

**Unitarian Universalist Association  
Annual Report of the Treasurer  
To the 2015 General Assembly in Portland, Oregon**

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

**Financial Condition of the Association**

At the end of fiscal year 2015, the Unitarian Universalist Association is in a stronger financial position than in the past. During this fiscal year, the UUA completed the sale of our properties on Beacon Hill and exercised the option to purchase our new headquarters in the Seaport District of Boston. This transaction resulted in a modern, technologically advanced headquarters that enables the staff to do their best work. It also strengthened the Association's balance sheet with total net assets climbing by over 30% from \$132 million to \$174 million.

Meanwhile operating income has been relatively flat with expenses exceeding income in the last two fiscal years by \$1 million in FY14 and \$1.1 million in FY13. These losses, while significant, do not represent a threat to the financial integrity of the Association, thus allowing our auditor to issue "clean" opinions in each year. In the current fiscal year ending June 30, the Administration has taken steps to address the underlying problems that caused these losses. By prudently managing expenses and strengthening our fundraising efforts, we are forecasting breakeven results for this year and the upcoming fiscal year.

The 2014 General Assembly passed a business resolution addressing how our endowment assets can be employed to address the threat of climate change. The finance staff, Investment Committee, and Socially Responsible Investment Committee have made this a priority in our work. Specifically, we have:

- ❖ Made no new investments in fossil fuel companies;
- ❖ Reduced the exposure of the portfolio to the industry from last year's positions;
- ❖ Made new investments in climate change solutions;
- ❖ Used our ownership rights in companies to press them to address the climate threat;
- ❖ Collaborated with faith-based investors on climate actions;
- ❖ All of this was accomplished while maintaining the highest standards of fiduciary duty and investment practices in order to deliver the returns our congregations need to do their work in the world.

**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. 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 2015 Annual Reports you will find the audited financial statements for the years ending June 30, 2014 and 2013 for the UUA and for the UU Organizations Health Plan (which is organized as a separate legal entity controlled by the UUA board). 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, Group Insurance Plan, 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**

The development of the budget for the fiscal year starting on July 1, 2015 began with an evaluation of the Ends of the Association as adopted by the Board of Trustees. The following are the key priorities that shaped the budget:

- ❖ **Regionalization** – This budget includes the next stages of regionalization, particularly the transition of the Southern Region's district assets and staff into the larger UUA structure.
- ❖ **Outreach Office** – We are continuing our focus on clarifying our communications about who we are, what we do and why it matters.
- ❖ **The Collaborative and Comprehensive Campaigns** - Our support for the Collaborative Campaign and our partner institutions (Starr King, Meadville Lombard, the UUMA, the UUSC and CLF) continues. This budget for this campaign, "Wake Now Our Vision" includes funding for 62% of the total campaign costs. In addition we are increasing staff capacity for the development of the UUA's comprehensive campaign, "Life's Calling."
- ❖ **Growth & Congregational Stewardship** – In addition to the above described efforts at

outreach, we have strengthened our support for emerging and innovative ministries, and are providing specialized support for large congregations and multi-site ministries. We are also continuing to provide support for the Congregational Stewardship Network. We were able to restore a part-time position to full time that is devoted to religious education and musician professional development – key positions relevant to growth.

- ❖ **Unitarian Universalist College of Social Justice** – We have increased support for the College of Social Justice in order to help fund a new position deliberately designed to “bring the learning home” and to increase congregational capacity for social justice endeavors.

- ❖ **Revenue Development** – We are planning to develop new sources of revenue such as taking advantage of our beautiful new building for outside event rentals and the marketing of some of our most successful programs such as OWL.
- ❖ **Staff Salary Increases** - In alignment with our principles and equitable compensation guidelines we continue to place a priority on trying to compensate our staff adequately. We believe this will result in more staff stability as well.

The following 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 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, 2015 the UUCEF held assets valued at \$190 million. Just under \$93 million is the Association’s endowment, both restricted and unrestricted, \$15 million is held in trust for the benefit of congregations, and the balance represents investments from congregations and other related organizations of \$82 million. Individuals may not invest in the UUCEF. So far in FY15, 18 new congregations have invested their assets in the Fund representing \$2.8 million in new investments from congregations.

