

# Financial Advisor's Report To UU Congregations

June 2007



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

I am now nearing the middle of the four-year term of service as UUA Financial Advisor, to which I was elected in June 2005. It is a continuing privilege to serve the Association and its member congregations. 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/aboutus/finance/index.shtml>.

The Financial Advisor's page on the UUA website is <http://www.uua.org/aboutus/governance/officers/financialadvisor/index.shtml>.

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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## UUA Financial Management

Last summer, Tim Brennan joined the UUA as Treasurer and Vice President for Finance. In my experience, and by all accounts I have heard, Tim has done an outstanding job in his first year, bringing new energy and purpose to this important position.

## UUA Financial Reporting

The printed volume of UUA Annual Reports for 2007, in which this report is published, contains two other reports on the UUA's finances:

- 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 Independent Auditors' Report, 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 Activities"), and many supporting schedules, including detailed information about the UUA General Investment Fund. I would also like to call readers' attention to the "management letter" prepared by KPMG, which makes recommendations for enhancements to the UUA's financial management procedures. This letter, along with the Independent Auditors' Report, is on the UUA website 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 condition. 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.

## Fiscal Year 2006 Results

### *Financial Results*

The Unitarian Universalist Association recorded a surplus in Fiscal Year 2006. 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 \$3.0 million for the year.

Broader measures of financial health were also positive. Unrestricted net assets (including some endowment funds) fell by \$0.6 million, due mostly to a one-time non-cash charge related to a new way of accounting for the cost of possible building rehabilitation needs. Meanwhile, while total net assets (including all endowment funds) rose by \$3.3 million.

Revenue from the Friends of UUA program rose by 25% over the FY05 level, while generous support from congregations increased Annual Program Fund (APF) revenue by a strong 6.5%.

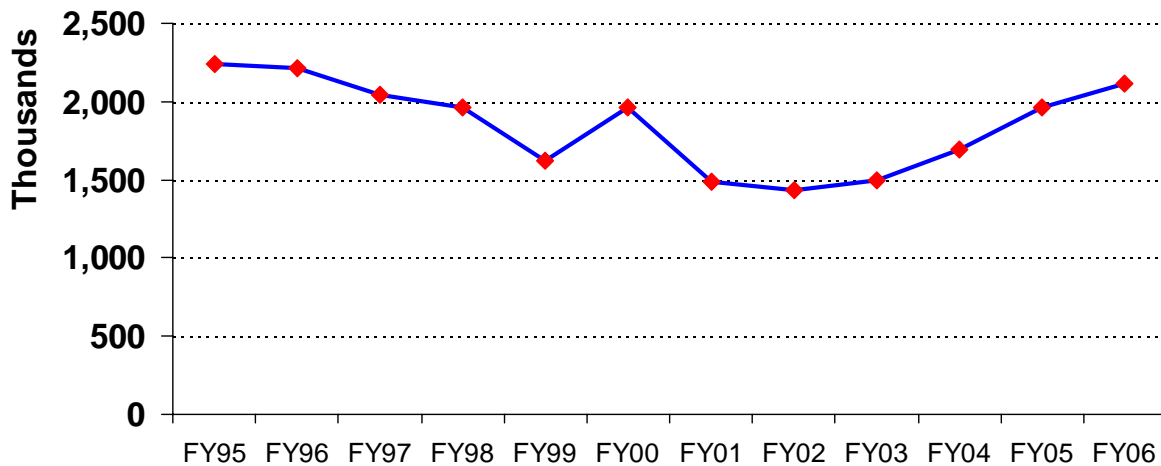
Total expenses grew by \$3.3 million, or 12%. More than half of this increase was spending for the Gulf Coast Relief Fund, which was initiated after Hurricanes Katrina and Rita in the fall of 2005.

***Beacon Press***

Beacon Press ended FY06 with an operating surplus of \$155,000. The UUA administration forecasts that Beacon will end FY07 with a surplus, for the fifth consecutive year of surpluses.

