

**Unitarian Universalist Association
Annual Report of the Treasurer
To the 2014 General Assembly in Providence, Rhode Island**

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

Financial Condition of the Association

During the past fiscal year, the UUA has undertaken something it has not done in over 80 years – relocating its historic headquarters. While the Association has acquired and disposed of buildings used for offices and lodging over the years, we have not changed our headquarters location since 1927. This year we undertook to sell our Beacon Hill real estate, including 25 Beacon Street, and move to and renovate a building in the Seaport District of Boston. From a financial perspective, this reallocation of physical assets will put the Association on a firmer financial footing for the future. In making these changes, we were careful to always keep in mind our role as stewards of resources that were inherited from our ancestors. The question is always: How do we use the assets at our disposal in a way that serves our faith now and in the years to come. By making this move, we have created a modern workspace with the technology and shared spaces suited to a national organization with a dispersed staff. We have also avoided substantial systems upgrades that would have been necessary at the old buildings. The new building at 24 Farnsworth Street will enable the UUA staff to better serve our congregations with lower operating costs.

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 2014 Annual Reports you will find the audited financial statements for the years ending June 30, 2013 and 2012 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, 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, 2014 began with an evaluation of the Ends of the Association as adopted by the Board of Trustees. The Administration identified four key objectives to point our spending plan towards those Ends as follows:

1. Congregations, communities and individuals have the resources to further their spiritual pursuits in a way that fits their unique needs and situations.
2. Congregations and communities are successfully able to help people live out our values in a way that is appropriate for today's world through new and innovative approaches.
3. The world is increasingly aware of UU values and individuals see them as strongly connected to their own lives.
4. There is a vital and growing web of UU institutions and like-minded partners who work together to make the changes our values call for.

The key strategies and tactics that will help us to achieve those objectives and guide our spending priorities are as follows:

1. Create a higher awareness of what UUism stands for and how we meet today's needs in the larger culture.
 - Tactic: Communications plan
 - Tactic: Branding strategy
2. Partnerships in learning.
 - Tactic: Congregational partnerships (Leap of Faith)
 - Tactic: Models of multicultural ministry (Mosaic Makers)
3. Grow professional and lay leadership to address today's world and start new congregations and supports that speak to its people.
 - Tactic: Partner with seminaries around clarifying ministerial competencies
 - Tactic: Lay leadership programs addressing today's world and its needs

- Tactic: Entrepreneurial ministry
 - Tactic: Youth leadership programs (Summer Seminary)
 - Tactic: Supporting leadership of people of color (Finding Our Way Home)
4. Creating structures for “border-crossing” experiences.
 - Tactic: Partnering with the UUSC to create the College of Social Justice
 - Tactic: Collaborations with other denominations and social justice organizations around witnessing for equality (Mass Moral March)
 5. Regionalization—the alignment of field staff with headquarters staff.
 6. The move of headquarters.

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 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, 2014 the UUCEF held assets valued at \$165 million. Just under \$76 million is the Association's endowment, both restricted and unrestricted, \$14 million is held in trust for the benefit of congregations, and the balance represents investments from congregations and

other related organizations of \$75 million. Individuals may not invest in the UUCEF. So far in FY14, 19 new congregations have invested their assets in the Fund representing \$2.8 million in new investments from congregations.

UUCEF Annualized Return
Periods ending 3/31/14

	1 Year	3 Years	5 Years
Gross return	10.1%	7.4%	14.8%
Weighted average benchmark	9.4%	6.2%	12.8%
Percentile rank compared to like-sized endowments (as of 12/31/13) <i>1 = highest 1% 100 = lowest 1%</i>	59	52	16
Net return	9.0%	6.3%	13.6%

For the 12 months ending March 31, the Fund gained 9.0% net of all fees and expenses compared to a weighted average benchmark of 9.4%. 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 59th percentile, or just below median, of the endowments in the comparison group, and over the five-year period, in the top 3%.

