

**Unitarian Universalist Association  
Annual Report of the Treasurer  
To the 2009 General Assembly in Salt Lake City, Utah**

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

**Introduction**

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. This report presents some key information on the budget of the Association, its financial performance, its investments, and measures we are taking to improve the care for our assets.

**Financial Condition of the Association**

Despite the rapid decline in the financial markets and the slowdown in the economy, the Association remains in solid financial condition. In response to anticipated declines in revenue during FY09, the UUA took an array of economizing steps to reduce expenses. As a result, we expect the fiscal year ending June 30, 2009 to show a modest operating deficit, if any. The deterioration in the securities markets which began early in 2008 and accelerated in the fall has had a significant negative effect on the Association's assets. The UUA's endowment, outside trusts, and retirement plan all saw large declines. See below for a discussion of each.

**Audited Financial Statements**

At the end of these UUA 2008 Annual Reports are the UUA's financial statements for the years ending June 30, 2008 and 2007. These statements have been audited by KPMG and judged to fairly present the financial condition of the Association in all material respects. This result is due to the diligent and careful work of the financial services staff of the UUA, as well as the oversight of the Finance and Audit Committees. The statements include Supplemental Schedules of assets, liabilities and net assets that detail business segment information for Current Operations, Beacon Press, Congregational Properties and Loan Committee, and the UU Common Endowment Fund (UUCEEF). Additional UUCEEF reporting, including the investment portfolio detail, is appended.

The Audit Committee, which is appointed by the board of trustees, selects the Association's audit firm. 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.

