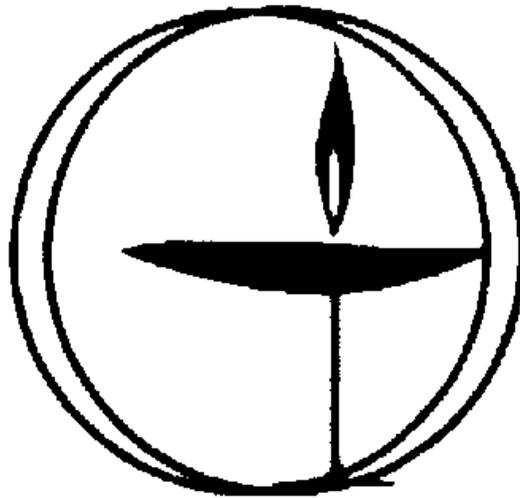


Financial Advisor's Report to the 2005 UUA General Assembly

Fort Worth, Texas
June 24, 2005



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.”

-the late Rev. Peter S. Raible in 1996



Unitarian Universalist Association of Congregations

Report to the 2005 General Assembly

Fort Worth, Texas

June 26, 2005

Larry Ladd, UUA Financial Advisor

It is my pleasure to submit to you my eighth and final annual report as your Financial Advisor. At this General Assembly Dan Brody will be elected to succeed me. Dan has excellent qualifications for the position and will serve you well in the years ahead.

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 UUA¹.

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 report². That approach is a result of both my professional experience and my denominational service.

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

² To see the "Standards for Financial Performance" on line go to http://www.uua.org/ga/ga98/financial_standards.html.

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. 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) and the Board of Trustee section (www.uua.org/TRUS.) The Financial Advisor section also includes other information about the UUA's financial condition over time.

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Growth and Financial Health³

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.

Our Overall Growth Has Stopped

While our religious movement has experienced slow but steady growth from 1982 to 2002, **in 2003 and 2004 we did not grow**. The figures I present below are UUA statistics excluding Canadians.

In 2004 our combined adult membership and RE enrollment was 206,134, compared to 209,172 in 2003 and 212,783 in 2002.

In 2004, as in 2003, **our adult membership grew while our religious education enrollments dropped**.

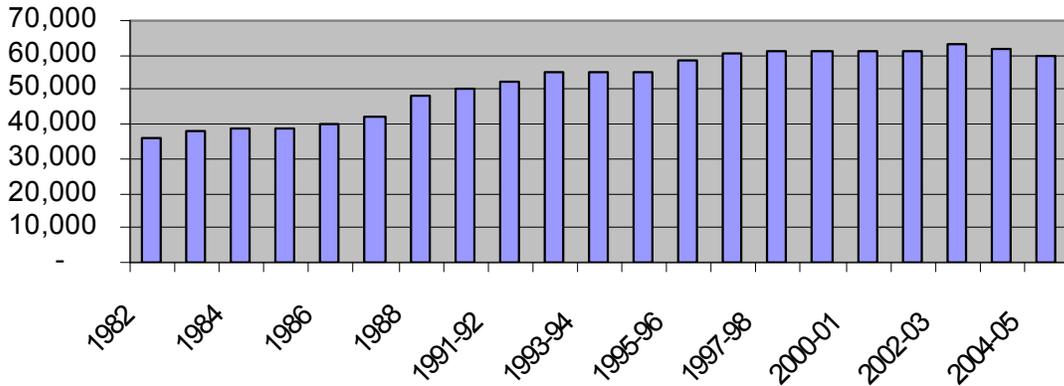
Adult membership increased to 150,735 or 0.3% (at the low end of the annual growth patterns since 1982). However, religious education enrollments decreased to 55,399, a drop of 1.7%.

For four years in a row I have written in this report that the declines in religious education enrollments should be “a warning signal for our movement.” In my report in 2002 I wrote: *“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.”* For the third year in a row, I regret to report that, to my knowledge, there has been no serious discussion within our movement about the implications of this regrettable development.