As a business in the volatile publishing industry, Beacon’s sales revenue and net income can be expected to fluctuate. In 2006, 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 chart 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 Audit Committee, again engaged the accounting firm KPMG to conduct the annual independent audit of the Association’s financial operations in FY06. The auditors issued a “clean” audit finding that “in our opinion, the 2006 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: <http://www.uua.org/aboutus/governance/board-appointedcommittees/auditcommittee/index.shtml>

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 UUA Audit Committee, at its April 2007 meeting, discussed with the administration the steps that have been and will be taken in response to the management letter. I am extremely impressed with the progress that Tim Brennan and his staff have already made in response to the 2005 and 2006 management letters.

## **FY 2007 and Beyond**

The UUA administration expects that FY 2007 will end with a modest surplus, thanks in part to early cash gifts from the “Now is the Time” comprehensive fundraising campaign, which is to be officially kicked off at the 2007 General Assembly.

The UUA Board has approved a budget for FY 2008 which is also in balance. It calls for both income and expenses to grow by 7% over the FY 2007 levels.

## **UUA Health Plan**

The most significant financial development of the last year is the successful start of the new UUA Health Plan. (Information on the plan is available at <http://www.uua.org/leaders/healthplan/index.shtml> .)

### ***Background***

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 over many years, the UUA was unable to find an insurer willing to offer a national health insurance plan for UU employees. (UUA staff members in the Boston area were covered by an HMO plan run by Harvard Pilgrim Health Care.)

A survey several years ago found that nearly 400 employees of UU organizations, including 121 ministers, had inadequate or no health insurance. The problem was particularly acute for lower-income employees. Another problem was the unavailability of dependent coverage for the partners of gay and lesbian UU employees, and for their children.

To address this problem, the UUA Board in April 2006 authorized the creation of a “self-funded” health plan. In such a plan, the sponsor (the UUA) sets premium levels and is responsible for the cost of all claims, which are processed by an administrative firm.

The plan is open to ministers and other employees of congregations and other UU organizations who work at least 1000 hours a year. On the advice of Milliman, an

international actuarial firm, the Board agreed to implement the plan at the start of 2007 only if at least 500 employees enrolled in it by October 2006.

### ***Initial Results***

In fact, the enrollment target was exceeded, and the plan now covers 592 employees. 425 of the enrollees work for 220 congregations around the nation.

The enrollment goal of 500 would not have been reached, and the plan could not have been implemented, except for the decision by the UUA administration to move all 167 UUA staff members from their prior HMO into the new plan. This decision imposed a financial cost on many UUA staff members. Although the administration has taken steps to alleviate some of this expense, the cost is a real one, both for the UUA budget and for the finances of individual staff members. I applaud the administration's willingness to make this difficult decision, and I express my deep appreciation to the UUA staff members who are making a financial sacrifice in support of the Association's larger mission.

The premium rates that were set in collaboration with Milliman and the plan's administrator, Highmark Blue Cross/Blue Shield, include a 10% "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. As a result of the 10% cushion, the actuaries predicted that there was a 67% likelihood that the plan will run a surplus in the first year. The expected amount of the surplus is \$480,000.

As of this writing, is far too early to predict the plan's performance for 2007. However, preliminary results through April 2007 are extremely positive. We have every reason to believe that the plan will exceed its expected surplus for the year. Any surplus will be carried forward to help fund improved benefits, to cushion against premium increases in 2008 and future years, and to serve as a reserve against future losses.

The plan is run under the auspices of a separate organization, the UUA Employee Benefits Trust (EBT). The EBT is a creature of the UUA. The UUA is the plan sponsor, controls the EBT board, and is financially responsible for any shortfalls in the plan. However, having a trust assures that all premium revenues, including any surpluses, can be used **only** to pay health plan costs, and that EBT assets will not be commingled with those of the UUA.

The first meeting of the EBT trustees was held in March 2007. The trustees include the UUA Treasurer, the Financial Advisor, and five others appointed by the UUA Board. The five appointees bring with them a wealth of experience in health care and a strong commitment to our UU faith. I commend the trustees for their willingness to serve in this important role.