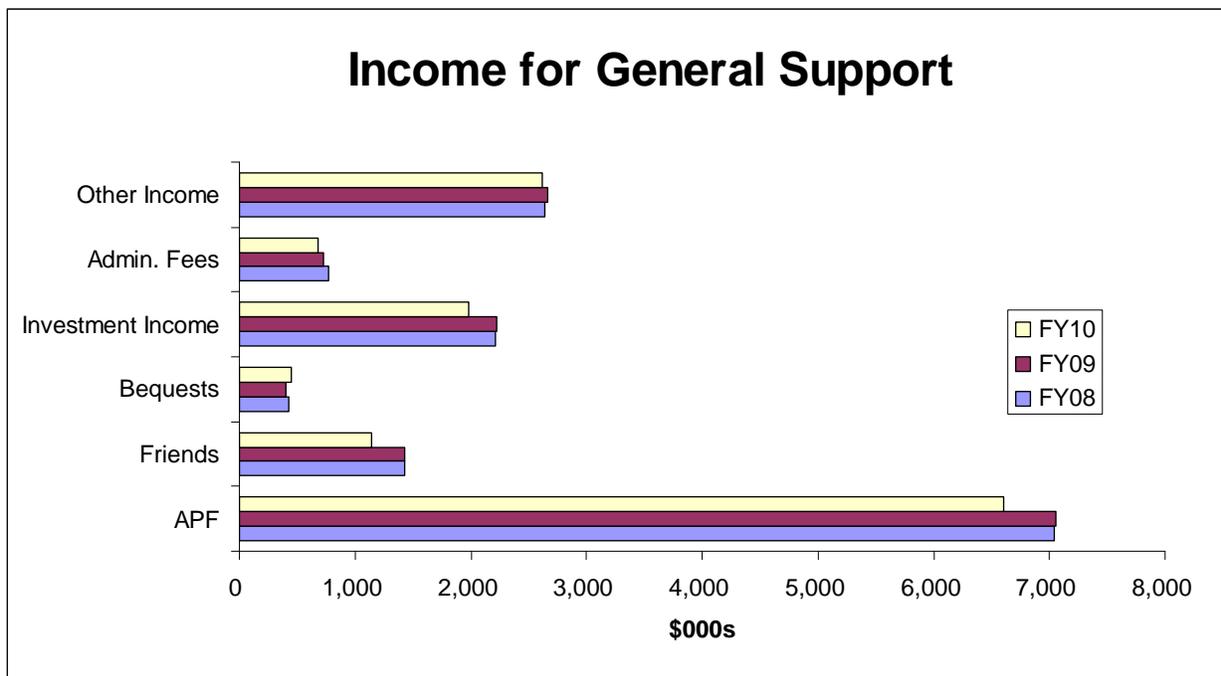
**Operating Budgets**

In this economic climate, preparing the budget for FY10 has been extremely challenging. Overall, both projected income and expenses are \$3.2 million, or 15%, below the FY09 budget. We are able to submit a balanced budget for our next fiscal year due to outstanding work by the

UUA Leadership Council and staff. Everyone has collaborated in a process of rethinking how we do our work and imagining how we can be more effective even as we reduce expenses.

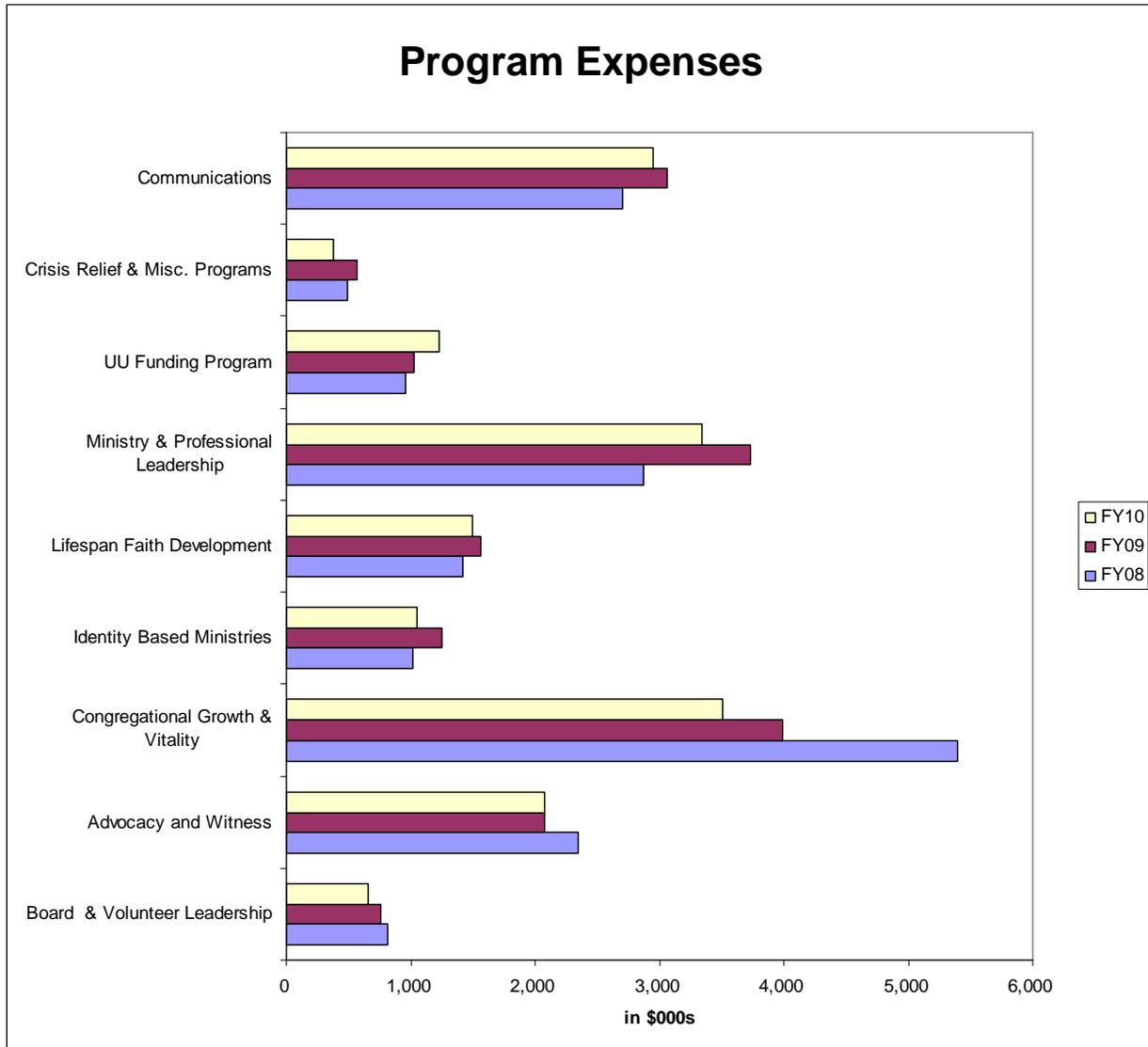
Nevertheless, it has been necessary to reduce staff levels: the FY10 budget assumes 13 fewer full-time-equivalent positions than the FY09 budget passed by the board in April 2008. Most, but not all, of these reductions were achieved through attrition. Other cost savings were achieved through:

