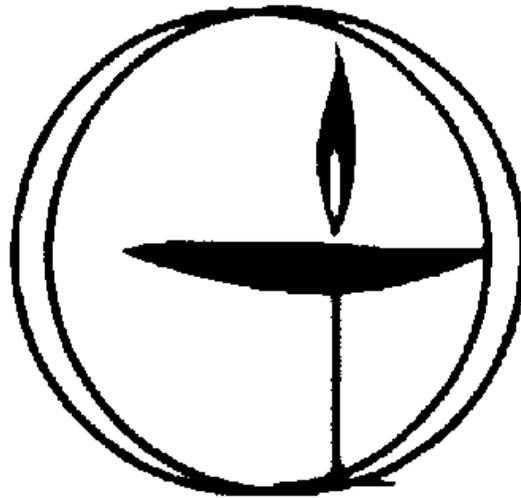


# Financial Advisor's Report to the 2003 UUA General Assembly

Boston, Massachusetts  
June 27, 2003



Lawrence R. Ladd  
UUA Financial Advisor  
<http://www.uua.org/TRUS/financial/>

*“Those of us who serve volunteer organizations, even if we have fiscal awareness, cannot reach to the heart of finances. The treasurer usually represents management. What we need is a person who strives mightily (not always successfully) to give us an independent and critical view - the best assurance available that we are being responsible...The Financial Advisor must take that role as central.”*

-Advice from a long-time UU leader in 1996



**Unitarian Universalist Association** of Congregations

**Report to the 2003 General Assembly**

Boston, Massachusetts

June 27, 2003

**Larry Ladd, UUA Financial Advisor**

It is my pleasure to submit to you my sixth annual report. The Financial Advisor is a **volunteer** position elected by the General Assembly to serve as your best assurance that the UUA is behaving in a fiscally responsible manner. The Financial Advisor provides the President, Board of Trustees, & General Assembly with an **independent** and **expert** evaluation of financial issues and the fiscal health of the UUA. The Financial Advisor also recommends changes that will improve the quality of fiscal planning and management of the UUA<sup>1</sup>. First elected in 1997, I am serving my second and final term which ends in 2005.

The Financial Advisor's responsibilities are carried out *in the public arena* of committees, boards and assemblies. They are also conducted *behind the scenes* in private conversations with the UUA administration and individual leaders. The public arena is particularly important for UU congregations, General Assembly delegates, and UUA trustees in the fulfilling your fiduciary responsibility. The private sphere is equally important, where most concerns are resolved and more risks are taken in examining ideas and options.

For extensive information about the UUA's finances, refer to the Financial Advisor's website at

<http://www.uua.org/TRUS/financial/>

My own approach to financial planning and management is outlined in the "Standards for Financial Performance" which I gave to the Board of Trustees just prior to my

election in June 1997 and which is attached at the end of this report<sup>2</sup>. That approach is a result of both my professional experience and my denominational service<sup>3</sup>.

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<sup>1</sup> Information on UUA bylaws relating to financial matters can be found at <http://www.uua.org/ga/bylaws.html#Section%2010.1>.

<sup>2</sup> To see the "Standards for Financial Performance" on line go to [http://www.uua.org/ga/ga98/financial\\_standards.html](http://www.uua.org/ga/ga98/financial_standards.html).

<sup>3</sup> Currently the practice leader for consulting services to higher education and not-for-profit organizations for Grant Thornton LLP, the fifth largest accounting and consulting firm in the U.S. Prior experience includes Director of Budget & Financial Planning for Harvard University, Chief Financial Officer of the Woods Hole Oceanographic Institution, and Dean of Administration of Tufts University, as well as service as a board member and financial consultant for foundations and universities. Denominational experience includes service as

At each meeting of the UUA Board of Trustees, I provide a report on the financial health of the Association and the current issues that I consider important for the Board to consider.<sup>4</sup> Those reports, in PowerPoint slides, are posted immediately after the Board meetings on the UUA website on the Financial Advisor section ([www.uua.org/TRUS/financial](http://www.uua.org/TRUS/financial)) and the Board of Trustee section ([www.uua.org/TRUS](http://www.uua.org/TRUS).) The Financial Advisor section also includes other information about the UUA's financial condition over time.

I am especially grateful to Jerry Gabert, the UUA Vice President for Finance and Treasurer, for his good work on behalf of the Association. The Vice President for Finance is the staff person responsible for the day-to-day oversight and management of the UUA's financial affairs.

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chair of the Distinguished Service Award Committee, as a member of the Commission on Appraisal and the Connecticut Valley District Board, as a board member and treasurer of the Church of the Larger Fellowship, and as a former President of Liberal Religious Youth (predecessor of YRUU).

<sup>4</sup> For the most recent such report, for the April 2003 meeting of the Board, go to <http://www.uua.org/TRUS/financial/FARep04-03.pdf>.

## **Growth and Financial Health<sup>5</sup>**

The most important quantitative indicators of the vitality of our movement are our growth in numbers and in financial generosity. As a result, I pay close attention to what our congregations report each year regarding their adult membership and RE enrollments and the size of their own budgets. I also pay attention to the giving levels of our congregations (and individuals) to the larger movement.

### *We Continue to Grow, But Slowly*

**Our religious movement continues its slow but steady growth since 1982.** That modest growth compares favorably to the steady declines experienced by mainline Protestant denominations since the mid to late 1960s, but should be a disappointment to us all because we have so much to offer.

In 2002 our combined adult membership and RE enrollment increased to 221,687:

0.6% higher than 2001  
14.3% higher than 1992  
29.2% higher than 1982<sup>6</sup>

Adult membership increased to 158,607:

1.0% higher than 2001  
14.0% higher than 1992  
17.1% higher than 1982

Religious education enrollment increased to 63,080:

2.7% higher than 2001  
15.1% higher than 1992  
74.6% higher than 1982

There was a decrease in religious education enrollments from 2000 to 2001, which has been followed by a large increase from 2001 to 2002. I highlighted the drop in RE enrollments in my report last year, saying that it could be a warning signal for our movement. We will need to wait for another year of statistics before we can be

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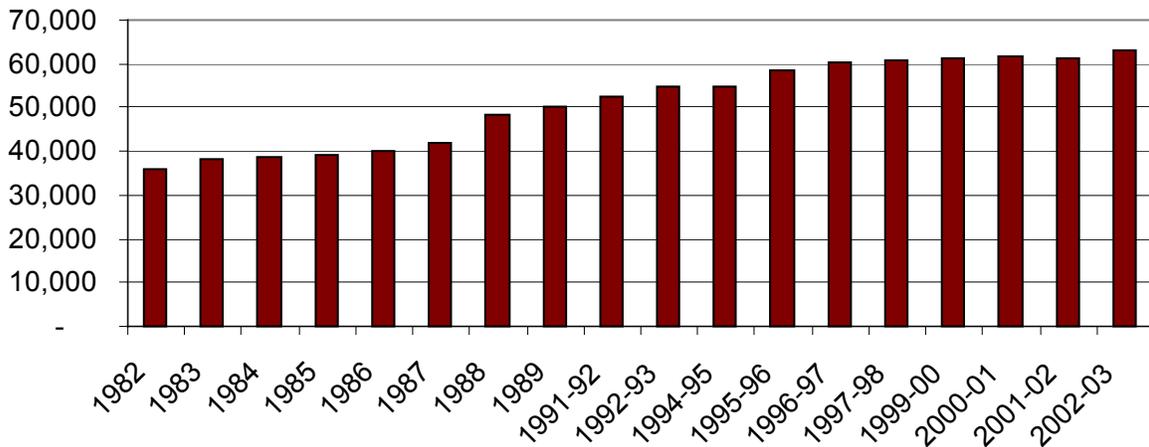
<sup>5</sup> For statistical information on the UUA see <http://www.uua.org/statistics.html>.