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

While the initial results are extremely encouraging, the long-term success of the plan is far from certain. As I pointed out in my report last year, the UUA is a very small player in a very large, and largely dysfunctional, system for financing health care in our country.

A number of factors will determine the success or failure of the plan. Unfortunately, some of these factors, such as the overall level of health care costs and the particular experience of our plan participants, are out of our control. But one factor is within our power to change.

The plan is most likely to succeed in the long term if 1000 or more employees, including some who now 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 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 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 provide coverage for their employees, and by assuring ministers that they will have coverage throughout their careers.

A great benefit of the plan is that it is 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.

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.

## **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 FY06, the GIF had a total value of \$115 million, of which \$26 million belonged to congregations and other UU organizations.

The total net return (after deducting all expenses) produced by the GIF in FY06 was 5.8%. 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 2006, 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 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 was 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 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.

During 2006 and 2007, the Investment Committee and the Committee on Socially Responsible Investing continued to make progress on a number of fronts. Accomplishments included the following:

- Hiring of an advisor to develop a ranking system to screen companies for their compliance with UU values
- Creation of a “do not buy” list of companies that violate UUA values, and application of the list by the GIF’s domestic stock portfolio managers
- Investment of a portion of the GIF in a “UU index fund,” based on the screening system
- Revision of the UUA’s Community Investing policy, including the designation of 1% of the GIF’s assets for community investments
- Divestment of UUA investments in companies providing support to the government of Sudan, which has been implicated in supporting genocide in Darfur



## Funding Our Faith

### *Friends of the UUA*

Thanks to hard work by the UUA Stewardship and Development staff, giving to the Friends of the UUA has increased substantially in recent years. This table shows that Friends revenue is projected to double in the four years from FY04 to FY08:

| <b>Fiscal Year</b> | <b>Friends Gifts</b> | <b>% Increase</b> |
|--------------------|----------------------|-------------------|
| FY04 actual        | \$0.9 million        |                   |
| FY05 actual        | \$1.2 million        | 27%               |
| FY06 actual        | \$1.5 million        | 25%               |
| FY07 budget        | \$1.6 million        | 8%                |
| FY08 budget        | \$1.8 million        | 13%               |

### *Comprehensive Fundraising Campaign*

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 UUs completed an online survey that asked for their priorities for a campaign. The UUA Board of Trustees has approved a working goal of \$50 million (including \$20 million in cash) for the campaign.

The new campaign, entitled "Now Is The Time," is to be formally launched at General Assembly in June 2007. As of April, the campaign has already been extremely successful, with pledges and receipts of \$14 million in cash and \$6 million in legacy gifts.

