

# Financial Advisor's Report To Unitarian Universalist Congregations

June 2009



UNITARIAN  
UNIVERSALIST  
ASSOCIATION OF  
CONGREGATIONS

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<http://www.uua.org/aboutus/governance/officers/financialadvisor/index.shtml>

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*"The Financial Advisor is a volunteer 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, and 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."*

-- Larry Ladd, UUA Financial Advisor (1997-2005)

## Introduction

This month I complete my first term of service as UUA Financial Advisor. I am unopposed as a candidate for re-election to a second four-year term. I am honored to present this report to UU congregations, as required by the UUA bylaws.

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## **UUA Financial Reporting**

The UUA's Annual Reports for 2009, including this report, are being published only electronically as a cost-saving measure. Besides this report, two other reports provide information about the UUA's recent financial results:

- The UUA Treasurer's Report provides a detailed explanation of the Association's financial condition, along with explanatory figures and charts, as well as the UUA administration's analysis of this material. The Treasurer's Reports for 2009 and prior years can be found on the UUA website at <http://www.uua.org/aboutus/finance/25499.shtml>
- The Independent Auditors' Report on Fiscal Year 2008, by the accounting firm KPMG, presents audited financial statements for the Association, including a balance sheet ("Statement of Financial Position"), an income statement ("Statement of Unrestricted Revenue and Expenses"), and many supporting schedules, including detailed information about the UU Common Endowment Fund. This report is at <http://www.uua.org/aboutus/governance/board-appointedcommittees/auditcommittee/index.shtml>

I believe that these two reports accurately and comprehensively describe the UUA's financial results. Therefore, in my report I will avoid repeating information from the other reports, but will instead focus on broad highlights and on particular topics of importance.

Extensive information about the UUA's finances is available on the UUA website at <http://www.uua.org/aboutus/finance/index.shtml>.

My reports to General Assembly and to each quarterly meeting of the UUA Board are available at <http://www.uua.org/aboutus/governance/officers/financialadvisor/index.shtml>.

## **Fiscal Year 2008 Results**

### ***Change in Format of Financial Statements***

At the request of the Audit Committee, the UUA administration worked with KPMG to redesign the Statement of Unrestricted Revenue and Expenses so that it provides more useful information about the Association's financial condition. The main change was to separate "operating" results (i.e., funds received and expenses paid) from "non-operating" results (mainly, the change in the value of the Association's unrestricted endowment). The figure reported for "Increase in unrestricted net assets from operations" in each year is an important measure of the Association's fiscal health. In prior years, this figure was not easy to derive from the financial statements.

### ***Financial Results***

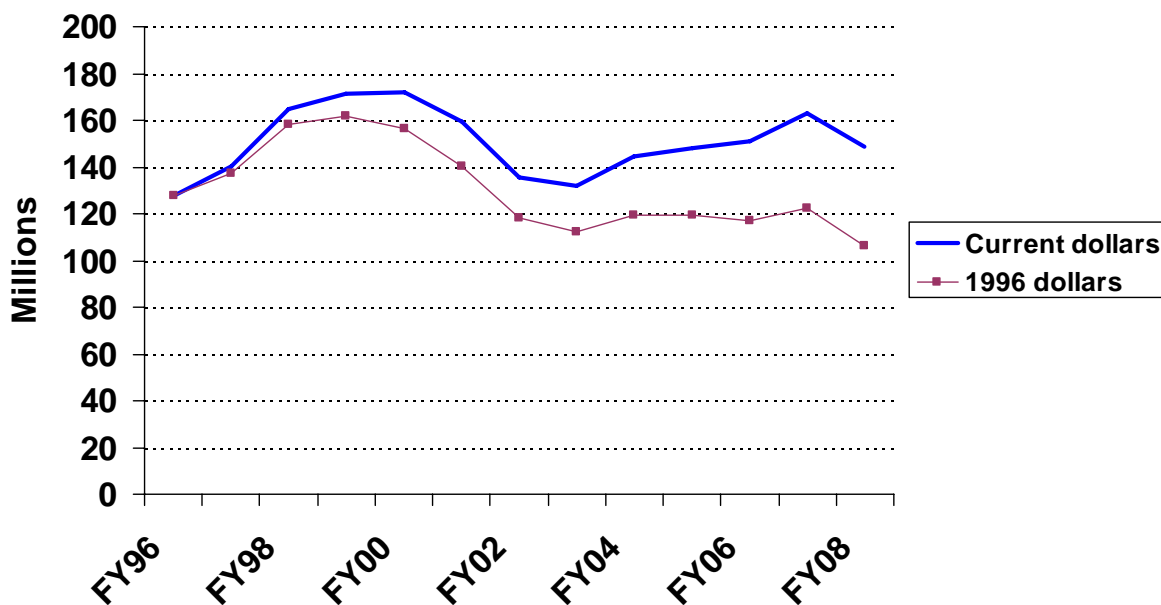
According to the UUA's audited financial reports, the Association's unrestricted net assets from operations grew by \$0.6 million in FY08.