<sup>6</sup> Our total membership and RE enrollments increased from the consolidation in 1961 through 1968 when it peaked at 282,307. Membership and RE enrollments declined from 1969 through 1982, when we reached a low point of 171,609. While these trends are undoubtedly valid, there have been differences in counting and reporting standards in the 1960s and 1970s so that detailed comparisons during those periods are probably risky to make.

confident that the 2001 decline was a temporary aberration (which I certainly hope was the case).

**Our growth rate for RE enrollments is very low and should be a cause for concern.** The chart that follows shows how our RE enrollments have flattened out in recent years.

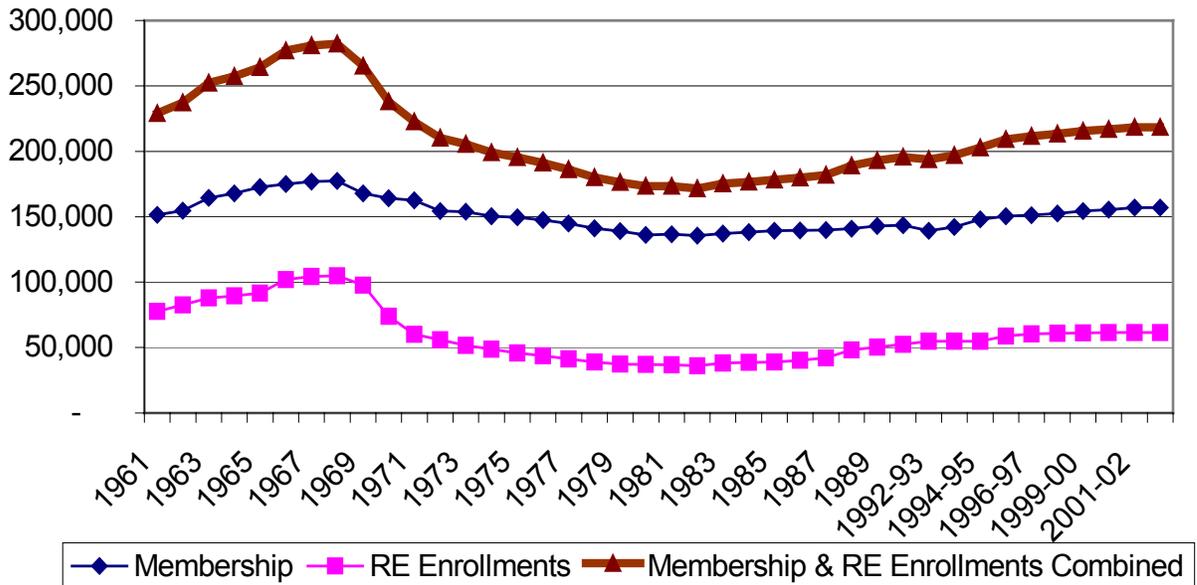
### RE Enrollments Since 1982



In my report to you last year, I said: *“We need to identify the causes of the slowing growth in religious education enrollments. Is it that our adult membership is aging? Is it that we are becoming less successful in attracting young families and single parents? Is it other factors? Most importantly, this indicator likely predicts a decline in adult membership in the near future.”* To my knowledge, there has been no serious discussion within our movement about the implications of this regrettable development.

From every indication, our adult membership and RE enrollments were inflated in the 1960s based on the ways we counted at that time. Even so, on balance the trends shown in the following graph are true. Overall, our community of faith grew in the 1960s, shrank in the 1970s, and began to grow, gradually, starting in 1982.

## Membership & RE Enrollments

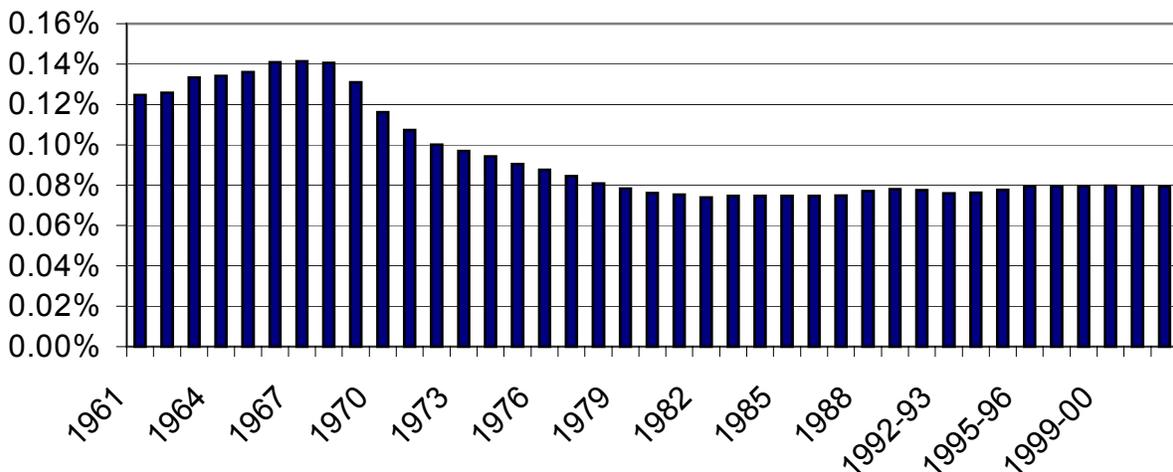


### *Market Share Has Not Changed*

Absolute numbers are important, but so is “market share,” i.e. whether our community of faith is growing as a proportion of the total population.

**Our market share has stayed constant at 0.08% of the population for the past six years.**

## Combined Membership & RE Enrollment as % of Population



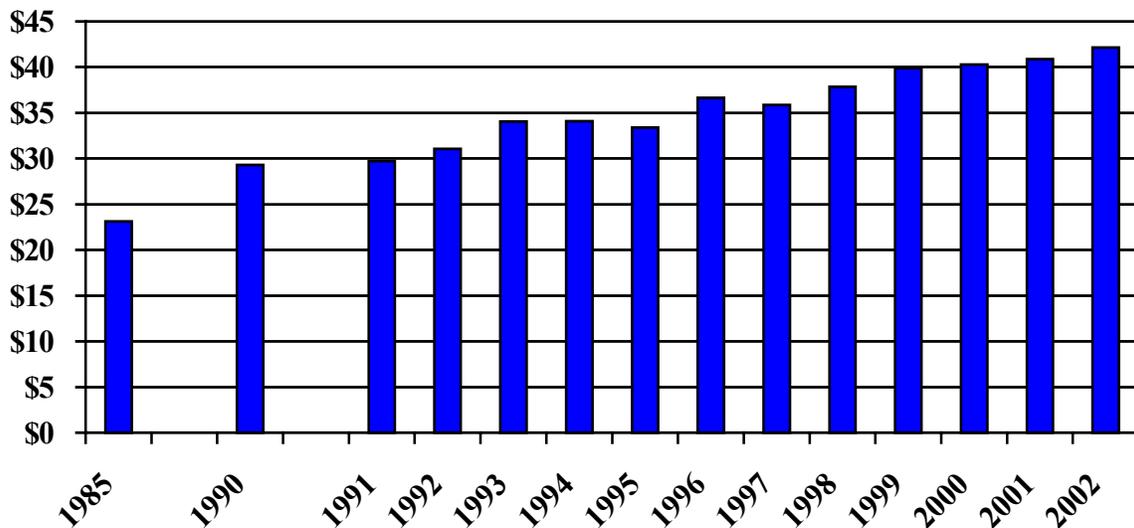
### *Continued Growth in Generosity*

Giving to the UUA continues to increase in real terms. Each year I do a calculation that adds together giving from congregations (through APF) and from individuals (through Friends). That total is then divided by the number of adult members to determine our “per capita giving.” I then adjust those figures for inflation.