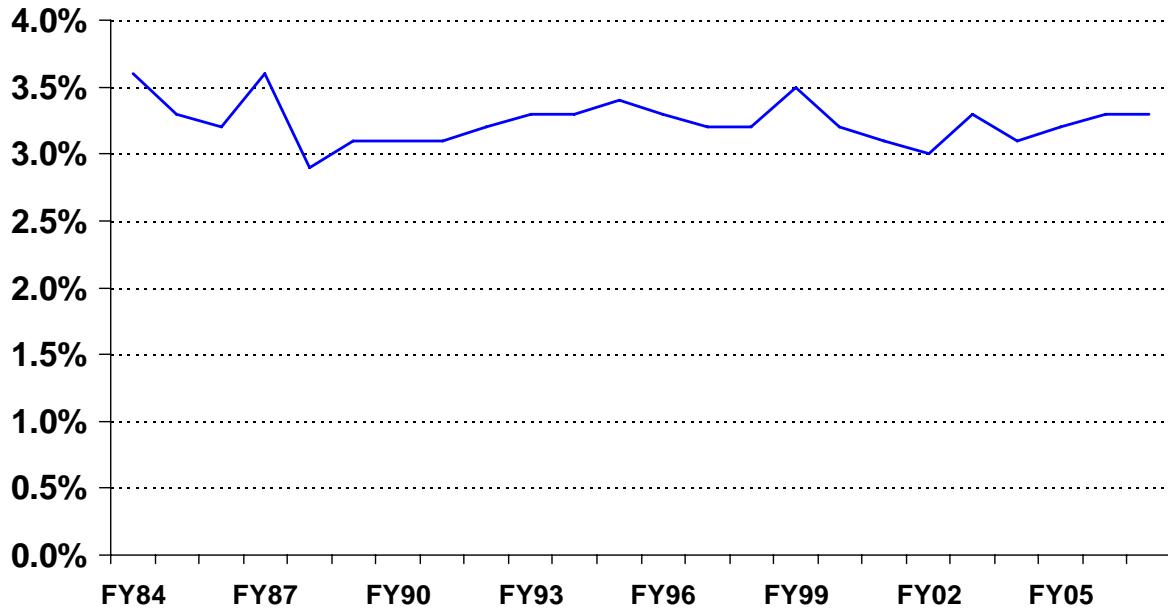
### *Annual Program Fund Revenue*

Contributions by UU congregations to the UUA Annual Program Fund make up the largest single component of the UUA budget. The target of \$7 million in FY 2008 represents almost 30% of the Association's current operating budget.

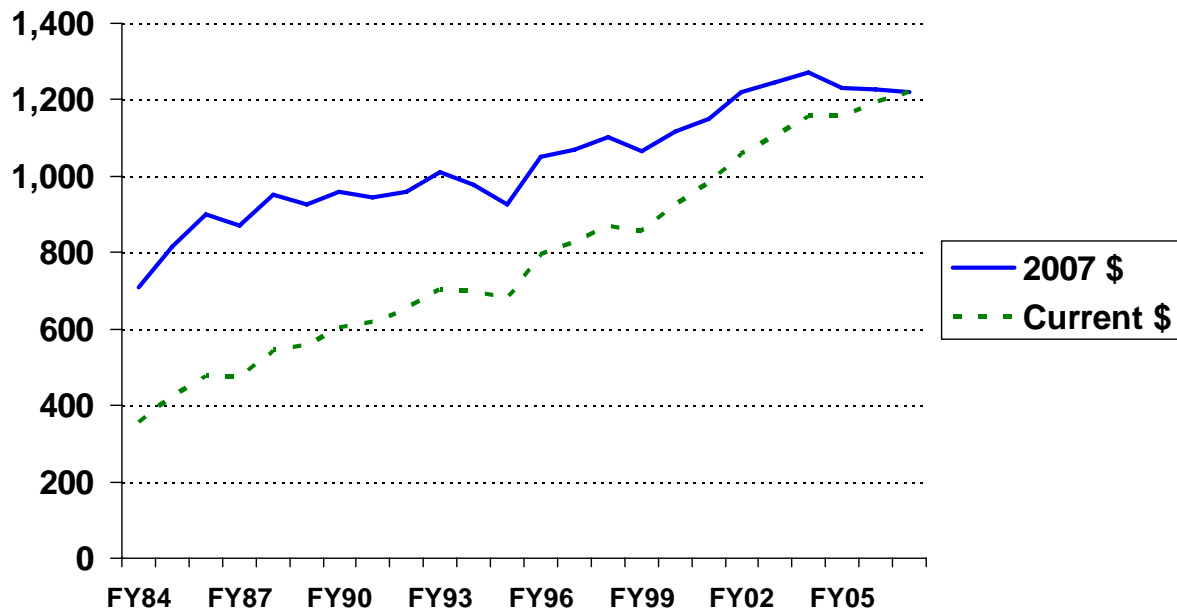
The chart on the top of the next page demonstrates that contributions by UU congregations to the Annual Program Fund have constituted roughly the same percentage of total congregational spending in each of the last twenty years, remaining between 3.0% and 3.5%.