³ For statistical information on the UUA see <http://www.uua.org/statistics.html>.

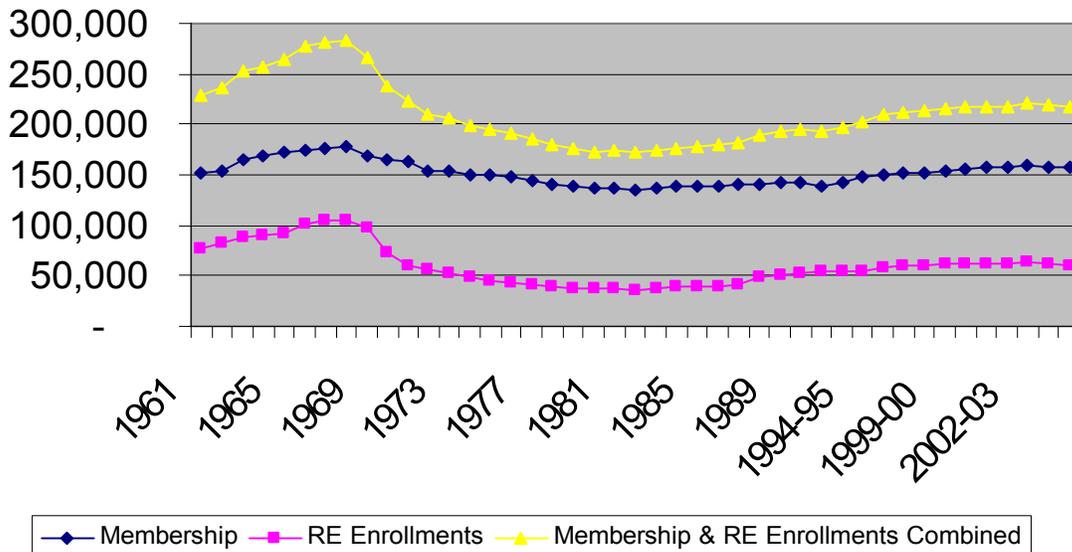
The chart that follows shows how our RE enrollments have flattened out in recent years:

RE Enrollments Since 1982



The next chart shows the overall trends since the consolidation that created the UUA in 1961. 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 grew, gradually, from 1982 to 2002. As reported earlier, for the past two years we have not grown if you combine adult membership and RE enrollments.

Membership & RE Enrollments

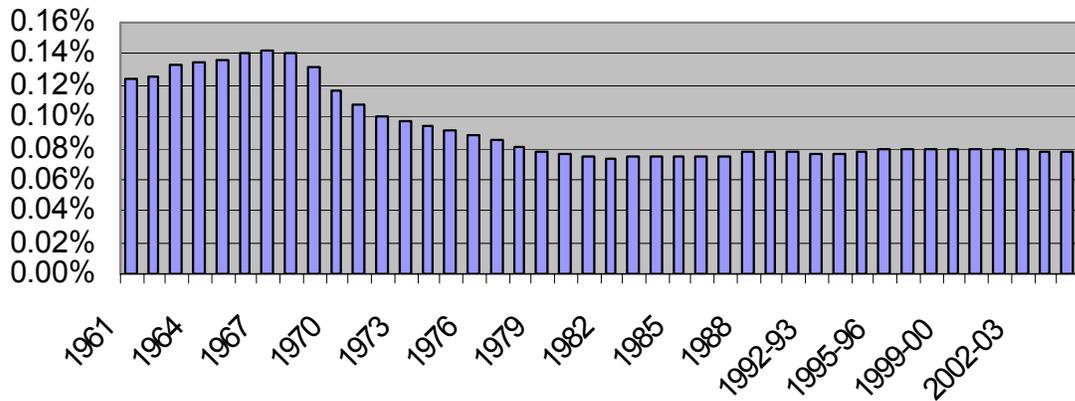


Market Share Has Not Changed

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.