That calculation indicates that **our generosity toward the larger movement continues to increase.** In 2002, giving through APF and Friends on a per capital basis reached \$42.16. In real terms (2002 dollars), our per capita giving has grown as follows:

- 3.2% higher than 2001
- 35.7% higher than 1992
- 82.4% higher than 1982

### **APF/Friends Giving Per Member**



### *Growth in congregational resources:*

While giving to our larger movement is important, it is even more important that our congregations be financially healthy, since financially healthy congregations are a precondition to any generosity to purposes beyond those individual societies.

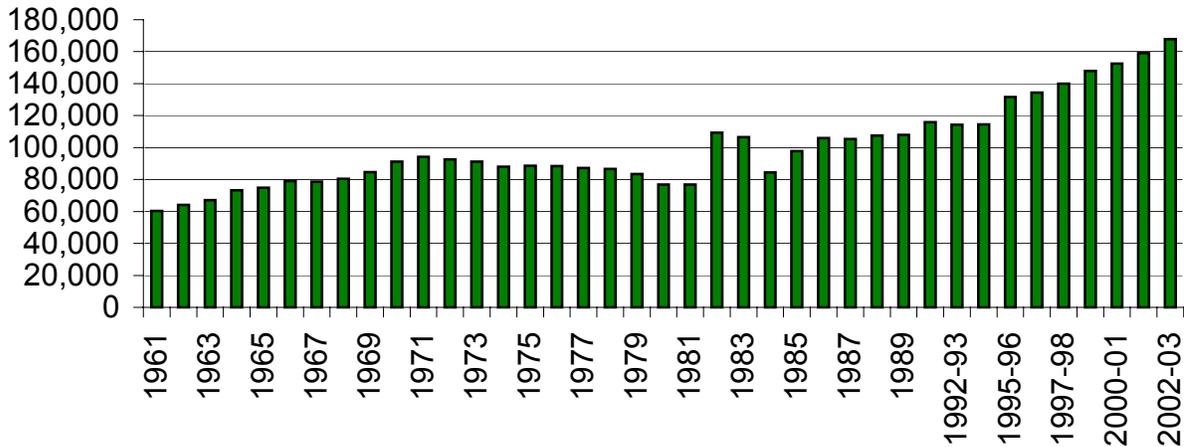
Each year, congregations report to the UUA the size of their congregational expenditures or resources.

In 2002, congregational expenditures reached \$177.1 million. In real terms that's

- 4.7% higher than 2001
- 49.5% higher than 1992
- 62.0% higher than 1982

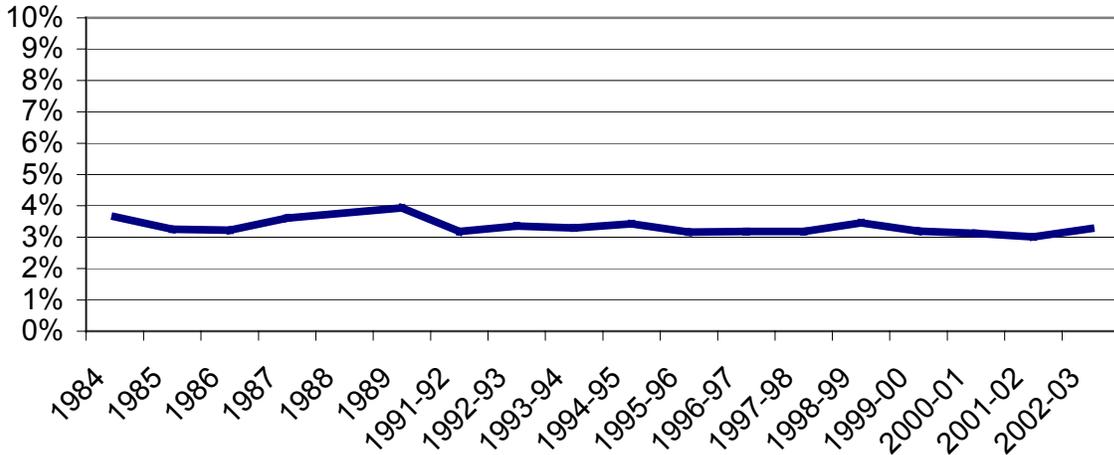
While total congregational resources is an important indicator, it is more important to consider the size of *individual* congregational resources. The graph that follows shows the average congregational resources *per congregation* after inflation. **Individual congregational financial health has been growing since consolidation in 1961 and has grown particularly dramatically starting in 1984.**

### Congregational Resources per Congregation (in 2002\$)



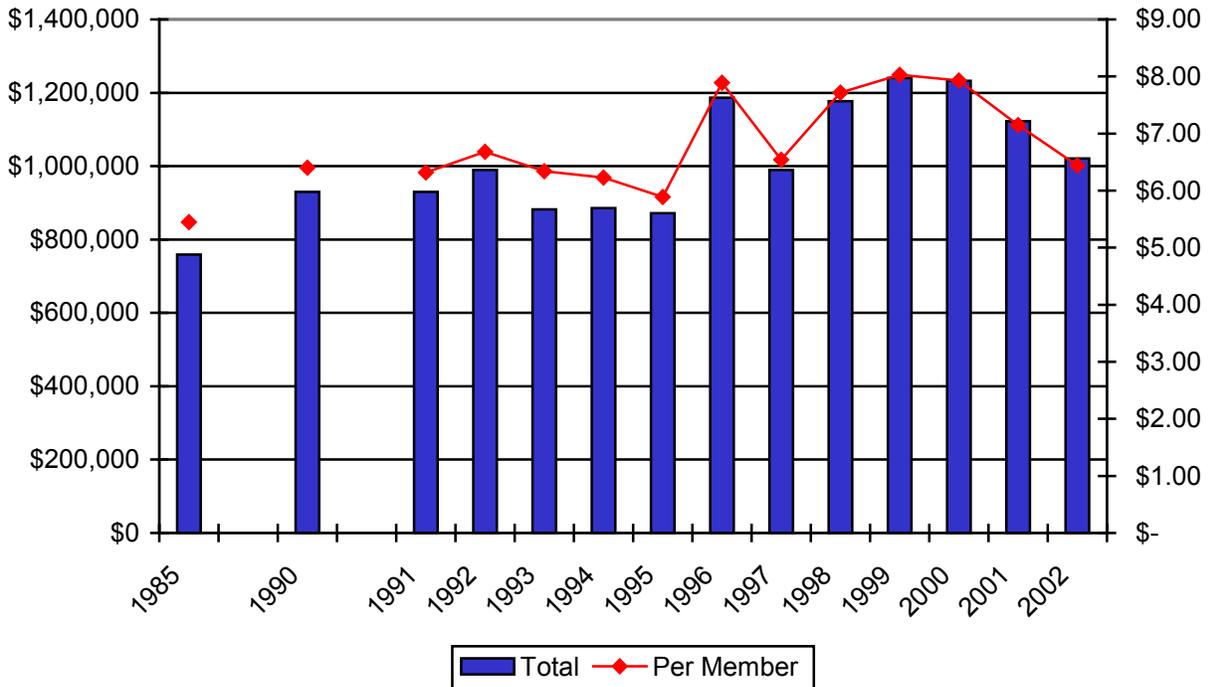
Congregational giving through APF has remained remarkably constant as a percentage of congregational budgets, at least since 1984 (as far back as I made the calculation). As the following graph indicates, APF giving has consistently hovered just under 4% of congregational resources:

## APF as % of Congregational Expenses



Individual giving to the UUA (through the Friends Program) has been declining since 1999, both in terms of total giving and per capital giving. While the UUA Board and administration are fully aware of the situation, they have been unable to identify clearly the reasons for the decline or a strategy for reversing that decline.

