

Unitarian Universalist Association Annual Report of the Treasurer to the 2022 General Assembly

**Submitted by
Andrew McGeorge, Treasurer & Chief Financial Officer**

Financial Condition of the Association

The Unitarian Universalist Association ended fiscal year 2021 (FY21) in excellent financial condition. The UUA financial results continue to be shaped by pandemic-related effects. Last year we named the Paycheck Protection Program, travel reductions, and uncertainty about the Annual Program Fund (APF) contributions from congregations as three major variables affecting the UUA's financial performance. While the PPP funding was a one-time event, the UUA continued to benefit from reduced travel expenses and solid fundraising performance in FY21.

Our largest source of unrestricted fundraising is the Annual Program Fund, and the generosity of congregations continues to inspire us. For FY21, our total APF receipts were up 2.5% versus FY20, despite the strains the pandemic has placed on church budgets. In the current fiscal year, we are tracking toward yet another increase, albeit a more modest 0.5%. FY21 also saw notable increases in other unrestricted gifts, principally the Friends of the UUA program, as well as in legacy bequests. Adjusting for the effect of PPP funding and other one-time entries, UUA's total revenue was higher by about 0.5% in FY21 compared to FY20.

Our operating expenses were relatively flat versus the prior year. Adjusting for certain one-time costs in prior periods, our operating expenses in FY21 were lower by 1.0% versus the prior year. FY21 saw a full year of reduced costs for travel and events, while FY20 only included 4 months of reductions. Savings from reduced travel and events, offset by lower conference fee income, saved the UUA some \$967k in FY21. These reductions allowed the UUA to make new investments in programming with no net increase to the Association's budget.

As of this writing, the UUA is tracking towards another significant operating surplus for the 2022 fiscal year. In addition to the aforementioned APF income, we are again seeing increased donations through Friends of the UUA and generous gifts from major donors, and we are honored to be included in so many legacy bequest plans. Gains in fundraising will offset expected increases in travel and events and benefits expenses, namely health insurance costs.

- The audited financial statements of the UUA, which follow this report, were accepted by the UUA Board of Trustees at their January meeting after a thorough vetting by the Audit Committee. The Association's auditors, Mayer Hoffman McCann P.C., 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.
- The auditors also 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 2021 shows a surplus for the year from operations of nearly \$11.6 million, an increase of \$2.2 million from FY20's \$9.4 million. UUA's total support and revenue was up by \$6.9 million total, with net sales from publishing activities higher by \$11.5 million. We saw a reduction in fundraising, gifts, and bequests of \$3.0 million, but this is entirely explained by the one-time PPP funding being included in FY20's fundraising totals and absent in the FY21 results. The increased interest in Beacon Press titles that began after the May 2020 murder of George Floyd continued well into FY21 and led to the Beacon Press' strongest year on record. Non-operating gains, primarily related to a year-over-year increase in the value of the Common Endowment Fund added another \$10.4 million, with the Association's overall gain for the year at \$21.8 million.
- The UUA's operating section, which largely maps to the "Current" business segment in the audited financials, ended FY21 with a surplus of \$1.581 million. The UUA Board approved the administration's proposal to allocate this surplus towards the UUA operating budget evenly over the next four fiscal years, FY23-FY26. This approach of spending the surplus over the intermediate term acknowledges that we've had many great programming ideas we simply couldn't implement in recent years due to funding constraints. At the same time, we are taking a measured approach to spending this surplus so as not to create any funding challenges for future UUA budget managers.
- As a reminder, the large operating surplus from FY20 was divided into three pieces. The \$3.3 million in PPP funding is expected to be deployed in future years to fill in gaps in Annual Program Fund contributions or other income sources that still may occur. As of this writing, none of that money has been used in support of UUA operations. Further, the Board restricted about \$1.1 million for use in the UUA's implementation of the recommendations of the Commission on Institutional Change. We have used approximately \$137k of this in the current fiscal year, and plan to spend \$507k more in FY23. This funding is used toward discrete projects and limited-term positions in order not to create future funding concerns. Lastly, the Board set aside \$250,000 to use in support of General Assembly, providing flexibility in planning future events and rebuilding GA reserves.
- The budget for the fiscal year starting on July 1, 2022, was approved by the Board of Trustees at their April meeting. The summary operating budget for fiscal year 2022 can be found at the end of this report. An online Budget Hearing is scheduled during the General Assembly on Friday, June 24, 2022, at 1:45 pm PDT / 4:45 pm EDT.

