

Financial Advisor's Report To UU Congregations

June 2006



UNITARIAN
UNIVERSALIST
ASSOCIATION OF
CONGREGATIONS

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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

As I complete my first year of service as UUA Financial Advisor, I am honored to present this report to UU congregations, as required by the UUA bylaws.

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

The address of the Financial Advisor's page is <http://www.uua.org/financialadvisor> . This page includes the reports presented by the Financial Advisor to each General Assembly and to each quarterly meeting of the UUA Board of Trustees.

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Fiscal Year 2005 Results

Financial Results

The Unitarian Universalist Association recorded a surplus in Fiscal Year 2005. The surplus or deficit in the “current operations” section of the budget is the most closely watched indicator of the association’s fiscal health. This section, which **excludes** Beacon Press, the Congregational Properties and Loan Commission, and all endowment funds, experienced a surplus of \$8,700 for the year.

Broader measures of financial health were also positive. Unrestricted net assets (including some endowment funds) rose by \$1.1 million, while total net assets (including all endowment funds) rose by \$3.2 million.

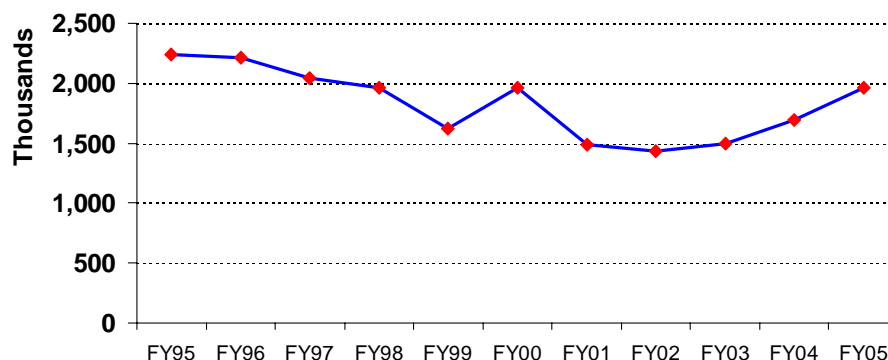
Revenue from the Friends of UUA program rose by 27% over the FY04 level, while Annual Program Fund (APF) Revenue was up by a strong 5%. Meanwhile, expenses rose by just 1%.

Beacon Press

Beacon Press ended FY05 with an operating surplus of \$270,000. Although the FY06 budget forecast an operating deficit of \$219,000, the administration’s current estimate is that Beacon will end FY06 with a surplus, for the fourth consecutive year of surpluses.

As a business in the volatile publishing industry, Beacon’s sales revenue and net income can be expected to fluctuate. Earlier this year, the Board of Trustees reaffirmed its expectation that Beacon Press should not incur an operating deficit of more than \$300,000 in any year, or more than \$600,000 in any three years.

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



The graph shows the level of Beacon’s year-end net assets, which might be considered to be a “stabilization reserve” that can be used, if necessary, to cover future operating deficits. With a reserve of more than \$2 million, Beacon appears to be well-protected.

Independent Audit

The UUA, upon recommendation of the new Audit Committee, engaged the accounting firm KPMG to conduct the annual independent audit of the association's financial operations beginning in FY05. The auditors issued a "clean" audit finding that "in our opinion, the 2005 financial statements ... present fairly, in all material respects, the financial position of the Association" The audit report is printed in this volume, and may also be found on the UUA website: www.uua.org/aboutus/governance/board-appointedcommittees/auditcommittee

In addition to the financial audit, KPMG and the UUA administration produced a "management letter" in which they discuss a number of areas in which the UUA's financial management can be strengthened. The administration has committed to address these issues in the coming months.

Investment of UUA Assets

General Investment Fund

The Association's endowment is invested in the UUA General Investment Fund (GIF), which 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 GIF. As of the end of FY05, the GIF had a total value of \$115 million, of which \$23 million belonged to congregations and other UU organizations. The total value of the funds that these organizations have in the GIF rose by 30% during FY05.