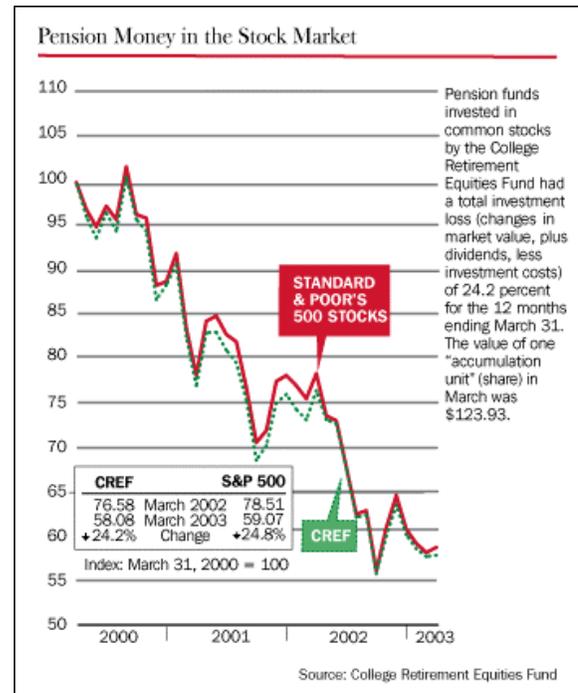
## Friends Giving



## **Endowment<sup>7</sup> Performance<sup>8</sup>**

Endowments, pension funds, and most individual portfolios have been losing value for the past three years<sup>9</sup>. For example, most of my own retirement funds are held by the College Retirement Equities Fund. Here is a chart that shows the decline in the market value of my own pension over the past three years, tracked to the S&P 500. I trust that the value of your own retirement funds (or other invested funds) have followed a similar track.

The UUA has not been exempt from these trends. Our endowment performance for FY2002 was negative 12.5%. The following chart compares these results with various market indices:



Index	Return
S&P 500	(18.0)%
Dow Jones Industrial Average	(10.3)%
Russell 2000	(8.6)%
Lehman Bros. Government/Credit Bond Index	8.2%

The largest comparative study of the performance of other endowments, conducted by the National Association of College & University Business Officers, reported an average return of (6.0)%<sup>10</sup> for FY2002 for 556 endowments of colleges and universities.

After performing better than other endowments for three years in a row, for the past three years our endowment has under performed other endowments. The first two years of underperformance was modest (though still unsatisfactory), but in

<sup>7</sup> The UUA endowment is called the General Investment Fund, or GIF.

<sup>8</sup> For information on the UUA endowment's investment performance go to: <http://www.uua.org/finance/invdata.html>. For the UUA's investment policies and guidelines go to <http://www.uua.org/finance/invguide.html>.

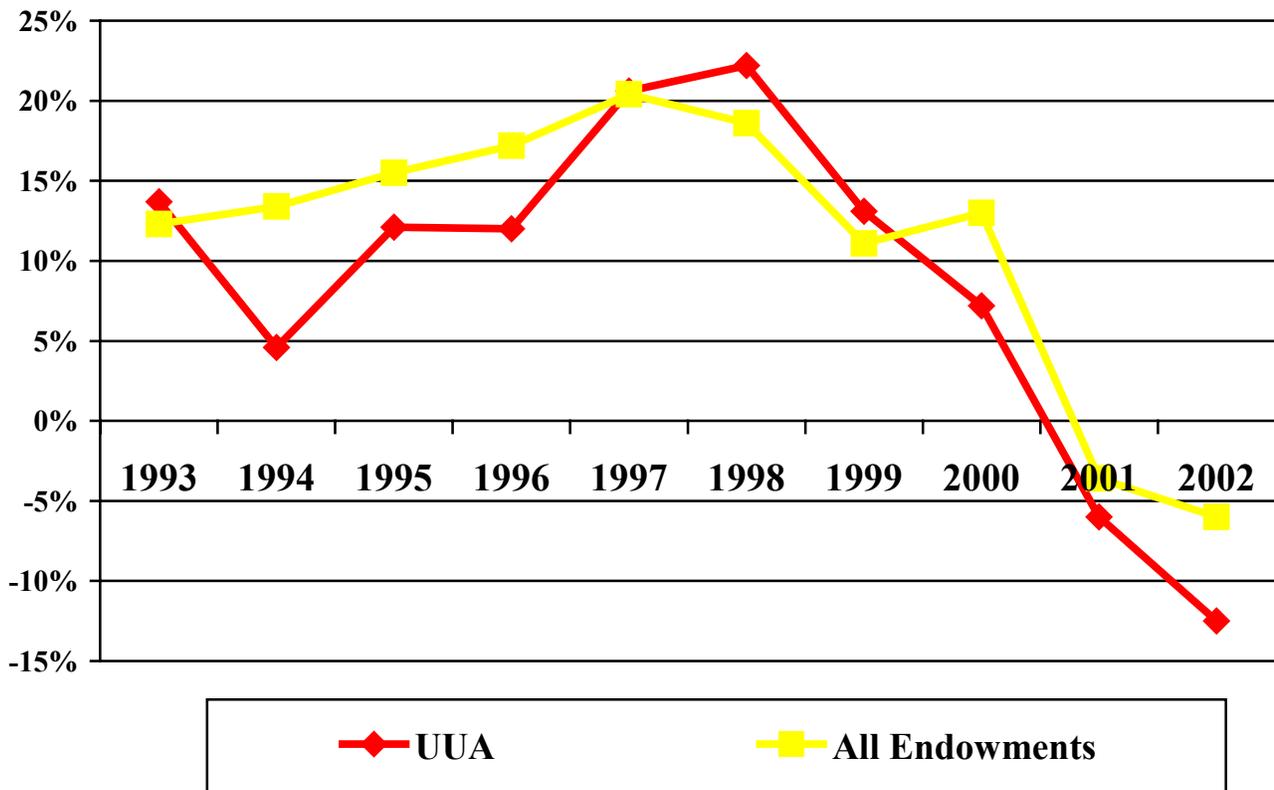
<sup>9</sup> See, for example, "Another Downer Year for College Endowments," *The Chronicle of Higher Education*, January 24, 2003. A quote from that article: "Endowments of \$100 million or less have posted negative returns, on average, for three straight years. With the economy and the financial markets still shaky at the midpoint of the 2003 fiscal year, it is easy to envision a fourth straight year of negative returns for those institutions."

<sup>10</sup> For more information on this study go to [http://www.nacubo.org/accounting\\_finance/endowment\\_study/](http://www.nacubo.org/accounting_finance/endowment_study/)

FY2002 that underperformance became more pronounced. Last year I reported that the Investment Committee was reassessing strategy as a result of market performance. I can now report that **the Investment Committee is taking significant actions, detailed later in this section, to correct this situation.**

Although the deviations from other endowments should not be trivialized, in general our endowment performance tracks pretty closely with the performance of other endowments and with pension funds. Here is a chart that compares our endowment's year to year performance with that of the average of other endowments. The information on other endowments includes endowments of all sizes and is distorted by the higher returns of larger endowments during the period highlighted. The returns of smaller endowments, such as that of the UUA, are more consistent with the returns experienced by the UUA.