In 2012, 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 submitted an application to the IRS for nonprofit, charitable status for the new LLC. We received notification that our application was approved in May. All assets will be moved to the new entity at the end of this 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 FY14 the Investment Committee voted to add a Real Estate Fund to the portfolio and began the search for a manager. In addition they also voted to decrease the portfolio's exposure to emerging markets from 7% to 5%.

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 UN's Principles for Responsible Investment and include ESG factors in their investment process. Overall, approximately 72% 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 2013-2014 shareholder season, the UUA engaged with sixteen companies addressing several issues as shown in the chart below. CBOE, CME Group, Coach, Inc., Oasis Petroleum and ConocoPhillips 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; this was the case with American Electric Power this season. 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 2014 Season

Corporation by Topic	Primary Filer	Status	Results
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Climate Change			
Alpha Natural Resources	UUA	Filed	23% approval
American Electric Power	UUA	Filed	Withdrawn - agreed to additional dialogue

CBOE	Calvert	Filed	Withdrawn - agreed to proposal
CME Group	UUA	Filed	Withdrawn - agreed to proposal
Coach, Inc.	UUA	Filed	Withdrawn - agreed to proposal
Oasis Petroleum	UUA	Filed	Withdrawn - agreed to proposal
Occidental Petroleum	The Needmor Fund	Filed	29% approval

Sexual Orientation/Gender Identity Non-discrimination			
ConocoPhillips	UUA	Filed	Withdrawn - agreed to proposal
Exxon Mobil	NYSCRF	Filed	20% approval

Political Spending/Lobbying Disclosure			
Aetna, Inc	UUA	Filed	6% approval
Devon Energy	CRPTF	Filed	27% approval
Google	Walden	Filed	9% approval
Pfizer, Inc	The Christopher Reynolds Foundation	Filed	6% approval
VISA Inc.	BCAM	Filed	Withdrawn - agreed to proposal

Separate CEO and Board Chair			
Chevron	UUA	Filed	22% approval

Human Rights			
Dow Chemical	AIUSA/The Needmor Foundation	Filed	Omitted from proxy

Looking forward to the next shareholder season, the UUA will continue its focus on climate change. This year the UUA once again filed the resolution addressing the valuation of fossil fuel reserves at Alpha Natural Resources. Last year it received support from 18% of the voting shareholders, a strong result for a first-year resolution and we expect a greater amount of support this year.

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 3,200 participating individuals with investments of \$267 million as of December 31, 2013 compared to 3,000 participants with \$253 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 \$83,922.

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, 2014, the Holdeen Trusts were valued at \$34 million.

Stewardship of Physical Assets

On May 19th the UUA moved into its new headquarters at 24 Farnsworth Street in the Seaport District of Boston. The Association has entered into a long-term lease and expects to exercise the option to purchase the building in January 2015. The UUA will occupy the first three floors of the six story building while honoring the leases of the current occupants of the upper three stories.

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
- Completing the purchase of our new headquarters and developing systems to manage our leasing operation.

Unitarian Universalist Association – Operating Budgets and Results

Budget Overview* Current Operations (in \$000s)	FY13 Results	FY14 3rd Qtr Forecast	FY15 Budget	FY15 Inc/(Dec)	FY16 Budget
Income:					
Income for General Support					
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
Total Income for General Support	15,629	15,773	16,604	5.3%	17,334
Income for Designated Purposes					
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
Total Inc for Designated Purposes	7,983	8,233	8,287	0.7%	8,358
Total Income	23,612	24,006	24,891	3.7%	25,692
Expenses:					
Board & Volunteer Leadership Programs:					
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
Total Programs	2,676	2,817	2,702	-4.1%	2,739
Administration	16,085	15,973	15,614	-2.3%	15,756
Contingency/Salary Increase	1,525	1,716	1,501	-12.5%	1,587
Infrastructure	66	22	552	2409.1%	721
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
Total Infrastructure	5,278	5,800	7,452	28.5%	7,106
Expenses	23,567	24,006	25,641	6.8%	25,692
Current Section Excess/(Deficit)	45	0	0		0