ministries and Faith Development	4,967	5,131	4,961	-3.3%	5,004
77						
78	UU Funding Program	1,392	1,377	1,391	1.1%	1,391
79	Crisis Relief & Misc. Programs	440	663	390	-41.3%	274
80						
81	Communications					
82	IPW Office	358	447	531	18.8%	538
83	Periodicals Office	923	973	973	0.0%	989
84	Publications Administration	570	595	587	-1.4%	595
85	UUA Bookstore	821	873	855	-2.1%	857
86	Total Communications	2,672	2,888	2,946	2.0%	2,979
87						
88	Total Programs	18,049	18,158	17,829	-1.8%	17,826
89						
90	Administration					
91	Office of the President	797	480	510	6.3%	515
92	Office of the Executive Vice President	615	580	583	0.7%	591
93	Contingency Expense	0	383	377	-1.4%	383
94	Salary Increase	0	171	150	-12.3%	270
95	Human Resources	550	518	409	-21.1%	414
96	Total Administration	1,962	2,131	2,029	-4.8%	2,173
97						
98	Infrastructure:					
99	Stewardship and Development					
100	Vice President, Development	280	566	604	6.8%	607
101	APF Campaign	345	449	472	5.3%	473
102	Friends Campaign	287	375	408	8.7%	464
103	Charitable Gift and Estate Planning	227	387	342	-11.7%	272
104	Comprehensive Campaign	879	613	596	-2.7%	608
105	Total Stewardship and Development	2,019	2,390	2,422	1.4%	2,424
106						
107	Information Technology Services	1,463	1,597	1,657	3.7%	1,678
108						
109	Internal Services:					
110	Finance					
111	Treasurer and Vice President of Finance	398	397	406	2.3%	410
112	Financial Services	704	769	787	2.3%	794
113	Total Finance	1,102	1,167	1,193	2.3%	1,204
114						
115	Facilities					
116	24 Farnworth Street	1,801	2,556	2,558	0.1%	2,544
117	Total Operations Services	1,801	2,556	2,558	0.1%	2,544
118						
119	Total Internal Services	2,903	3,723	3,751	0.8%	3,748
120						
121	Total Infrastructure	6,385	7,710	7,830	1.6%	7,850
122	Total Expenses	26,877	28,751	28,400	-1.2%	28,372
123						
124	Depreciation Spending	0	450	550		550
125	Church Staff Finances Reserve	0	0	100		0
126						
127	Current Section Excess/(Deficit)	353	87	0		(294)
128						

Budget Fiscal Year 2019 – Flux Analysis

The following is an analysis of the changes from the FY18 2nd quarter forecast to the FY19 budget.

Overall income – down 2.3%

Annual Program Fund – No change

Flat with the FY18 forecast. FY19 will see the launch of the new APF formula based on congregational expenses instead of membership. This comes with some risk as we are not sure how congregations will respond, despite significant modeling, research and consultation. However, because of the strong showing of this year’s effort, we believe FY19 will at least equal this year.

Unrestricted gifts – up 4.7%

We assume a small increase in unrestricted giving driven by the volatile political climate and the momentum from a new UUA president.

Leadership Annual Giving – up 20%

In its second year, the Leadership Annual Giving Program – consisting of unrestricted gifts of \$10,000 and above – will build on the success of FY18. Our major donors are responding well to this appeal for regular support. This program is a major priority for the director of Stewardship and Development and the President.

Investment Income – down 4.8%

The decline in payout from the endowment is because principal repayments on the loan used to finance the build-out of the UUA’s offices at 24 Farnsworth Street reduces the asset balance used in calculating the payout.

The UUA’s spending policy is based on the current year’s spending increased by inflation, weighted 70%, and 4.5% of the average asset value for the four quarters ending December 31, weighted 30%. The formula is as follows:

plus	(Previous year endowment spending X (1+inflation rate)) X 70%
equals	<u>(4 quarter average asset value at 12/31 X 4.5%) X 30%</u> Endowment spending for FY starting 7/1

The effect of this formula is to dampen volatility in the endowment payout.

Investment income also includes a special draw from building sale proceeds of \$214,300 to fund the work of the Commission on Institutional Change. The budget for this work, as approved by the Board in October, totals \$488,640, to be expended over two years, \$274,320 this year and \$214,320 next. FY18’s expenses are being funded from accumulated unrestricted bequests.

In this budget we are proposing to fund the COIC from the final payment from the sale of 25 Beacon Street. In the spring of 2017 there was a final payment of approximately \$800,000 that was contingent on the ability of the developer to build a parking garage under 6-7 Mount Vernon Place. In the spring, the garage was completed and the developer made the final payment. This budget assumes that the extraordinary and

important work of the Commission be funded from this fortuitous payment from the sale of our buildings.