It is heartening to note that Unitarian Universalists have become much more generous in funding our faith over this period. The chart at the bottom of the next page shows that total spending per member by UU congregations has more than tripled in twenty years, rising from under \$400 in FY84 to more than \$1,200 today. Even after inflation (see the line "2007 dollars"), spending per member has risen sharply.

### Annual Program Fund Contributions as % of Total Congregational Spending

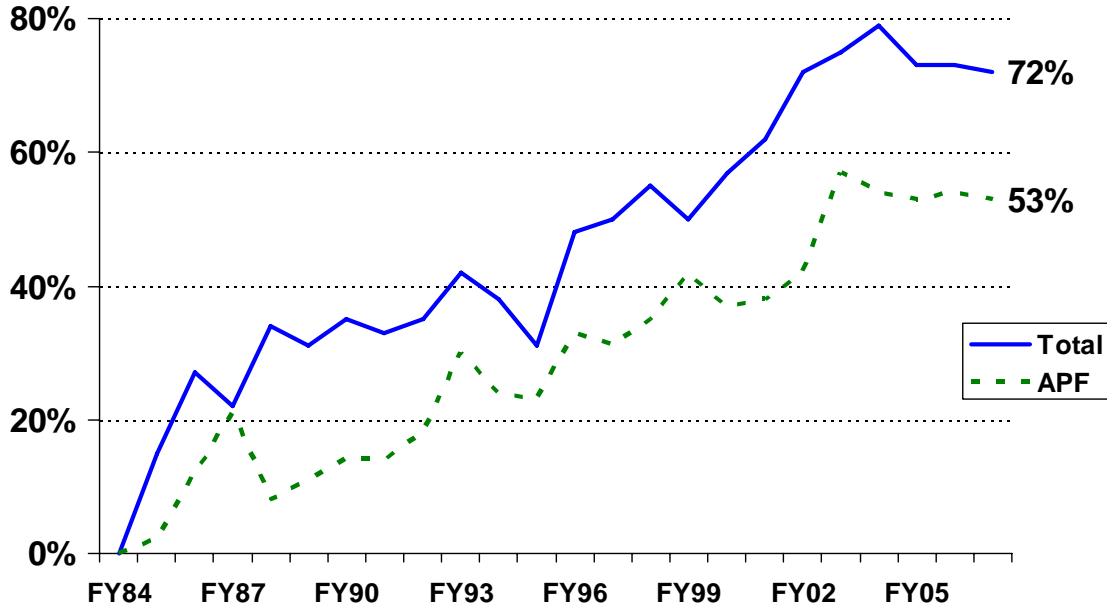


### Total Spending per Member by UU Congregations (in current and 2007 dollars)



Total congregational spending has grown faster than congregational contributions to the Annual Program Fund. The next chart shows that total congregational spending per member in real (i.e., inflation-adjusted) dollars has increased by 72% since FY84. In the same period, contributions per member to the APF have increased by 53%.

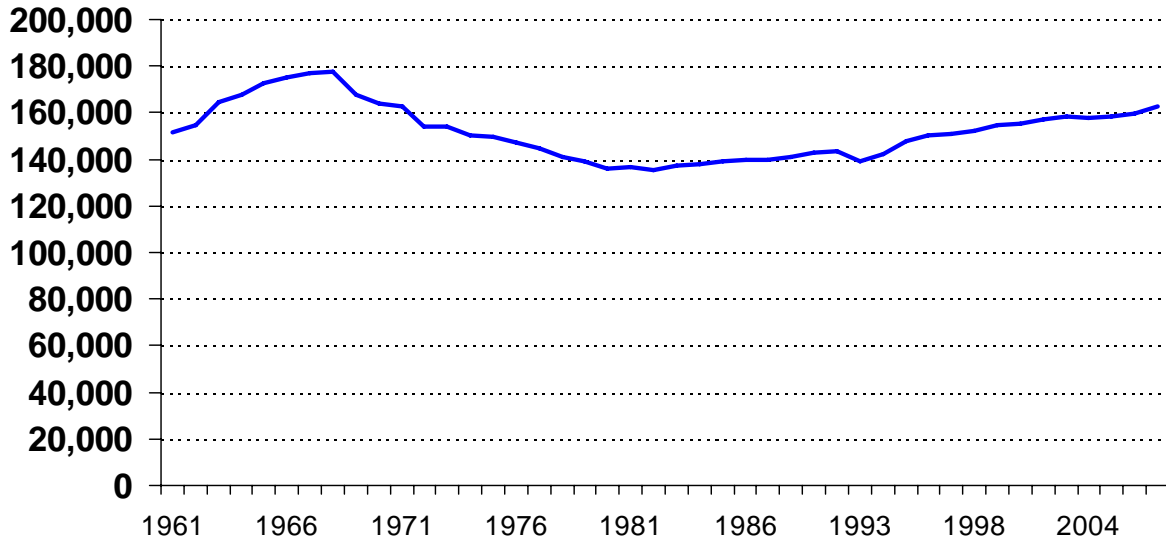
**Growth in Real Congregational Spending per Member**  
(Total Costs vs. APF Contributions)