However, the stock market decline that reached severe levels late in 2008 had already begun during FY08 (which ended last June). As a result, the total value of the UU Common Endowment Fund (UUCEF), including funds invested by congregations, fell by \$14 million during FY08. (An even larger decline has occurred during FY09, which ends this month.)

An organization’s “total net assets” is one of the best measures of its fiscal condition. This figure starts with everything the organization owns, and then subtracts all its debts. The chart below shows how the UUA’s total net assets have changed since FY96. Sharp growth during the “dot-com” boom of the late 1990’s was followed by a substantial decline when the stock market collapsed in 2000. Assets then grew steadily until the current bear market began in late 2007.

From 1996 through 2008, the Association’s net assets grew by about \$20 million. However, this growth has not been fast enough to keep pace with inflation. Measured in “real” 1996 dollars, the UUA’s net assets have declined over the last decade.

### UUA Total Net Assets

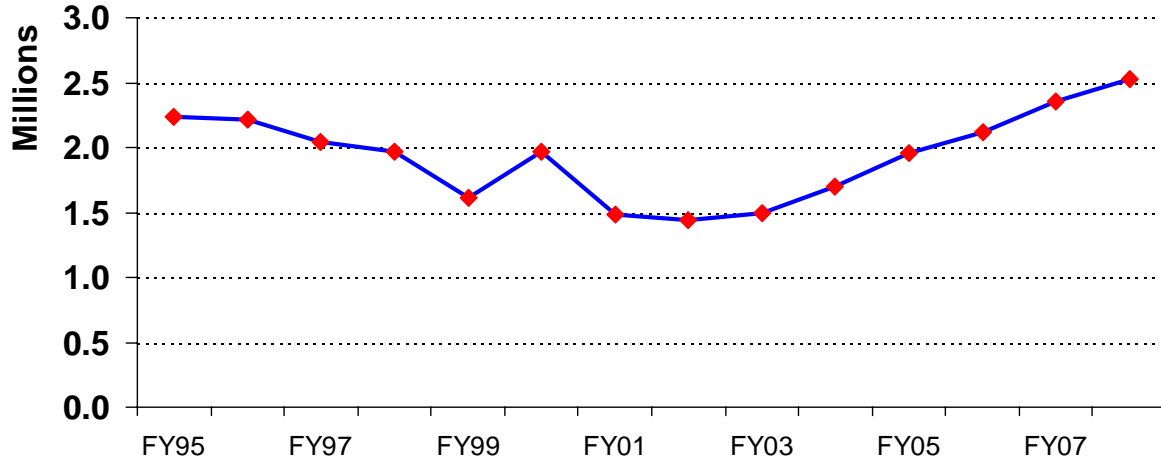


#### *Beacon Press*

Beacon Press achieved an operating surplus of \$164,000 in FY08, for its sixth consecutive year of surpluses. As a business in the volatile publishing industry, Beacon’s sales revenue and net income will fluctuate. In 2006, the UUA Board reaffirmed its expectation that Beacon should not incur a deficit of more than \$300,000 in any year, or more than \$600,000 in any three years.

The weak national economy has begun to affect the press, which is likely to experience deficits in FY09 and again in FY10. In response, Beacon has carried out several cost-cutting measures. Beacon does not anticipate that its deficits will exceed the levels stated in the board policy.

### Net Assets ("Stabilization Fund") Balance at Year End



The chart shows Beacon’s year-end net assets, which I regard as a “stabilization reserve.” These funds can be used to finance publishing opportunities, such as the recently announced plan for Beacon to publish the writings of the Rev. Martin Luther King, Jr. The funds will also will be available to avoid the need to draw down other Association assets should Beacon experience operating deficits. The net assets of the press have grown by more than \$1 million in the past six years. With a reserve of more than \$2.5 million at the beginning of FY09, Beacon and the UUA are well-protected.