- Significant reductions in overall staff travel and travel related expenses. We will be making much greater use of online meeting technology.
- No salary increases. However, we have been able to balance the budget without reductions in salary or benefits. In addition, some employees have taken advantage of selectively offered unpaid leaves.
- Elimination of hard copy printing of Interconnections, The Religious Leader, the Directory and the monthly congregational mailing (implemented this spring). All of these publications will continue to be offered electronically, some with additional content and features.
- The Congregational Services staff group has been eliminated as a unit, and departments reassigned to other staff groups.
- The budget for the board, committees, and task forces was reduced significantly.
- The national and regional marketing campaigns, which were funded with restricted donations to the comprehensive campaign, have been mostly eliminated. This activity is captured in the Congregational Growth and Vitality staff group on the budget report. A new “visibility campaign,” smaller in scope, is now reflected in the Advocacy and Witness line.



*Compares actual FY08, projected FY09, adopted budget FY10*

Throughout the current fiscal year, as we have watched the broader economy falter, we have had to revise the UUA's revenue projections and reduce spending. Thus, many of the steps necessary to balance the FY10 budget were implemented during FY09.



*Compares actual FY08, projected FY09, adopted budget FY10*

As we look forward to the fiscal year beginning July 1, 2009, we are anticipating lower revenues from most sources.

- **Fundraising – down 11.3%.** APF is projected to decline by \$550,000, which, while a substantial amount, is less than 8%. Friends, on the other hand, will also be down by over \$500,000, but this represents a decline of 30%.

- **General Investment Income – down 11.2%.** The UUA’s spending policy calls distribution of 5% of the asset balance averaged over the previous 13 quarters. This policy moderates the decline in distributions from the endowment which, if they were tied to the current asset balance, would be down by over 25%.
- **Campaign Income – collectively down by 46.2%.** Major gifts to the Now is the Time Campaign (-51%) are projected to be down significantly since major donors frequently fund their gifts by liquidating or giving securities.
- **Veatch Grants – up by 3.6%.** The Veatch grant in support of the UU Funding Program will increase by \$200,000 or almost 20%.
- **Holdeen Trusts – down by 3.7%.** Distributions from the Holdeen Trusts, like those from the endowment fund, are based on a percentage of assets averaged over three years.
- **Income for Other Purposes – down by 14%.** Transfers from the General Insurance Program (fees from dental, life and disability insurance for our congregations) have been increased to fully fund the Office of Church Staff Finance. More than offsetting that is a \$374,000 (21%) decline in endowment distributions designated to fund campaign expenses. This is driven by the winding down of the Now is the Time Campaign. The Board intends to reduce the draw from endowment for this purpose in FY11.