**UUCEF Annualized Return  
Periods ending 3/31/15**

	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>
<b>Gross return</b>	4.4%	7.7%	8.4%

<b>Weighted average benchmark</b>	5.2%	7.6%	7.0%
<b>Percentile rank compared to like-sized endowments (as of 12/31/13)</b> <i>1 = highest 1% 100 = lowest 1%</i>	84	83	55
<b>Net return</b>	3.4%	6.7%	7.3%

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 5.2%. 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 84<sup>th</sup> percentile, or in the lower quarter, of the endowments in the comparison group, and over the five-year period, in the in the 55<sup>th</sup> percentile. Recent below-median performance is due to the Fund's allocation to international markets at a time when US markets have outperformed other markets. The Investment Committee believes that maintaining a globally diversified portfolio will deliver the best risk-adjusted returns over the long term.

Over the course of the next four months, the assets of the UUCEF will be moved into a separate legal entity called UUCEF, LLC. The new entity was formed as a Massachusetts limited liability company controlled by the UUA Board of Trustees. The LLC was designated as a charity under section 501(c)3 of the IRS Code. From the perspective of investing congregations, there will be no difference from the current arrangement. However, the new structure will insulate the congregations' assets from the UUA's liabilities, thus providing a more secure investment structure. A new subscription agreement is being sent to current investors. 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. We expect to complete the conversion by October 1, 2015.

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, credit, global tactical asset allocation funds (GTAA), hedge funds, and private capital), geography (U.S., developed international, emerging markets), and managers (the UUCEF uses 15 money management firms, each with its own specialty).

During FY15 the Investment Committee added Brockton Capital Management, a private real estate fund focused on retrofitting commercial properties to high energy efficiency standards, and Cevian,

Capital, an activist hedge fund investing in Northern European-based companies. The Committee also hired two new firms to manage the Fund's fixed income mandate: Breckenridge Capital and Investment Research & Management, both of which incorporate ESG factors into their strategies. At the same time the Committee voted to remove Wellington and Pimco Total Return from the portfolio.

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 faith-based investors are excluded. Other managers are signatories to the United Nation's Principles for Responsible Investment and include ESG factors in their investment process.

Overall, approximately 70% 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. 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 sexual orientation and gender identity/expression non-discrimination, disclosure of political and lobbying spending, and human rights.

During the 2014-2015 shareholder season, the UUA engaged with fourteen companies addressing several issues as shown in the chart below. After many years of pressing Exxon to adopt a sexual orientation and gender identity non-discrimination policy, they finally agreed to shareholder requests. Shareholder proposals (as opposed to management proposals) rarely "pass," that is, they typically do not 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 especially 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; this was the case with Newfield Exploration this season.

<b>Shareholder Advocacy 2015 Season</b>
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Corporation by Topic	Primary Filer	Status	Results
<b>Climate Change</b>			
Chesapeake Energy	UUA	Filed	Going to vote
Marathon Oil	UUA	Filed	36.3% approval

<b>Sexual Orientation/Gender Identity Non-discrimination</b>			
Exxon	NYSCRF	Filed	Withdrawn - agreed to proposal

<b>Political Spending/Lobbying Disclosure</b>
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Aetna, Inc.	UUA	Filed	Omitted, SEC
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Devon Energy	UUA	Filed	Going to vote
Goldman Sachs	UUA	Filed	Omitted, SEC
Google, Inc.	Walden	Filed	Going to vote
Newfield Exploration	UUA	Filed	Withdrawn – agreed to request
Occidental Petroleum	Needmor Fund	Filed	29.4% approval
Pfizer, Inc.	Christopher Reynolds Foundation	Filed	5.6% approval
Spectra Energy Corp.	UUA	Filed	27.1% approval

<b>Executive Compensation</b>			
Chevron	The Needmor Fund	Filed	Withdrawn – agreed to continued dialogue
ConocoPhillips	UUA	Filed	6% approval

<b>Human Rights</b>			
Dow Chemical	UUA	Filed	Omitted, SEC

**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 3,400 participating individuals with investments of \$285 million as of December 31, 2014 compared to 3,200 participants with \$267 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 \$83,824.