### The UUA Budget in FY 2009 and Beyond

FY09 has been a hard year for the UUA, for many of our congregations and members, and for the national economy. FY10 promises to be even more difficult.

The UUA administration expects total FY09 income to be 9%, or \$2.3 million, less than the budgeted level. More than half of this reduction is in cash gifts that were expected to be received this year for the “Now is the Time” campaign.

The UUA administration has made numerous spending reductions in order to avoid, or reduce the size of, a deficit for the year. Many initiatives that were to be funded with campaign receipts have been postponed. (The administration expects that the gifts will be received once the national economy and the stock market rebound.) Other cuts bring the total spending reduction to \$2.2 million, compared to budget. A modest operating deficit is likely to be the end result.

The UUA Board has approved a budget for FY10 which is in balance. It calls for both income and expenses to be \$3.2 million below the amounts in the original FY09 budget. To achieve these reductions, the number of full-time-equivalent positions had to be reduced by 13, through a combination of attrition and layoffs. No salary increases are being given in FY10. Many other cuts were also needed.

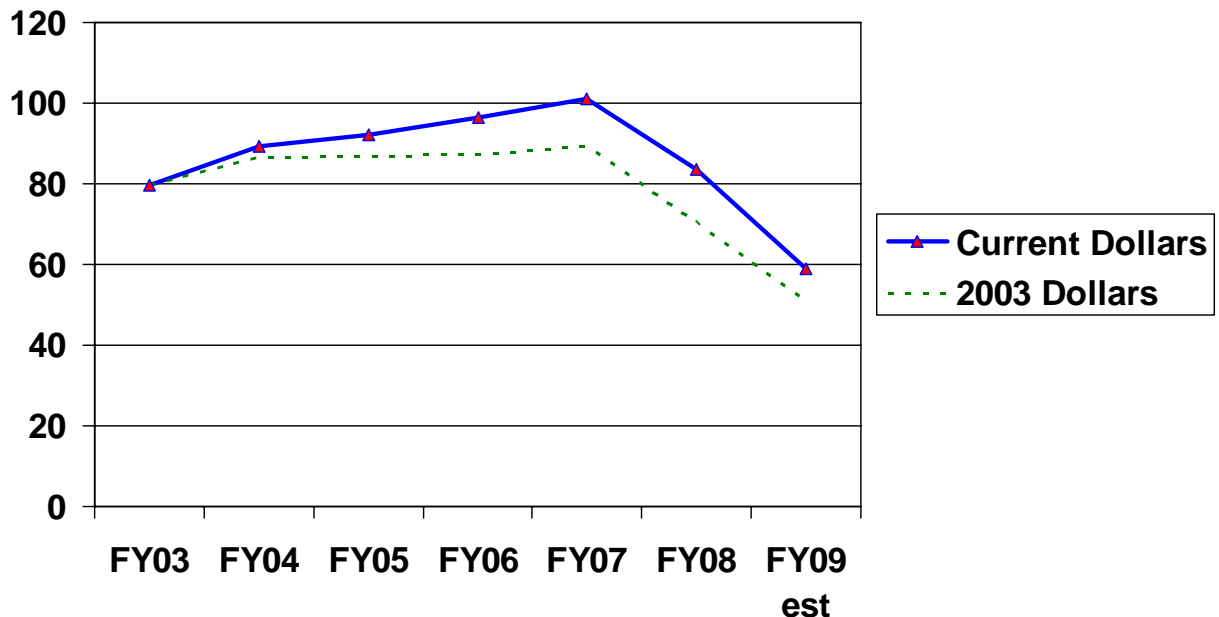
I believe that the administration has acted prudently in curbing spending to deal with the extraordinarily difficult economic situation.

### Investment of UUA Assets

After several years of strong growth, the UUA endowment lost money in FY08, and FY09 is certain to be an even worse year. In FY08, the total value of the assets held in the UU Common Endowment Fund (or UUCEF, formerly called the “General Investment Fund”) fell from \$136 million to \$123 million. The total return of the fund was negative 3.4%. (This compares to positive return of 14.5% in FY07.)

For the first nine months of FY09, the UUCEF lost 25% of its value. By comparison, the S&P500 stock index lost 36% of its value in the same period. The UUCEF’s performance for the past year and for the past three years has put it in the top half of similar-sized endowment funds in the nation. But as the chart shows, the endowment has fallen since FY03.