Until this year, our market share stayed constant at 0.08% of the population for seven years. This year, we dropped slightly below 0.08%.

Combined Membership & RE Enrollment as % of Population



Growth in congregational resources:

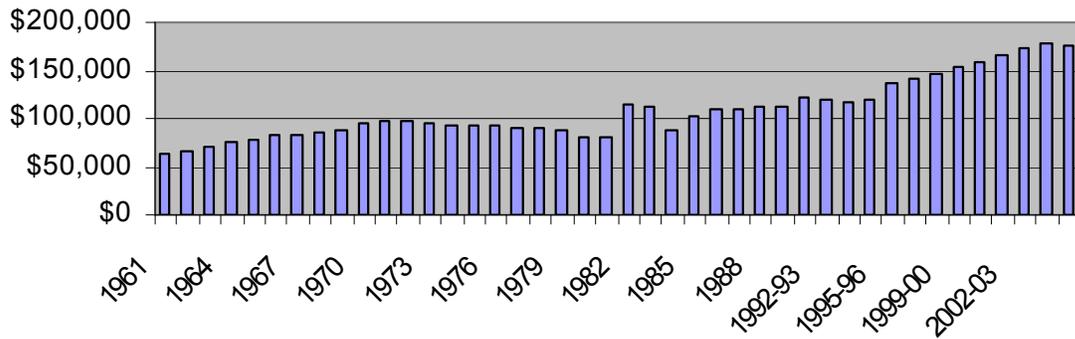
One indicator of the health of our movement is the financial health of our congregations. Each year, congregations report to the UUA the size of their congregational expenditures or resources.

In 2004, congregational expenditures decreased to \$183.1 million. In real terms (taking out the effects of inflation) that's

- 0.3% lower than 2003
- 47.7% higher than 1994
- 105.1% higher than 1984

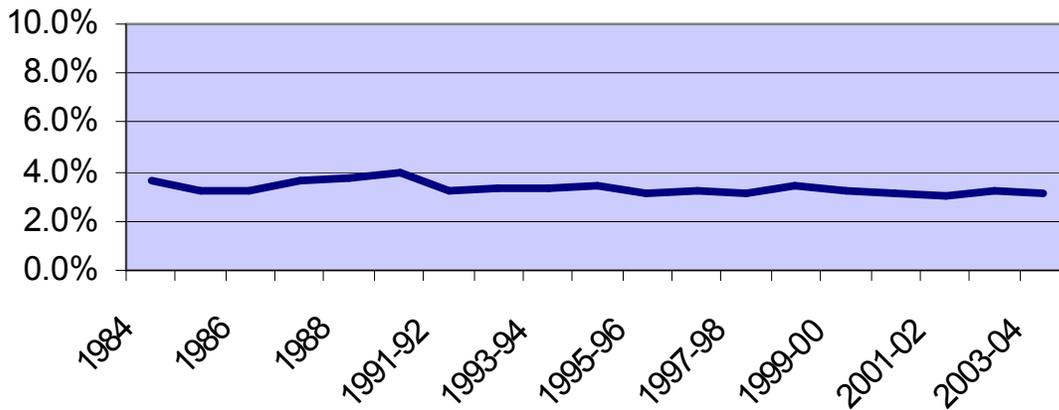
While total congregational resources are an important indicator, it is more important to consider the size of *individual* congregational resources. The graph that follows shows the average congregational resources *per congregation* after inflation. **Individual congregational financial health has been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

Congregational Expenditures Per Congregation (in 2004 Dollars)



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



Endowment⁴ Performance⁵

For the second year in a row, the UUA endowment's investment performance exceeded the performance of the median of other endowments, which is the primary measure of how well we are doing.

The UUA's investment performance in 2004 was 17.9%, compared to 16.4% for the median of other endowments. In 2003, the UUA's investment performance was 4.2%, compared to 2.9% for the median of other endowments.