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.

## **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, 2015, the Holdeen Trusts were valued at \$34 million.

## **Stewardship of Physical Assets**

In January the UUA exercised the option to purchase the building located at 24 Farnsworth Street in Boston. The UUA occupies the first three floors of the six-story building while leasing the upper three floors to tenants.

## **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 and moving all assets to the LLC; and
- Implementing the 2014 Business Resolution, including shareholder advocacy on climate change and finding climate solutions investments.

## Unitarian Universalist Association – Operating Budgets and Results

Budget Overview* Current Operations (in \$000s)	FY13 Results	FY14 3 <sup>rd</sup> Qtr Forecast	FY15 Budget	FY15 Inc/(Dec)	FY16 Budget
<b>Income:</b>					
<b>Income for General Support</b>					
Annual Program Fund	6,724	6,800	7,000	2.9%	7,100
Friends of the UUA	1,095	1,000	1,100	10.0%	1,100
Unrestricted Gifts	139	351	265	-24.5%	265
Bequest Income	936	500	450	-10.0%	400
Administrative Fees	1,868	2,042	2,124	4.0%	2,134
Endowment Income	2,216	2,394	3,687	54.0%	4,297
Other Current Fund Income	2,652	2,686	1,978	-26.4%	2,038
<b>Total Income for General Support</b>	<b>15,629</b>	<b>15,773</b>	<b>16,604</b>	<b>5.3%</b>	<b>17,334</b>
<b>Income for Designated Purposes</b>					
Campaign Income	2,202	2,174	2,209	1.6%	2,216
UUCSR Veatch Grants	2,307	2,239	2,241	0.1%	2,240
Grants and Scholarships	884	924	1,038	12.3%	1,075
Ministerial Aid Funds	454	467	506	8.3%	529
Holdeen and International Trusts	1,412	1,548	1,516	-2.1%	1,509
Income for Other Purposes	724	880	777	-11.7%	788
<b>Total Inc for Designated Purposes</b>	<b>7,983</b>	<b>8,233</b>	<b>8,287</b>	<b>0.7%</b>	<b>8,358</b>
<b>Total Income</b>	<b>23,612</b>	<b>24,006</b>	<b>24,891</b>	<b>3.7%</b>	<b>25,692</b>
<b>Expenses:</b>					
<b>Board &amp; Volunteer Leadership Programs:</b>					
Program and Strategy Office	613	495	522	5.5%	522
Program and Strategy Office	248	906	991	9.4%	1,038
Multicultural Growth and Witness International	1,406	1,266	1,214	-4.1%	1,188
Congregational Life	1,473	1,423	1,451	2.0%	1,453
Ministries and Faith Development	3,673	3,070	3,076	0.2%	3,097
UU Funding Program	4,895	4,856	4,892	0.8%	4,952
Crisis Relief & Misc. Programs	1,298	1,239	1,241	0.2%	1,240
Communications	417	398	47	-88.2%	47
<b>Total Programs</b>	<b>2,676</b>	<b>2,817</b>	<b>2,702</b>	<b>-4.1%</b>	<b>2,739</b>
<b>Administration</b>	<b>1,525</b>	<b>1,716</b>	<b>1,501</b>	<b>-12.5%</b>	<b>1,587</b>
<b>Contingency/Salary Increase</b>	<b>66</b>	<b>22</b>	<b>552</b>	<b>2409.1%</b>	<b>721</b>
<b>Infrastructure</b>					
Stewardship and Development	2,030	2,451	2,126	-13.3%	2,486
Information Technology Services	1,415	1,489	1,477	-0.8%	1,463
Internal Services	1,833	1,860	3,850	107.0%	3,157
<b>Total Infrastructure</b>	<b>5,278</b>	<b>5,800</b>	<b>7,452</b>	<b>28.5%</b>	<b>7,106</b>
<b>Expenses</b>	<b>23,567</b>	<b>24,006</b>	<b>25,641</b>	<b>6.8%</b>	<b>25,692</b>
<b>Current Section Excess/(Deficit)</b>	<b>45</b>	<b>0</b>	<b>0</b>		<b>0</b>