### UUA Endowment Investment Performance



During the past year and a half, in light of recent investment performance, the Investment Committee has

- Replaced its investment consultant
- Conducted a review and revision of its asset allocation policy
- Shifted from “balanced” managers to “specialty” managers (which is the more typical endowment management structure)
- Removed and replaced individual investment managers (in process)

The Investment Committee is a standing committee of the Board of Trustees appointed by the Board. Four of its seven members are committed Unitarian Universalist volunteers who, in their work lives, are investment professionals who manage significant investment dollars. They work for these firms: Credit Suisse Asset Management, UBS Warburg, U.S. Trust, and State Street Global Advisers. The remaining three members are *ex-officio*: the Financial Advisor (Larry Ladd), the Vice President for Finance (Jerry Gabert) and the Board liaison (Ed Wilde)<sup>11</sup>.

The Investment Committee engaged the services of New England Pension Consultants (NEPC) to undertake to study a wide range of asset classes that are appropriately considered for an endowment such as the General Investment Fund (GIF), with its attendant goals, objectives and constraints. The study included a number of asset classes that had not previously been represented in the asset allocation policy of the GIF. The asset allocation policy of the GIF has, for many years, targeted a 60% investment in equity securities and a 40% allocation to fixed income securities. In recent years, this overall policy has been achieved through the use of “balanced managers” each of whom manages a blend of both stocks and bonds. Rebalancing has been the responsibility of individual managers, without knowledge of the allocation or rebalancing of other responsible managers.

The committee decided to maintain the overall asset allocation, but to revise the UUA policy to include additional fixed income and equity asset classes in the GIF. The committee also decided to revise target asset class allocations to accommodate new asset classes, to set permissible ranges for each asset class and to create a revised rebalancing policy driven by the position of the asset class within the range established. The committee recognized that the implementation of such changes warranted the review, search and selection of specialist managers, with particular expertise in a particular asset class. In undertaking its review, the committee set a goal to complete its implementation of such revisions within a period of 12-18 months. It was determined that the funding of new asset classes would either occur through a change in management of a component (equity or fixed income) presently managed by a balanced manager, as appropriate, or, as appropriate, the elimination of one or more managers.

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<sup>11</sup> Names and e-mail addresses of the Investment Committee members can be found at <http://www.uua.org/administration/committees.html#ic>. In addition to the members, two consultants to the committee are listed.

The table below outlines the targets and ranges established:

	<b>Target (%)</b>	<b>Permissible Range (%)</b>
<b>Equity</b>	<b>60</b>	<b>53 - 67</b>
Domestic Large Cap	30	25 - 35
Domestic Small Cap	15	12 - 17
International Equities	15	12 - 17
<b>Fixed Income</b>	<b>40</b>	<b>35 - 45</b>
Core Bonds	28	23 - 33
High Yield Bonds	7	0 - 9
Global Bonds	5	0 - 7
<b>Cash</b>	<b>0</b>	<b>0 - 10</b>

In September 2002, the Investment Committee voted to liquidate the global fixed income assets managed by Lazard Asset Management, due to significant underperformance relative to the appropriate benchmark, and to continue to provide diversification through its global equity investing. The proceeds were combined with other core fixed income funds managed by Pimco and known as the SIT Total Return Trust II, under the aegis of Oppenheimer Capital.

In the November 2002, the Committee voted to terminate the services of Beacon Asset Management for both the equity and fixed income portion of the portfolio, as well as the equity funds managed by Oppenheimer Capital. Both terminations resulted from protracted relative underperformance in conjunction with significant organizational, structural and portfolio management changes. The proceeds from the equities liquidated were invested in Domini Social Funds Index (core domestic equity) and the SSGA Russell 2000 SRI Index (small cap equity). A portion of the proceeds was used to increase the allocation to international equities through the existing investment in the Templeton Foreign Equities Series.

In February 2003, the Committee voted to terminate Regent Investment Advisors for both equity and fixed income management. The Committee had been studying high yield and global bond managers and selected two specialty managers to assist with a broader diversification through the reinvestment of fixed income assets. The fixed income proceeds were invested in Seix Investment Advisors Hi-Yield Investment Strategy and the GMO (Grantham, Mayo, Van Otterloo & Co.) Global Bonds Fund. Additional equity proceeds were placed in the Domini Social Funds Index.

At its next meeting in May 2003, the committee begins analysis of alternatives for the placement of core equity assets. In its analysis, the committee is considering not only the history, structure and strategy of the investment firms considered, but also their investment philosophy and practice, their professional staff, and their fee structure, as well as the firms' ability to assist the UUA with implementation of its socially responsible investment strategy.

## **Socially Responsible Investing**<sup>12</sup>

In 2000, the UUA Board of Trustees received and endorsed a report intended to renew and revitalize our movement's longstanding commitment<sup>13</sup> to use its assets in ways consistent with our values and to advance social justice<sup>14</sup>. The report created a Committee on Socially Responsible Investing, and the leadership by that committee has resulted in significant progress, both in the use of the UUA's assets but, more importantly, in providing tools and information to our congregations.

Some of the many achievements include:

- A site on the UUA web site (<http://www.uua.org/finance/sri/>) with extensive information for congregations
- Other forms of information sharing such as the *InterConnections* cover story on "Responsible Investing Gathers Momentum" (October 2002)
- Active UUA leadership or participation in proxy votes over corporate policies related to issues such as corporate governance and employment non-discrimination. **The UUA has become an "active shareholder"!**
- A UUA formal policy on community investing<sup>15</sup>, in which a portion (1-5%) of the UUA's unrestricted assets are allocated to community-based investments, with 75% of such investments dedicated to matching congregational investment. This policy will be under the oversight of the Investment Committee and Board of Trustees. (The UUA has allocated a portion of its assets for community investing since 1970.)
- Created an network of SRI "advocates" to help local congregations interested in SRI work
- There will be **six** workshops (as well as a booth in the Exhibit Hall) at the 2003 General Assembly on the topic of socially responsible investing.

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<sup>12</sup> For information on Socially Responsible Investing go to <http://www.uua.org/finance/sri/>.

<sup>13</sup> For a history of that commitment, including GA resolutions going back to 1967, go to <http://www.uua.org/finance/sri/general/history.html>.

<sup>14</sup> For a copy of the report go to <http://www.uua.org/TRUS/SRI622BOT.pdf>

<sup>15</sup> Adopted by the UUA Board of Trustees at its January 2003 meeting.

**Invested Non-Endowment Funds**

In addition to the endowment, there are other funds that exist for the benefit of Unitarian Universalism and you should be aware of those funds. Some of these funds are embedded within our audited financial statements but may be difficult to identify under generally accepted accounting standards. Others of these funds are not included in our audited financial statements. Particularly because some of the recent corporate scandals involved financial assets that were not sufficiently transparent to shareholders, I have added this new information to my report this year.

The funds in the chart below are all included in the Association’s audited financial statements except for the Liberal Religious Charitable Society (LRCS). In the case of LRCS, income from those funds is reported in the financial statements but the fund balance or principal is not reported.