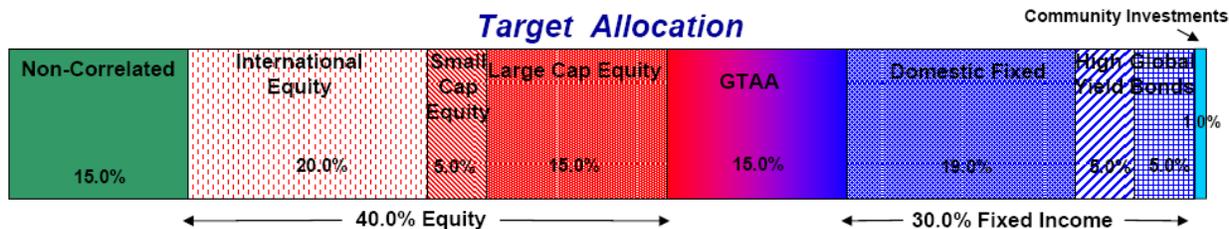
## **UU Common Endowment Fund**

The UU Common Endowment Fund holds the Association’s endowment (including both restricted and unrestricted funds), trusts invested on behalf of others, 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, 2009 the UUCEF held assets valued at \$89 million. Nearly three quarters of that is the Association’s endowment, and the balance represents investments from other institutions. Individuals may not invest in the UUCEF.

For the 12 months ending March 31, the Fund lost approximately 26%. By comparison, the S&P 500 was down 38% for the same period. The diversification strategy employed by the UUCEF moderated losses, but did not insulate the Fund from the drastic decline in asset values in the national and global markets. When benchmarked against similar sized endowments, the UUCEF performed somewhat better than the median.

Under the oversight of the Investment Committee, the UUCEF pursues a strategy designed to achieve real returns (after inflation) of 5% per year 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), non-correlated), geography (U.S. and international), and managers (the UUCEF uses 13 money management firms, each with its own specialty). The target allocation of the assets in the UUCEF is depicted in the following chart.



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 screens out tobacco and/or weapons. The balance is in pooled funds where the UUA's investments are co-mingled with those of other institutions so that the UUA cannot control the individual assets included.

The UUA is an active shareholder, witnessing for social justice through its ownership position in companies. During the 2008-2009 shareholder season, the UUA filed shareholder resolutions addressing global warming, sexual orientation and gender identity/expression non-discrimination, and executive compensation. Several of these filings led to dialogues with company management.

The Association encourages member congregations, districts and affiliates to invest endowment funds in the UUCEF along with the UUA's endowment portfolio. Investing with the UUA offers the advantage of investment and administrative stability without the need for periodic retraining and with the comfort of having the Association's Investment Committee oversight.

## Retirement Plan

As of April, 2009, the Unitarian Universalist Organizations Retirement Plan had a total balance of \$140 million with 2,759 plan participants and nearly 700 congregations and other Unitarian Universalist organizations. During the 12 months ending March 31, 2009, the plan's assets decreased by 26.5%, driven by declines the broader markets. (Note that the change also reflects plan contributions and withdrawals.) The Plan currently offers 24 fund options, including a socially responsible fund option in each asset class. The Plan is administered by Fidelity Investment's Tax-Exempt Services Company.

In the summer of 2008, the UUA issued an RFP for the investment management and administration of the Retirement Plan. Three proposals were submitted and those have been narrowed to two finalists – Fidelity and TIAA-CREF. We are currently going through a process of evaluation, due diligence, and consultation. A final choice will be made by the Board of Trustees at their October meeting.

## Holdeen and Outside Trusts

Under the terms of the Holdeen and certain other trusts, the Association has an 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. As of June 30, 2008, in accordance with Generally Accepted Accounting Principles, the fair value of the trust assets was recorded as temporarily and permanently restricted net assets amounting to \$42.6 million, comprised of the Holdeen and other trusts.

### **Stewardship of Physical Assets**

Earlier this year, we updated the Facilities Condition Assessment (originally prepared in the Fall of 2007) of the UUA's physical plant and developed a long-term plan for the upkeep of our buildings. In addition, we commissioned an engineering firm to develop an energy masterplan with the goal of reducing the environmental footprint of our operations. We are also working with an architect in a process of having our buildings LEED certified.