The total net return (after deducting all expenses) produced by the GIF in FY05 was 7.9%. The GIF is managed like a mutual fund, and must cover the cost of securities trades, investment advisors, custodial fees, and other administrative expenses. Several UUA staff members devote all or part of their time to administering the GIF. An annual "UUA administrative fee" of 0.4% of the value of the GIF has traditionally been charged to the GIF to recover the costs of this staff time. In 2005, the Investment Committee, the Financial Advisor, and the UUA administration reviewed this issue, and determined that the fee, which was set many years ago, was higher than necessary. At its January 2006 meeting, the UUA Board of Trustees voted to accept the administration's recommendation to reduce the UUA administrative fee by half, to 0.2%, which is the administration's best estimate of the actual costs to the UUA of administering the GIF. The level of the fee is to be reviewed at least every five years.

With the reduced UUA administrative fee, the total level of annual expenses paid by the GIF will be approximately 1.0% as of July 2006. This level of expenses compares favorably to the expense ratios incurred by many mutual funds.

The GIF is a professionally managed fund that now 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 UUA values. (The issue of socially responsible investing is discussed below.)

It would be difficult, if not impossible, 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 GIF. Therefore, it is my opinion that all congregations and other UU organizations should give careful consideration to investing their endowment funds in the GIF.

Socially Responsible Investing

A series of General Assembly resolutions and Board of Trustees actions call upon the UUA to invest its assets in accord with UU values. In 2000, the UUA Board established the Committee on Socially Responsible Investing to work with the UUA Investment Committee to further this goal.

An October 2005 Board motion called upon the two committees to report to the Board on the current status of the UUA's efforts in the area of socially responsible investing, and to make recommendations for any needed changes in the associations policies and practices. The January 2006 report on the current status is on the web at <http://archive.uua.org/TRUS/jan06/C10a-sri.pdf>

The report (and subsequent conversations between the two committees) indicates that good progress is being made towards developing an investment strategy that seeks to maximize return, yield, and consistency with UU values. I look forward to the next report, due in October, which will make recommendations for further actions in this area.

Growth and Development

Friends of the UUA

In FY05, giving to the Friends of the UUA reached \$1.2 million, an increase of 27% from the prior year's total. For FY06, the budget assumed total income of \$1.6 million, an increase of 33%. The FY07 budget assumes total income of \$2.1 million, an increase of 34%.

Late in FY06, the UUA administration found that an error made by our fundraising consultants had led to an overstatement of likely revenue of about \$250,000 for the fiscal year. After discussions with the Board of Trustees, the administration decided to increase the number of fundraising telephone calls for the Friends program. These calls are expected to generate a substantial amount of new gifts, so that total Friends income in FY06 may come close to the budgeted level. However, the cost of the calls is also substantial. This additional expense is expected to be offset by lower-than-expected spending in several other areas of the UUA budget.

The administration will be reviewing the results of the Friends program, and particularly the additional calling, to determine whether it will be necessary to adjust Friends income and expense projections for FY07 and beyond.

Pathways

A major UUA initiative in recent years has been to foster the growth of Unitarian-Universalism. As part of this strategy, the UUA collaborated with UUs in the Dallas-Fort Worth area who created a new congregation, called Pathways, in Fort Worth.

Although Pathways has begun operations, it has not achieved its financial or membership targets. At the request of the UUA Board of Trustees, the administration appointed a panel to study the Pathways initiative and to draw lessons from it. The report of the Pathways Review Panel is on the web at www.uua.org/documents/congservices/largecongs/0603_pathways.pdf