Name of Fund	Purpose or Role	Amount	Investment Manager
Holdeen Master Trusts	Permanently restricted, some used for India Program and some for UUA program support	\$27.9 million as of 12/31/02	Wachovia Bank, Philadelphia Trustee
Master Outside Trusts	Principally for UUA general purposes. Held in perpetuity	\$20.3 million as of 12/31/02	Various trustee banks.
Charitable Trust Funds	Planned gifts to the UUA	\$10.5 million as of 12/31/02	State Street Global Advisors Co-Trustee
Liberal Religious Charitable Society	Supports UUA charitable religious purposes	\$7.5 million as of 12/31/02	Eastern Investments, Eastern Bank, Boston
Alternative Social Investment & Community Reinvestments	Affordable housing/community investing (\$0.9 million) and FDIC insured reserve for loan guarantees (\$0.6 million)	\$1.5 million as of 4/1/03	Various minority owned and community based banks, credit unions and cooperatives; various community-based loan funds
Total		\$67.6 million	

In addition, not reported on the UUA financial statements are the

**The Unitarian Universalist Organizations Retirement Plan** whose value was \$98 million at 12-31-02. The Plan is a defined contribution program, serving 2200 participants whose funds are fully vested.

**The Society for Ministerial Relief**, with \$9.4 million as of 3-31-03, in trust funds, which provides assistance and support of aged and destitute clergy, not otherwise provided for.

**The Unitarian Service Pension Society**, with \$7.1 million as of 12-31-02, which provides quarterly Service Gratuities to eligible Unitarian Universalist ministers in fellowship.

### **Fundraising Achievement**

In an earlier section of this report, I reported on the astonishing generosity of congregational and individual contributions in support of the day-to-day operations of the UUA, coupled with concern about the future of Friends giving.

At the 2001 General Assembly, a new \$32 million capital campaign was announced to provide the resources to further grow our movement. As of the day of this writing (April 15, 2003), generous donors to the campaign have already made cash gifts, pledges, or verbal commitments totaling \$28.3 million (face value).

### **Financial Results<sup>16</sup>**

**The UUA's financial results for FY2002 were in balance** with a \$57,000 surplus. These results are particularly important because they follow disappointing results for FY2001, when the UUA experienced an operating deficit of \$361,000 after six successive years of operating surpluses. After the FY2001 deficit, the administration and board took steps to reduce the likelihood of future deficits, and those steps were effective.

The positive financial results for FY2002 are especially impressive because total expenditures for that year were 6% less than budget. Board and volunteer leadership expenditures were 13% under budget.

The following chart shows the net financial assets of the Association for the past three years, broken down into components.

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<sup>16</sup> For a quick overview of the UUA budget go to <http://www.uua.org/giving/apf/uua101/moneyflow.pdf>

	Fiscal Year		
	<u>2000</u>	<u>2001</u>	<u>2002</u>
Current	57,122,992	56,136,930	48,348,821
Beacon Press	1,963,911	1,486,849	1,437,610
CPLC	7,303,334	7,281,208	7,168,789
Endowment	<u>105,794,047</u>	<u>94,276,905</u>	<u>78,889,855</u>
Total Net Assets	172,184,284	159,281,892	135,845,075

While the reduction in net assets in Beacon Press and Endowment evident from other parts of this report, the decline in the “Current” section is the result of these factors: (1) “unrestricted” increased by the \$56,712 operating surplus and (2) “temporarily restricted” decreased by \$1,718,549 and “permanently restricted” decreased by \$6,126,271 due to decreases in the market value of the split interest agreements and the trust funds.

### **Independent Audit for FY2002**

The financial statements for FY2002 were audited by the UUA’s independent auditor, Deloitte and Touche<sup>17</sup>. Deloitte and Touche is selected by the UUA Board of Trustees in a competitive process and is accountable to the Board for its work. It is the independent auditor’s responsibility to provide assurance regarding the accuracy (“in all material respects”) of the Association’s financial statements. In summary, the outcomes of the audit were:

- **A clean opinion** (we can rely upon the financial statements and they are consistent with generally accepted accounting principles)
- The administration was prepared and cooperative
- No internal control issues were identified

### **Beacon Press**

Beacon Press’ projected operating results for FY2003 and actual results for FY2002 are “on plan,” i.e. its results are consistent so far with the plan adopted by the Board of Trustees in 2002 as a three year trial period for the Press. The specific wording of the Board vote is:

<sup>17</sup> For a copy of the audited financial statements go to <http://www.uua.org/TRUS/financialstatements02.pdf>

“To approve the three-year strategic plan for Beacon Press outlined in the Three Year Plan for fiscal years 2003 through 2005 presented by Beacon Press Director Helene Atwan to the Finance Committee. Under the plan:

- Losses shall not exceed \$600,000 over three years
- Losses shall not exceed \$300,000 in any one year

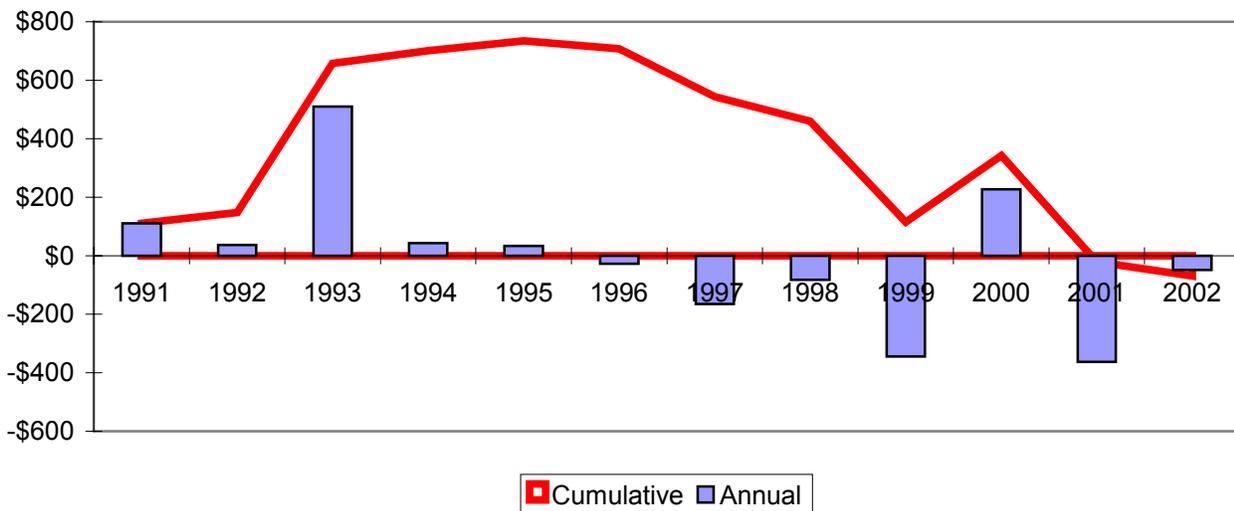
If either loss metric is exceeded, the Board of Trustees will immediately reconsider the alternatives for Beacon.”

Beacon Press ended FY2002 with a \$49,000 loss (or net cost), a very positive result compared to the budgeted loss (or net cost) of \$350,000. The FY2002 loss was substantially less than the \$363,000 loss in FY2001.

Beacon Press has now experienced losses in seven of the last eight years, and is expected run a planned loss in FY2003 as well. The FY2003 loss is projected, as of April 16, to be \$181,000 compared to a budgeted loss of \$186,000.

This graph shows the actual operating results for Beacon Press since FY1991 (the bars) and the cumulative results for the same period (the line). By this measure, Beacon Press began running a cumulative deficit in FY2001.