### UUA-Owned Assets in the UUCEF



## ***Endowment Policies***

What can we learn from the experience of the last few years? I draw three conclusions:

1. Our endowment has been well managed. In the worst financial environment since the Great Depression, our diversified portfolio of investments has performed **relatively** well. We have done much better than the stock market, and have done slightly better than the average endowment fund.
2. We need a policy that reduces the volatility in how much we can spend from our endowment. Our current policy, which is similar to that of most endowment funds, tries to reduce volatility by basing spending on a multi-year average of the value of the endowment. But a major market decline still leads to substantial spending cuts. Our current policy is likely to reduce allowable endowment spending by 17% from FY09 to FY11. I believe that we should adopt a different type of policy, which sets aside more money in years of especially strong endowment performance in order to prevent the need for spending cuts during downturns.
3. We need to be more conservative in how much of our endowment we spend each year. In the past five years, we've relied on a special draw on the endowment in order to pay for the costs of the extremely successful "Now is the Time" fundraising campaign. I participated in the decision to finance this campaign through the draw on endowment, and I remain convinced that this was a prudent decision. But I believe that when the next UUA President begins planning another comprehensive campaign, a different funding approach should be used.

I've begun to work with the administration and the board of trustees to implement these changes.

## ***Fund Management***

The UUCEF is supervised by the Investment Committee, a group of dedicated UU volunteers who have extensive investment management experience. Many congregations, districts, and affiliated organizations have chosen to invest their own endowment funds in the UUCEF.

The UUCEF is a professionally managed fund that carries an attractive expense ratio. The Investment Committee and the UUA Committee on Socially Responsible Investing are working closely together to build an investment portfolio that achieves the goals of stability, high return, and consistency with UU values.

It would be difficult for any UU organization with an endowment of less than tens of millions of dollars to match the safety, return, and UU-specific social screening offered by the UUCEF. Therefore, I urge all congregations and other UU organizations to give careful consideration to investing their endowment in the UUCEF.

## **UUA Health Plan**

The UUA Health Plan has completed two and a half years of operations, and has been a resounding success. The plan now serves 730 enrollees and retirees as well as 500 dependents in more than 300 congregations.

### ***Plan Results***

By the end of 2008, the plan had accumulated a surplus of \$2 million. The surplus has continued to increase during 2009. This surplus will be carried forward on the books of the health plan to cushion against premium increases in future years and to serve as a reserve against future losses. It cannot be used for any other UUA purpose.

The plan's strong performance has allowed its trustees to hold premium increases to a minimum while making some improvements in benefits. At a time when double-digit increases are common for health insurance premiums, the average age-adjusted<sup>1</sup> premium rose by only 4% in 2008, and was kept unchanged in 2009.

### ***Plan Evaluation***

At the request of the UUA Board, the health plan trustees commissioned a consulting firm, Strategic Benefit Advisors, to review the plan's operations. The report, which is available on the UUA website at [http://www.uua.org/documents/healthplan/090319\\_independent\\_report.pdf](http://www.uua.org/documents/healthplan/090319_independent_report.pdf), was extremely favorable. The consultants concluded that "the UUA Health Plan is a successful program."

### ***The Future of the Plan***

I'm extremely gratified that the 2008 General Assembly passed a "responsive resolution" after hearing my report about the health plan. The resolution called on the Association to "leverage its power through shareholder engagement with the corporate world to further and create avenues for the realization of the right of all people to high-quality health care."

Comprehensive legislation to reform the nation's health care system is gaining momentum. We don't know what will emerge from Washington, or how it will affect the need to have a UUA Health Plan. But the likelihood is that employer-based health plans will remain an important part of the nation's system for financing health care. Therefore, we have an obligation to work to assure the continued success of our plan.

The plan is most likely to succeed in the long term if 1000 or more employees, including some who still have health insurance from other sources, enroll in the plan. Achieving such an enrollment level will require a considerable financial commitment by many congregations that do not now provide health insurance to their minister or other staff. (Congregations that join the UUA Health Plan are asked to pay at least 80% of the cost of the health insurance premiums for their participating employees. Many congregations also choose to pay a portion of the added cost of dependent coverage.)