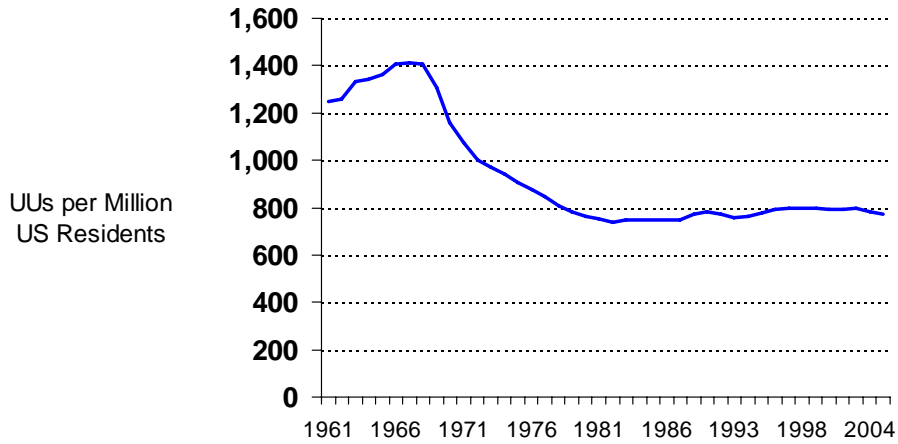
The administration estimates that \$1.05 million of UUA funds will have been spent through the end of FY06 in direct support of Pathways. All of this money was raised for this specific purpose from donors to the Campaign for Unitarian Universalism. No other UUA funds were spent on Pathways, but a considerable amount of UUA staff time was devoted to this endeavor. The report of the Pathways panel contains many recommendations for the UUA administration as it considers how to carry out future growth initiatives.

Campaign Planning

The Campaign for Unitarian Universalism concluded at the end of FY04. Since then, the UUA Administration has begun working with the Board of Trustees and the President's Council to shape the outlines of another comprehensive fundraising campaign. Before and during the 2005 General Assembly, 3000 UU's completed an online survey that asked for their priorities for a campaign. At its April 2006 meeting, the UUA Board of Trustees approved a working goal of \$55 million (including \$20 million in cash) for a campaign. The Board approved theological education and ministerial development as one of the goals of the campaign, with additional goals to be refined in the coming months. The Board approved a budget of \$7.25 million for the campaign, which represents 13% of the goal. Funding for campaign costs will come from an additional annual draw on UUA endowment funds, which was approved by the UUA Board in October 2004.

UU Membership

After a 15-year period of decline, membership in UU congregations has grown since 1981. As the following graph indicates, UU membership as a share of the US population has been steady for almost 25 years.



Nationwide, there are only about 800 UUs for every million US residents. However, UUs are not distributed evenly. The first map shows the total number of UUs in each state. The largest numbers are in Massachusetts, and in the large states of California, New York, Illinois, and Pennsylvania.



Total UU Population by State

The distribution of UUs looks different when viewed as a percentage of state population. The next map shows that UUs have the largest share of population in the New England states, Delaware and Maryland. These states are followed by a number of other states distributed throughout the Midwest, the Mountain States, and the West Coast.



UUs per Million State Residents

Future Issues

Health Insurance

Until 1998, the UUA sponsored a health insurance plan that was open to ministers and other employees of UU congregations, districts, and affiliates. In that year, the plan was cancelled by its insurer, Blue Cross/Blue Shield of Massachusetts. Despite intense effort by the administration, the UUA has been unable since then to find an insurer willing to offer a national health insurance plan for UU employees. (UUA staff members in the Boston area are covered by an HMO plan run by Harvard Pilgrim Health Care.)

Many congregations and other UU organizations have been able to find insurers willing to offer health coverage for their employees. However, a recent survey found that nearly 400 employees of UU organizations, including 121 ministers, have no health insurance.

After exhausting the list of possible health insurers willing to offer a national plan, the UUA administration began to consider the alternative of a “self-funded” health plan. In such a plan, the sponsor (the UUA) sets premium levels, collects premiums, and is responsible for the cost of all claims. The sponsor typically hires an administrative firm to manage the plan.

In a self-funded plan, if premiums are sufficient to pay claims and administrative costs, any surplus is retained in a reserve for use in future years. However, if claims exceed premiums, the sponsoring organization still must pay them. Therefore, it is essential for premiums to be set high enough to cover all claims, but low enough to be affordable.