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.

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.

⁴ The UUA endowment is called the General Investment Fund, or GIF.

⁵ 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>.

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	\$30.9 million as of 3/31/05	Wachovia Bank, Philadelphia Trustee
Master Outside Trusts	Principally for UUA general purposes. Held in perpetuity	\$22.7 million as of 3/31/05	Various trustee banks.
Charitable Trust Funds	Planned gifts to the UUA	\$12.1 million as of 3/31/05	State Street Global Advisors Co-Trustee
Liberal Religious Charitable Society	Supports UUA charitable religious purposes	\$8.5 million as of 2/28/05	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)	\$1.6 million as of 3/31/05	Various minority owned and community based banks, credit unions and cooperatives; various community-based loan funds
Total		\$69.6 million	

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

The Unitarian Universalist Organizations Retirement Plan whose value was \$134 million at 12-31-04, compared to \$125M at 12-31-03. The Plan is a defined contribution program, serving 2200 participants whose funds are fully vested.

The Society for Ministerial Relief, with \$11.7M as of 4-28-05, compared to \$9.9 million as of 4-30-04 in trust funds, which provides assistance and support of aged and destitute clergy, not otherwise provided for.

The Unitarian Service Pension Society, with \$7.8M as of 3-31-05, compared to \$7.9 million as of 3-31-04, which provides quarterly Service Gratuities to eligible Unitarian Universalist ministers in fellowship.

Financial Results⁶

The UUA’s financial results for FY2004 were in balance.

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

	Fiscal Year		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Current	48,348,821	46,985,061	50,267,113
Beacon Press	1,437,610	1,493,879	1,693,866
CPLC	7,168,789	6,992,555	7,313,342
Endowment	<u>78,889,855</u>	<u>76,193,951</u>	<u>85,431,365</u>
Total Net Assets	135,845,075	131,665,446	144,705,686

Independent Audit for FY2004

The financial statements for FY2004 were audited by the UUA’s independent auditor, Deloitte & Touche. Deloitte & 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

New Auditor for FY2005

This year the newly-established Audit Committee conducted a competitive process for the selection of a public accounting firm to audit FY2005. The process was not a reflection on the quality of work of Deloitte & Touche, but was merely an exercise of a good business practice.

The Audit Committee has recommended, and the UUA Board of Trustees has approved, the appointment of KPMG as the UUA’s new auditor. KPMG has an

⁶ For a quick overview of the UUA budget go to <http://www.uua.org/giving/apf/uua101/moneyflow.pdf>

excellent reputation for quality work and extensive experience working with not-for-profit organizations.

Beacon Press

Beacon Press' projected operating results for FY2005 and actual results for FY2003 and FY2004 have been "on plan," i.e. its results are consistent 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:

"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

Because Beacon Press has stayed within the three year plan, the UUA Board of Trustees has approved a continuation of Beacon Press, with a reserve fund set aside as a contingency against occasional losses.

Accountability and Improved Financial Governance

Last year I reported that the Board of Trustees established 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.

The Audit Committee began its work during FY2005. It adopted a formal Charter, which was approved by the UUA Board of Trustees in January 2005. It also selected a new auditor (KPMG) for FY2006.

Conclusion

In conclusion, on the positive side of the ledger:

- The endowment's investment performance compares very favorably with other endowments.

- Beacon Press has performed within the three year plan adopted by the UUA Board.
- The UUA's budgets remain in balance.
- A newly established Audit Committee has become active on your behalf.

On the negative side of the ledger:

- Our overall growth has been flat for the past two years, with an increase in adult membership and a decrease in RE enrollments.

As always, I am grateful for the opportunity you have given me to serve you.

Attachment:

1. Standards for the UUA's Financial Performance



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 31 Chestnut St., East Falmouth MA 02536. E-mail lladd@uua.org. Tel. 617-848-4801. 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.