***UU Membership***

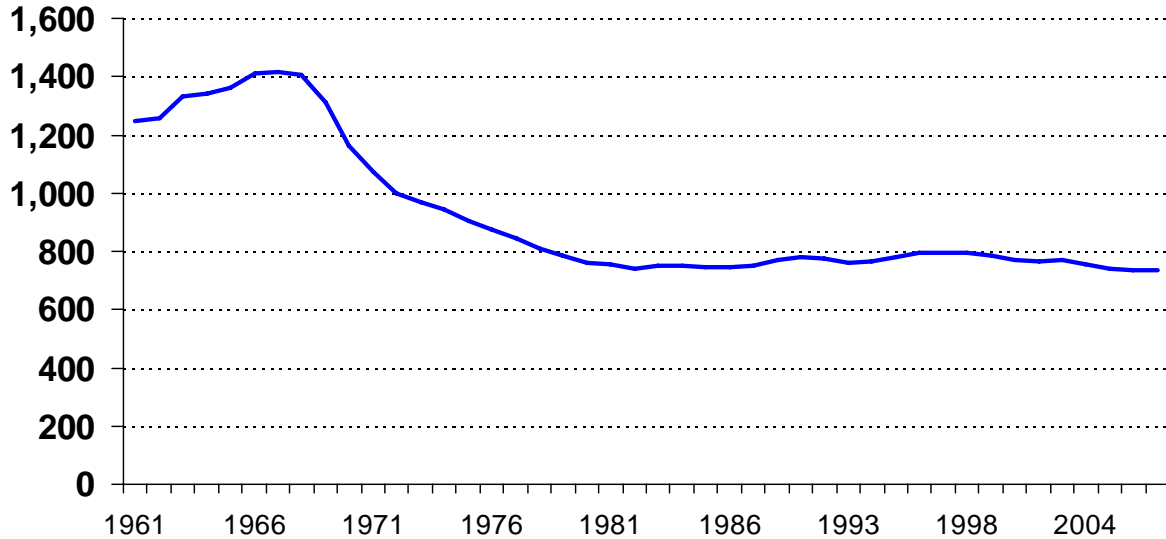
After a 15-year period of decline during the tumult of the 1960s and 1970s, membership in UU congregations has grown slowly, but steadily, since 1981. Today, adult membership in UU congregations is above 160,000, compared to less than 140,000 in 1981.

### Adult Membership in UU Congregations



UU membership as a share of the US population has been steady for almost 25 years. Nationwide, there are about 800 UUs for every million US residents.

### UUs per Million US Residents



While we should be proud of the growth that has occurred, we can and should do better. I encourage the administration to continue its support of growth in new and existing congregations.

## **Future Topics**

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

- Endowment spending policy
- 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
- Options for funding the cost of future capital campaigns
- Conflict of interest policies
- Internal rent allocations
- Management of debt, cash, and short-term investments
- Facilities renewal policies