At its April 2006 meeting, the UUA Board of Trustees voted to establish a new self-funded health plan that will be open to ministers and other employees of congregations and other UU organizations who work at least 1000 hours a year. (The plan will also be open to Medicare-eligible retirees from UU organizations.) On the advice of Milliman, an international actuarial firm, the plan will be put into effect at the start of 2007 only if at least 500 employees have enrolled in it by October 15, 2006. This enrollment level is essential for the plan to be financially sound.

The UUA plan will be administered by Highmark Blue Cross Blue Shield of Pennsylvania. Highmark administers similar plans for ten other denominations, ranging in size from the 100-employee Moravian Church Northern Province to the 18,000-employee Presbyterian Church USA. Highmark offers UUA Health Plan members access to a national network of 700,000 health care providers, as well as extremely competitive provider discount rates. Detailed information on the plan is available on the uua.org website.

A great benefit of the plan is that it will be completely portable. A minister or other UU employee leaving one congregation for another one that is participating in the plan will have seamless coverage. The only change will be an adjustment to the monthly premium to reflect the level of health care costs in the new location.

The rates set in collaboration with Milliman and Highmark include a 15% “cushion” to assure that premiums are high enough to cover costs in the first year, when the plan is subject to the greatest uncertainty over how many employees and dependents are participating, and what their claims experience will be. The UUA will also purchase “stop-loss” insurance to limit the plan’s liability for higher-than-budgeted claims.

As a result of the 15% cushion, the actuaries predict that there is a 67% likelihood that the plan will run a surplus in the first year. The expected amount of the surplus is \$480,000. The plan will be controlled by a “trust,” a new legal entity set up for this purpose. Any surplus will belong to the trust, and can be used only to create a reserve to protect the plan in the future, or to reduce the need for future premium increases.

Of course, a 67% likelihood of a surplus means that there is a 33% likelihood of a loss. In one year out of ten, the plan can be expected to experience a loss of at least \$260,000. In one year out of twenty, the loss might exceed \$430,000. However, the stop-loss insurance means that the maximum possible loss is \$800,000. The plan is expected to cover such losses from accumulated reserves. In the short term, the UUA would have to absorb any losses that could not be covered with the plan’s reserves. But should the plan experience a string of substantial losses that could not be reversed even through premium increases, the UUA trustees would have no realistic option other than to terminate the plan.

This would be a most unfortunate outcome. However, doing nothing would be irresponsible. Too many ministers and other UU employees are now without coverage, and too many others could lose their coverage at any time. I believe that the plan that is now open for enrollment is designed in a way that it can and will succeed.

The plan is most likely to succeed if 1000 or more employees, including many who now **have** health insurance, 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 who 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 will also choose to pay a portion of the added cost of dependent coverage.)

The American health care system depends on employers to pay the bulk of health care costs. Because of our system of congregational polity, it is impossible to mandate participation in the UUA Health Plan. But I believe that congregations have a moral responsibility to provide health insurance for their ministers and other employees. The creation of the UUA Health Plan gives each congregation a cost-effective way to meet this responsibility. At the same time, congregations that participate are helping to strengthen the denomination by building a larger, more secure plan, by helping other congregations find coverage for their employees, and by assuring ministers that they will have coverage throughout their careers.

I strongly urge all congregations to participate in the UUA Health Plan.

Audit Committee

The Audit Committee was created in 2004 by action of the Board of Trustees. The committee's responsibility is "to oversee the annual audit of financial statements by a public accounting firm and to monitor the review, establishment, and implementation of accounting policies and internal controls." The committee consists of a member of the Board, the UUA Financial Advisor, and three appointees of the Board. Information about the committee, including its charter, is on the UUA website at <http://www.uua.org/aboutus/governance/board-appointedcommittees/auditcommittee>

The 2006 General Assembly will vote on a bylaws amendment to establish the Audit Committee as a permanent committee of the Association. The Board of Trustees has unanimously voted in favor of this amendment. I strongly favor its passage.

A Transition at 25 Beacon Street

Jerry Gabert, the UUA's Treasurer and Vice President for Finance, will be retiring this month after ten years of dedicated service to the Association. I hope all Unitarian-Universalists will join me in thanking Jerry for his work, and in extending best wishes to Jerry and to his successor.