### Annual & Cumulative Results - Beacon Press (in thousands)



As your Financial Advisor, I have been raising concerns about Beacon Press since assuming office in 1997. Those concerns are at several levels:

First, the financial volatility of Beacon Press places our association at risk, particularly because the UUA does not plan to accommodate that volatility. The current, trial plan is a good effort to accommodate a certain level of volatility.

Second, there is a large cost to maintaining Beacon Press that is represented not only in its operating loss but more fundamentally in the time and attention Beacon Press requires of our leadership. This **“opportunity cost,” in my opinion, is the most serious cost of Beacon Press for the Association.**

No one disputes the importance of Beacon Press’ goal of promoting our values in the world. **The important issue is whether Beacon Press is the best means for promoting our values at a time when the written word has lost its monopoly among methods of communicating important ideas.** Our human and financial resources would be more productively allocated toward more direct growth and public witness strategies and by more fully utilizing modern technologies of communication such as the internet.

The Board of Trustees’ plan with a trial period provides the opportunity to operate the Press under fresh assumptions and with the full awareness in the UU community of the importance of buying Beacon books. I hope that the trial proves a success.

### **FY 2004 Budget**

At its April 2003 meeting, the UUA Board of Trustees adopted a budget for FY2004. It is usual practice for the budget to be approved at the January meeting, but the Board agreed to an administration request to provide more time for the preparation of the budget in light of the administrative reorganization launched in 2002 and the need for significant expense reductions.

The two important factors to highlight in the FY2004 budget are:

- Support from congregations remains strong this year and is planned to continue to be strong in FY2004, reflecting the spiritual vitality of our movement
- Expenses needed to be reduced, primarily because our endowment income is declining (in real terms and as a percentage of our total revenue) because of market and economic conditions

In dollar terms, our endowment revenue has been decreasing since FY2001, when it was \$3.8 million. In the FY2004 budget, endowment revenue is budgeted at \$2.8 million. In FY2001, endowment income represented 28% of the UUA’s income for general support, whereas in FY2004 it will represent only 21%.

The financial trends being experienced by the UUA are consistent with those experienced by other endowed organizations (particularly universities and foundations), most of whom have seen their endowment assets shrinking for the past three years with resulting reductions in endowment income<sup>18</sup>.

Although the FY2004 budget contains many expense reductions, embedded in the budget are certain practices and assumptions that represent risks, and these should be highlighted (in reverse order of materiality) to you:

- We are drawing upon non-recurring capital campaign funds to support some operating expenses
- We are projecting that Friends giving will increase by 2.6% (even though it has been decreasing in recent years)
- We are projecting that the Annual Program Fund giving will increase 5.6% (although giving is now strong, will it slow or decrease because of the economy?)

### **Church Staff Compensation<sup>19</sup>**

The ongoing program to improve church staff compensation continues to progress since the General Assembly established the program and recommended clear guidelines in 1995<sup>20</sup>.

In 1996, the compensation consultant program<sup>21</sup> was established to provide information and support to congregations who wanted to improve compensation. The compensation consultants program is strong, and the individual consultants have demonstrated expertise, commitment and peer support.

Surveys of congregations in 1997, 2000, and 2003 indicate that we are making significant progress.

At its April meeting, the UUA Board approved new salary guidelines for church staff that establishes up-to-date standards for our congregations to consider. The new standards cover more different types of staff positions than previous standards, and incorporate empirical data drawn from the not-for-profit sector.

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<sup>18</sup> See for example "No More Wiggle Room: Big Foundations See Drop in Assets for Third Year in a Row" (*The Chronicle of Philanthropy*, March 6, 2003) and "Stanford U. Freezes Faculty and Staff Salaries" (*The Chronicle of Higher Education*, March 21, 2003).

<sup>19</sup> For an overview of the UU Organizations Pension Plan go to <http://www.uua.org/Ministry/ocsf/info-pen.html>.

<sup>20</sup> For a history of the compensation program go to <http://www.uua.org/Ministry/ocsf/compsurvey00sec2.pdf>

<sup>21</sup> For a list and contact information on district compensation consultants go to <http://www.uua.org/Ministry/ocsf/comproster.html>.

## **UU Organizations Retirement Plan**

The UUA operates a retirement plan for church staff which is overseen by the Compensation, Benefits and Pension Committee, which is a standing committee of the Board of Trustees. The plan is administered by Fidelity and participants are given a wide variety of investment options including socially responsible funds. The number of participants in the plan continues to grow, although the total value of plan assets has declined because of market conditions.

Date	No. of Participants	Assets
12-31-02	2,199	\$97,996,358
12-31-01	2,121	\$106,335,483
12-31-00	1,946	\$110,352,503

The returns (calendar year) on the investment vehicles available in the pension fund were:

<i>Fund</i>	2001	2002
Fidelity Managed Income	5.8%	5.1%
Fidelity Fund	(11.2)%	(13.0)%
Walden Social Equity	(4.3)%	(22.3)%
Spartan U.S. Equity Index	(12.1)%	(22.2)%
Fidelity Balanced	2.3%	(8.5)%
Walden Social Balanced	(2.9)%	(6.1)%
Fidelity Diversified International	(13.0)%	(9.4)%
Fidelity Mid-Cap	(12.8)%	(27.6)%
Fidelity Growth	(25.3)%	(33.5)%
Domini Social Equity	(12.8)%	
<i>Indices:</i>		
S&P 500	(11.9)%	(22.2)%
DJI	(5.4)%	(15.0)%
Lehman Aggregate Bond Index	8.4%	10.3%
MSCI EAFE Index	(21.3)%	(15.7)%

## **Web Information**

The UUA website is full of information that is useful for you in understanding the operations of the UUA. I have highlighted some of those resources in footnotes throughout this report. I particularly bring to your attention these resources:

1. "UUA 101" - an intro. to the UUA for use by districts or by congregations:  
[www.uua.org/giving/apf/uua101/](http://www.uua.org/giving/apf/uua101/)
2. "Sources of Grants for Congregations":  
[www.uua.org/cde/fundraising/conggrants.html](http://www.uua.org/cde/fundraising/conggrants.html)
3. "The UUA Money Flow": [www.uua.org/giving/apf/uua101/](http://www.uua.org/giving/apf/uua101/) (Under Supplementary Materials)
4. "New from the UUA": [www.uua.org/giving/apf/uua101/](http://www.uua.org/giving/apf/uua101/) (Under Supplementary Materials)
5. "Be Our Guest: UUA Resources for Your Congregation's Financial Management and Fund Development":  
[www.uua.org/giving/apf/beourguest.html](http://www.uua.org/giving/apf/beourguest.html)

### **Accountability and Improved Financial Governance**

At its April 2003 meeting, the Board of Trustees approved the establishment of an Audit Committee to oversee the annual audit and to monitor the review, establishment and implementation of accounting policies and internal controls. These functions were performed previously by the Finance Committee. The creation of a separate Audit Committee establishes a more independent group, with stronger expertise in this particular task, to perform these functions. The Financial Advisor will continue to provide the additional oversight and monitoring function as mandated in the bylaws. The Audit Committee will serve as another structure for accountability to our member congregations.

Recent corporate scandals<sup>22</sup>, as well as similar scandals in the not-for-profit sector, highlight the need for organizations such as the UUA to assure:

- the reality and the perception of the independence of its governing board from the administration
- that appropriate financial reporting and controls are in place, and
- that our practices are in compliance with regulations and best practices.

**Issues of governance and accountability are a high priority for me in my final two years in office.** The creation of the Audit Committee is one first step in providing renewed attention to these issues. You will be hearing of further steps in the future.