In today's economy, it may be difficult for some congregations to maintain, let alone expand, the health insurance benefits they provide to their employees. However, I believe that congregations

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<sup>1</sup> Premiums are based on the enrollee's age and geographic location. The actual premium increase for any enrollee is a combination of the total premium increase for the entire plan (which is set by the trustees of the plan), the individual's age adjustment (which is always an increase), and the geographic adjustment (which may be an increase or a decrease).



have a moral responsibility to do so. Employees who lose their health insurance are often unable to find health insurance at any price, and certainly not at an affordable price.

As I have done for the past three years, I strongly urge **all** congregations, including ones that obtain health insurance from other sources as well as ones that do not now provide insurance to their ministers and other employees, to participate in the UUA Health Plan.

## **Whistleblower Protection and Conflict of Interest Policies**

In April 2009, the UUA Board of Trustees adopted policies on Whistleblower Protection and Conflict of Interest that were drafted by the Audit Committee with advice from UUA counsel Ned Leibensperger. I am gratified that the board has adopted these important policies to enhance ethical conduct by UUA employees, office holders, and other volunteers.

### ***Whistleblower Protection Policy***

The goal of this policy is to discourage improper activities and to assure UUA employees and others that they may report improper activities without fear of retaliation.

The policy directs the UUA President to establish a confidential system for reporting concerns. The system may be used by anyone (including employees, trustees, committee members, and others) who believes that a UUA employee or volunteer has violated a law or policy. To assure that complaints are investigated, the Moderator will be informed whenever a complaint is filed.

The new system will not affect the role of the Ministerial Fellowship Committee, which retains the responsibility to investigate complaints about “unprofessional or unbecoming conduct” by a minister in fellowship with the Association. The Whistleblower reporting system will be used only when a concern has been raised about an action of a minister “taken in the role of UUA trustee, employee, or volunteer.”

To assure that complaints are thoroughly investigated, the policy requires that the Audit Committee be notified of the filing of any concern about an accounting issue, and that the Moderator and the Audit Committee be notified of the resolution of all complaints.

The policy is on the UUA website as Appendix 2K of the UUA governance policies: [http://www.uua.org/documents/boardtrustees/governancewg/policy\\_manual\\_2\\_limits.pdf](http://www.uua.org/documents/boardtrustees/governancewg/policy_manual_2_limits.pdf).

### ***Conflict of Interest Policy***

The new, comprehensive conflict of interest policy applies to all trustees, staff, and committee members. It requires trustees, senior staff members, and committee members to complete a form each year disclosing any potential conflicts of interest. The policy gives the UUA board the authority to decide whether a conflict exists for trustees and for members of elected or board-appointed committees. The President is authorized to resolve possible conflicts involving staff.

The policy also contains limits on:

- service by UUA employees on governing bodies of other organizations
- employment by the UUA of present or former trustees
- acceptance of gifts by employees and volunteers

The policy is on the UUA website as Appendix 2J of the UUA governance policies:  
[http://www.uua.org/documents/boardtrustees/governancewg/policy\\_manual\\_2\\_limits.pdf](http://www.uua.org/documents/boardtrustees/governancewg/policy_manual_2_limits.pdf) .

### ***Bylaws Change Needed***

The new policies authorize the UUA Board of Trustees to sanction or remove board or committee members who commit a material violation of a UUA policy. A change in the UUA bylaws would be required to permit the removal of a board member or a member of an elected committee, since such individuals may now be removed only if they are determined to be “incapacitated or otherwise unable to carry out the duties of the office.”

I believe that it is appropriate to give the UUA Board the authority (which could be used only when approved by a vote of two-thirds of the entire board) to remove “for just cause” a board member or a member of an elected committee. Many other non-profit organizations, including the UU Service Committee, have similar bylaws provisions. I am confident that it would be used only in cases of serious violations of laws, ethics, or UUA policies. I support such a bylaws change, which I expect will be brought to the 2010 General Assembly.

## **Future Topics**

My term as Financial Advisor ends this month. I am unopposed for re-election to a second four-year term, and I’m proud to have the opportunity to continue to be of service.

In the next four years, I will work with the UUA administration and Board of Trustees to address the following topics:

- Endowment spending policy
- Options for funding the cost of future capital campaigns
- Continued improvements to UUA financial reporting
- Accounting for unrestricted gift and bequest income
- The role of the Liberal Religious Charitable Society (LRCS) and other organizations that hold funds to benefit the UUA and UU-related purposes
- Management of debt, cash, and short-term investments
- Facilities renewal policies

It is an honor and a privilege for me to continue to serve our Association.