### **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:

- Continual improvement in our financial controls and systems
- Enhanced investor communications
- Cash management/funding of capital items
- FCA/LEED certification/energy masterplan

## Unitarian Universalist Association – Operating Budgets and Results

Current Operations	FY08 Results Pro forma*	FY09 Budget Pro forma*	FY09 Projected Pro forma*	FY10 Budget Adopted	Percent Inc/Dec 09 to 10
<b>INCOME</b>					
<b>Income for General Support</b>					
Fundraising	8,892,851	9,241,004	8,879,386	8,199,016	-11.3%
Administration Fees	767,081	755,485	727,706	678,149	-10.2%
General Investment Income	2,213,889	2,229,192	2,229,192	1,978,548	-11.2%
Other Current Fund Income	2,634,576	2,756,978	2,657,366	2,615,475	-5.1%
Income for General Support	14,508,397	14,982,659	14,493,650	13,471,188	-10.1%
<b>Income for Designated Purposes</b>					
Handing on the Future Campaign for Unitarian Universalism	238,925	569,500	561,900	390,995	-31.3%
Now is the Time Campaign	843,674	216,450	224,200	201,788	-6.8%
UUCSR Veatch Grants	2,618,853	3,731,464	2,190,636	1,839,518	-50.7%
Grants and Scholarships	1,910,361	2,128,525	2,157,052	2,204,567	3.6%
Ministerial Aid Funds	774,797	865,225	831,098	804,057	-7.1%
Holdeen and International Trusts	420,164	480,000	480,000	480,000	0.0%
Income for Other Purposes	1,616,426	1,431,835	1,458,989	1,378,430	-3.7%
Inc for Designated Purposes	2,580,379	2,307,092	2,317,676	1,984,708	-14.0%
<b>Total Income</b>	11,003,579	11,730,091	10,221,551	9,284,063	-20.9%
<b>Total Income</b>	25,511,976	26,712,750	24,715,201	22,755,251	-14.8%
<b>EXPENSES</b>					
<b>Board &amp; Volunteer Leadership Programs</b>					
Advocacy and Witness	810,090	747,873	761,568	656,807	-12.2%
Congregational Growth and Vitality	2,343,813	2,100,669	2,080,398	2,079,573	-1.0%
Identity Based Ministries	5,397,227	5,189,511	3,985,321	3,509,266	-32.4%
Lifespan Faith Development	1,019,526	1,332,594	1,250,615	1,046,594	-21.5%
Ministry & Professional Leadership	1,417,564	1,763,716	1,558,687	1,495,106	-15.2%
UU Funding Program	2,871,375	3,941,963	3,728,204	3,345,229	-15.1%
Crisis Relief & Misc. Programs	956,086	1,026,525	1,029,052	1,224,567	19.3%
Communications	494,997	413,281	571,442	377,016	-8.8%
<b>Total Programs</b>	2,702,096	3,090,921	3,066,844	2,949,439	-4.6%
<b>Total Programs</b>	17,202,683	18,859,180	17,270,563	16,026,791	-15.0%
<b>Administration Infrastructure</b>					
Stewardship and Development	1,502,830	1,698,931	1,474,682	1,534,627	-9.7%
Information Technology Services	2,559,965	2,682,332	2,507,490	2,105,200	-21.5%
Internal Services	1,028,629	1,236,359	1,211,821	1,016,888	-17.8%
<b>Total Infrastructure</b>	2,370,047	1,488,074	1,489,076	1,414,938	-4.9%
<b>Total Infrastructure</b>	5,958,641	5,406,766	5,208,387	4,537,026	-16.1%
<b>Total Expenses</b>	25,474,244	26,712,750	24,715,201	22,755,251	-14.8%
<b>Expenses (over) under Income</b>	37,732	0	0	0	

\* Pro forma statements show actual, projected and budget from FY08 and FY09 that have been restated to reflect the reorganization of the departments formerly grouped in Congregational Services.