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<sup>22</sup> In the corporate sphere, names such as Adelphia, Andersen, Enron, Global Crossing, Sunbeam, Tyco, and WorldCom come to mind. In the not-for-profit sector, in the past decade the CEO of the **United Way of America** was convicted of misuse of funds (1992), the **Foundation for New Era Philanthropy** defrauded other non-profits, mostly religious organizations, of more than \$135 million in a phony investment scheme (1997), eighteen of nineteen trustees of **Adephi University** were removed by the State of New York for their handling of various conflicts of interest and for overcompensating the president (1997), and the **Arizona Baptist Foundation** declared bankruptcy after 13,000 investors were defrauded (1999). In the Arizona Baptist case, the former accounting giant Anderson settled charges against the firm for the sum of \$217 million.

The UUA's finances are well managed. My attention to issues of governance and accountability merely recognizes that **the Enron and similar scandals, accompanied by legal and regulatory actions such as the Sarbanes-Oxley Act and new GAO Audit Independence Standards<sup>23</sup>, create a new set of expectations and best practices that we should apply to the UUA to the extent that they are appropriate.**

## **Conclusion**

In conclusion, on the positive side of the ledger:

- Our adult membership and RE enrollments continue to grow
- Our congregations continue to grow in financial strength
- Fund raising through the Annual Program Fund and the capital campaign is very strong
- The Investment Committee is revising its investment strategy and replacing investment managers

On the negative side of the ledger:

- Our growth in adult membership is less than our potential!
- Growth in religious education enrollment is flattening
- The value of the UUA endowment has been shrinking for three years, with the result that the UUA budget is strained and opportunities are lost

## **Attachment:**

### 1. Standards for the UUA's Financial Performance

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<sup>23</sup> The Sarbanes-Oxley Act of 2002 regulates SEC-registered entities and the GAO Audit Independence Standard (2002) regulates not-for-profit entities that receive federal funds. Neither applies in a legal sense to the UUA, but they generally represent good practices to be followed.



## **Unitarian Universalist Association** of Congregations

### **Standards for the UUA's Financial Performance**

Larry Ladd, UUA Financial Advisor

June 1997

#### **1. A Clear Religious Message**

- The vitality of our religious community - our capacity to serve effectively as a catalyst for personal and social renewal - is a precondition to financial health. It is the fundamental reason we attract funds.
- The leading indicator of our value is the existence of financially strong congregations. Such congregations are the second essential precondition to the UUA's financial health.

#### **2. A Continental Program Worthy of Support**

- Congregations and individuals will give, and increase giving, only to programs that respond effectively to their deepest needs and aspirations.
- Congregations and individuals will give, and increase giving, only when they are confident their gifts will be used prudently.

#### **3. Strategic Planning**

- Spiritual, membership, and financial growth represents an opportunity to target our energies on the most important goals - if we are clear about what those goals are.
- The UUA should identify and pursue the opportunities for growth.
- The UUA needs
  - objectives grand enough to motivate giving, and
  - priorities specific enough to guide decisions about resource allocation.

#### **4. Expanding Resources**

- The UUA leadership must place continued emphasis on the message that living a life committed to UU values requires generosity and compassion for others. UU's live in abundance and need to learn to increase their gifts to the religious community at all levels (local and denominational).
- Capital giving must remain a high priority for the UUA leadership, even after the capital campaign formally ends.
- Congregations should be motivated to fully support the Annual Program Fund.
- Financial return on existing assets, especially endowment (see below), should be maximized.

#### **5. Strong Endowment Performance**

- Because the UUA relies heavily on its endowment, investment performance must be a high priority.
- The investment approach should be stable, consistent, and long term - not subject to fads or changes in investor mood.

- The investment objective should be total return - income plus capital appreciation over the long term.
- Asset allocation should be heavily weighted toward equities - which have historically had the best long-term return.
- Endowment performance should, *at a minimum*, be equivalent to the average endowment performance of other non-profit organizations. After meeting that modest goal, the next, achievable objective should be performance equivalent to the market indices.
- Spending from the endowment should be low enough to preserve the inflation-adjusted value of the endowment (excluding new gifts or other additions).

#### **6. Conservative Budget Management**

- The budget should reflect the strategic plan.
- The central question should not be “can we do this cheaper?” but rather “can we do this better?”
- Revenue should be budgeted conservatively, not optimistically.
- Less predictable expenses, such as employee fringe benefits, should be budgeted with a "cushion for error" to accommodate unanticipated short-term cost increases.
- Periodic projections of revenue and expense, based on timely and reliable information, should identify problems early enough to be remedied before deficits occur.
- The budget should include a contingency plan for addressing issues raised by a projected deficit.
- The proposed budget should be accompanied by projected budgets for the following two years.
- Each budgetary activity (for both revenue and expense) should have an administrator clearly accountable for its performance relative to budget.

#### **7. Creative Use of Assets**

- Systems for cash management must be in place to assure adequate working capital and a good return on that capital.
- Investments for congregational building should be encouraged. Additional capital should be obtained if needed.

#### **8. Explicit Policies Consistently Applied**

- All fiscal policies, including those related to investments, insurance, risk management, contracts, transfers and inter-fund borrowings, and fund raising, should be clearly stated in writing and consistently implemented.

#### **9. Risk Avoidance**

- Procedures must be in place to prevent conflict of interest, employee theft, losses from catastrophe, or contracts that inadequately protect the UUA..
- Procedures must be in place to assure compliance with law (including tax laws as they apply to nonprofit organizations), health and safety regulations, and good accounting practices.
- The external auditor should be encouraged to identify real or potential problems with respect to financial reporting and internal controls.

- Fund balances or reserves must be sufficient to absorb unanticipated financial setbacks.

#### **10. Low Overhead**

- Direct program expenditures are the top priority in resource allocation. Overhead services should be made as efficient and simple as possible.
- There should be no duplication of services.

#### **11. Quality Financial Information**

- The UUA should develop a “financial monitor” that provides clear, simple measures or indicators of the Association’s financial well being over time.
- The annual, audited financial statements of the UUA must show the true position of the UUA without compromise, including the proper valuing of inventories and funding of obligations and liabilities.
- The UUA should know the full and incremental costs of its programs.

#### **12. Skilled and Knowledgeable People**

- The Financial Advisor should assist the Committee on Committees in recruiting bright and knowledgeable individuals to serve on the key financial committees of the UUA.
- In hiring professional financial staff, the UUA will be well served by appointing highly trained and experienced professionals. The premium in salary will be modest relative to the benefits and risk avoidance of such appointments.
- High priority should be given to the continuing education and professional development of the financial staff.

#### **13. Don’t Forget Beacon Press!**

- Since profits and losses of Beacon Press accrue to the UUA, the Financial Advisor must pay as much attention to the Press as to the UUA itself.

Larry Ladd can be reached at 26 Sargent St., Needham MA 02492. E-mail [lladd@uua.org](mailto:lladd@uua.org). Tel. 781-444-3299 (home); 617-848-4801 (office). He is serving his second (and last) four year term as the UUA Financial Advisor, a volunteer position. His second term expires in 2005. As Financial Advisor, he serves as a member of the UUA Board of Trustees and its executive, finance, and administrative organization and personnel committees. He is a member of the Investment Committee, Congregational Properties Loan Commission, the Committee on Compensation, Benefits & Pension, and the Ministerial Scholarship Committee. He is a member of the UUA President’s Council. He chaired the Board’s Distinguished Service Award Committee in 2001-02 and chaired the Board’s *ad hoc* task force on church staff compensation in 1998.