Publications income – down 7.8%

Book sales were over-estimated in the FY18 budget and in the 2nd quarter forecast. The budget for FY19 is in line with the current pace of sales and the estimates for this fiscal year.

Other current fund income – up 15.3%

Included in this income category is a new source of revenue – building management fees. Since acquiring 24 Farnsworth Street, the UUA has outsourced the management of the building and tenant spaces to Barkan Management. Our plan for next fiscal year is to take building management in house; thus the UUA would be paid for building management services by the tenants.

Campaign Income – down 20.3%

Campaign income for FY 19 is consistent with the original budget for the current fiscal year. The 2nd quarter forecast increased the expected campaign income due to the one-time release of restricted gifts received in past periods.

Grants and Scholarships – down 5.0%

Revenue for grants and scholarships is primarily from endowment funds restricted to ministerial scholarships and theological education. This current fiscal year also includes some spending of funds carried over from past years.

Income for Other Purposes – down 12.8%

This line includes donations to the hurricane relief funds during this fiscal year. There is no assumption for similar funding next year.

Overall Expenses – down 1.2%

Board and Volunteer Leadership – down 5.3%

Reflects the expenses of the Commission on Institutional Change, which are projected to be lower in the second year of their work.

Program and Strategy Office – down 100%

This office is eliminated in the FY19 budget with the work shifted to other departments.

International – down by 2.9%

The work of the International Office is funded by the payout from the Holdeen Trusts. The budget for the current fiscal year included the spending of some funds carried over from previous years.

Ministries and Faith Development – down 3.3%

In the current fiscal year, a restricted fund was tapped to pay for special training programs that will not be repeated in FY19. In addition, the administrative staff will be reorganized and reduced in FY19.

Crisis Relief & Miscellaneous– down 41.3%

The current fiscal year includes over \$300,000 in hurricane relief grants that were funded through a special appeal. This income and expense are not carried into FY19.

Administration- down 4.8%

The Human Resources budget includes an allowance for savings from unfilled positions of \$125,000, or 1% of total payroll. This is consistent with past experience.

Contingency/Salary Increase

Contingency is set in the by-laws as 3% of unrestricted income. The salary increase for FY18 is carried in this section as a lump sum that will be distributed into the staff group budgets when increases are determined around mid-year.

Salary increase assumes:

- 2% pool for staff cost of living increases and attendant benefits effective January 2018
- 0.5% pool for grade and job changes

Information Technology Services – up 3.7%

Increase is driven by increased hardware and software depreciation arising from IT investments this year.

Depreciation Spending

One important use for the depreciation allowance is ongoing capital replacement. But there is no necessary relationship between depreciation charges and prudent capital investment. It is best practice among nonprofit institutions with substantial physical assets to conduct a Facilities Condition Assessment (FCA) periodically to determine the right amount to set aside for the replacement of major building systems. The FCA looks at each major system – roof, HVAC, elevator, electrical panel, fire safety, etc. – and estimates when each will reach the end of its useful life and the cost of replacement at that time. This is plotted over time, typically 10 years, which yields an annual capital budget for major systems replacement. The FCA will be updated with the guidance of consultants and engineers in the next three months.

In the FY 19 budget, total depreciation expense is forecast to be \$ 1.2 million compared to a projected capital need of \$450,000 yielding an cash surplus of \$750,000. This budget assumes that \$550,000 of that amount is spent on the operating budget.

Church Staff Finances Reserve

The Office of Church Staff Finances, which oversees the benefit programs for congregations and the UUA, has accumulated a significant cash reserve over the years. These funds are unrestricted, but have been held aside for special one-time projects. In FY19 the reserve will be tapped for several projects addressing inclusion, equity and change managed by the Multicultural Growth and Witness staff group. Because these funds were received in past years, the cash expended is not technically income in FY19, and is therefore shown on a separate line.

Notes on Fiscal Year 2020 “Out-year” Budget

The purpose of creating a budget for the year following the upcoming budget year is to see where current income and spending trends are pointing. For the most part, income and expenses are assumed to be steady. Significant exceptions are as follows:

- Endowment income will decline due to the principal repayment of the bank loan that funded the build-out of the UUA's offices. The payments lower the asset balance used in calculating the payout.
- Small increases in program expenses primarily reflect the salary increases that became effective January 1, 2018.
- The increase in Contingency/Salary Increase includes the carry-forward of the raises budgeted for FY19 and an allowance for a 2% cost of living adjustment in FY20.

The analysis shows we are tracking towards a deficit of \$325,000 in FY20 plus any raises. The UUA Administration will make adjustments in its operating plan to address this shortfall when the budget for FY20 is prepared.