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, 2022, the UUCEF held assets valued at \$264 million. Approximately \$115 million of this is the Association's endowment, both restricted and unrestricted, while a further \$19 million is held in trust for the benefit of congregations and affiliated entities. The balance represents investments from congregations and other related organizations of around \$130 million. Individuals may not invest in the UUCEF.
- For the 12 months ending March 31, 2022, the Fund achieved a flat gross return of 0.0% compared to a weighted average benchmark of 3.0%. In our peer group of similarly sized endowments, we ranked at the 96th percentile (i.e., significant underperformance) over the past year. Net of all fees and expenses the fund returned -0.5%.
- Our returns were dragged down by a small number of managers, with notable underperformance in Sands (domestic large cap growth) and Ownership Capital (global large/mid cap), two managers that have relatively concentrated portfolios and therefore tend to exhibit more volatile returns. Our performance, relative to broader market indices, was adversely affected by our under-allocation to oil & gas and other extractive industries. In an inflationary environment, commodities-focused firms have seen above-average performance, and our investments in such companies significantly trail peers and market indices.

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, and private capital), geography (U.S., developed international, emerging markets), and managers. As of 3-31-22, the UUCEF used 26 different specialized money management firms.

UUCEF Annualized Return, Periods Ending 3/31/22

	1 Year	3 Years	5 Years	10 Years
Gross return	0.0%	9.2%	9.0%	7.4%
Weighted average benchmark	3.0%	9.8%	8.7%	7.5%
Percentile rank compared to like-sized endowments. <i>1 = highest 1%; 99 = lowest 1%</i>	96	64	46	66
Net return	-0.5%	8.3%	8.0%	6.3%

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 principal 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 separately managed accounts) consist of domestic equities. 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. Nearly 85 percent of the UUCEF's assets are with managers who use SRI and/or ESG strategies, with the exceptions greatly concentrated in U.S. Treasury holdings.
- [Shareholder advocacy](#): The UUA is an active shareholder, witnessing for social justice through its ownership position in companies. We are fortunate to have Tim Brennan continue to work in a part-time capacity to advance our advocacy work. We remain a leading voice on issues of climate change, human rights, racial justice, and disclosure of political and lobbying expenditures. We engaged with over 15 companies over the past year and served as a lead or co-filer on eleven of these engagements. Our recent engagement priorities included climate, political spending (including climate lobbying disclosure), and racial equity via EEO-1 disclosure. We also continue to serve as part of investor teams engaging companies on climate change through the Climate Action 100+, a global coalition of investors with \$68 trillion in assets under management.

- **Community Investments:** The UUA Board of Trustees approved at its January 2020 meeting a change to the Common Endowment Fund Community Investment Guidelines and Policy that allows for up to 5 percent of the Common Endowment Fund to be placed into Community Investments. Additionally, half of this allocation may be invested in below-market return investments, while the remained must have a market rate of return. Examples of common community investments include community loan funds, affordable housing, micro-finance, and community development credit unions and banks. Members of the UUA's Investment and Socially Responsible Investing Committees have recently completed a consulting engagement on incorporating racial justice investing in our portfolio. Phase two of this process will be to partner with an adviser to open the pipeline of potential investments and speed due diligence on community investment partners. Meanwhile, [the UUA offers an investment matching program](#) for congregations into community investments, with a minimum congregational investment of \$2,000 and a maximum UUA match of \$10,000.

Holdeen Trusts

As of December 31, 2021, the Holdeen Trusts were valued at \$40.6 million, up about \$4.4 million for the calendar 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 4,358 participating individuals with investments of \$545.8 million as of December 31, 2021. This compares to 4,245 participating individuals with investments of \$476.3 million as of December 31, 2020. These totals include 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 around \$125,200, and the median balance is approximately \$41,600.

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