

Financial Advisor's Report To Unitarian Universalist Congregations

June 2008



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 about to enter the last year 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 has links to 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

Tim Brennan joined the UUA as Treasurer and Vice President for Finance in 2006. Tim continues to do outstanding work on behalf of the Association. In early 2008, Tim hired Javier Caban to be the new UUA Comptroller, replacing Florence Einhorn, who retired after many years of dedicated service as director of accounting. Javier, who is a member of the First Universalist Church of Essex, has already made great strides in strengthening our accounting systems.

UUA Financial Reporting

The printed volume of UUA Annual Reports for 2008, 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 on Fiscal Year 2007, 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 UU Common Endowment Fund (UUCEF, which was called the GIF before 2008). The Independent Auditors' Report is also 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 2007 Results

Financial Results

By every measure, the Unitarian Universalist Association had strong financial performance in Fiscal Year 2007.

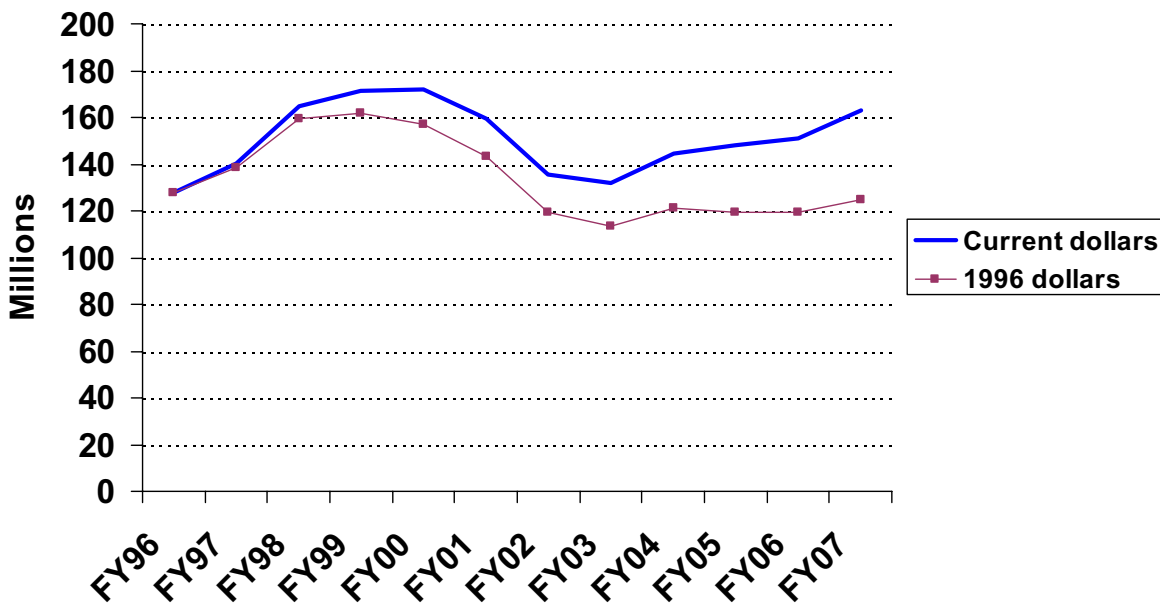
The narrowest view of the Association's finances is the operating budget surplus or deficit. For FY07, this figure was a surplus of \$44,331.

Other measures of financial health were extremely positive. According to the UUA's audited financial reports, the "current" section of the budget, which **excludes** Beacon Press, Congregational Loans, and some endowment fund activity, experienced a surplus of \$4.2 million for the year. Unrestricted net assets (including some endowment funds) rose by \$2.6 million while total net assets (including all endowment funds) rose by \$11.8 million.

An organization’s “total net assets” is one of the best measures of its overall fiscal condition. This figure starts with everything the organization owns, and then subtracts all its debts. The following chart shows how the UUA’s total net assets have changed since the end of FY96. There was sharp growth during the “dot-com” boom of the late 1990’s, followed by a substantial decline when the stock market collapsed in 2000. Since then, assets have grown steadily.

Since 1996, the Association’s assets have grown by about \$35 million. However, this growth has not quite been fast enough to keep pace with inflation. Measured in “real” 1996 dollars, the UUA’s net assets have declined very slightly over the last decade. Considering the turbulence in the stock market during this period, I conclude that our results indicate that there has been very sound management of the Association’s financial assets.

UUA Total Net Assets



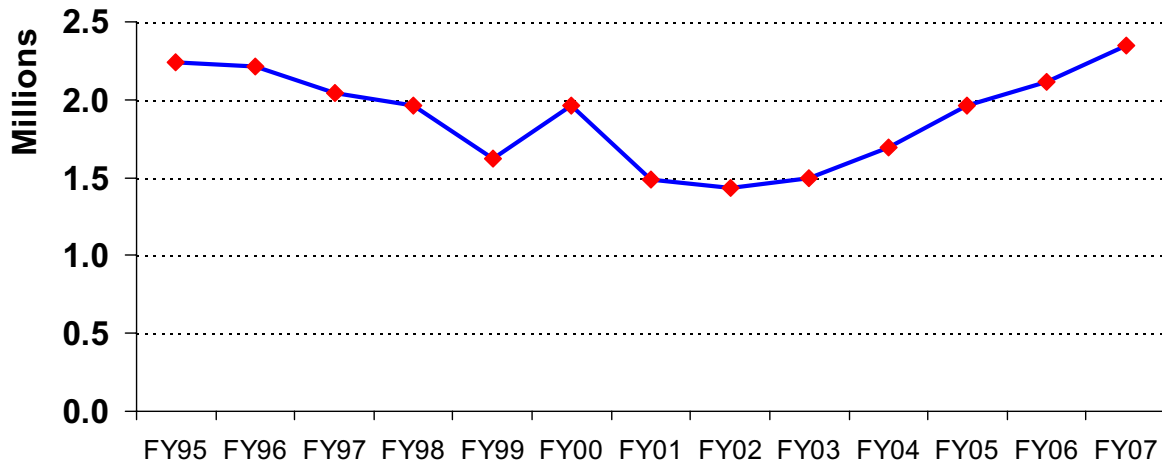
Beacon Press

Beacon Press experienced an operating surplus of \$228,000 in FY07. The Press expects that FY08 will be the sixth 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 Beacon’s year-end net assets, which I regard as a “stabilization reserve” that could be used to avoid the need to draw down other Association assets should Beacon experience operating deficits in the future. 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 FY07. The auditors issued a “clean” audit finding that “in our opinion, the 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>

During their presentation to the UUA Audit Committee, on which I serve, the auditors made highly positive comments about the UUA’s financial management, and particularly about the improved financial policies Tim Brennan has put in place over the last two years.

FY 2008 and Beyond

The UUA administration expects that FY 2008 will end with a modest surplus.

The UUA Board has approved a budget for FY 2009 which is also in balance. It calls for both income and expenses to grow by less than 1% from their FY 2008 levels.

At my suggestion, the UUA budget beginning with FY 2009 will charge each program for the cost of operating and maintaining the space used by that program's staff. This charge is comparable to the current practice of charging a proportional share of employee fringe benefit costs to the programs that pay employee salaries. The purpose of such "chargebacks" is to ensure that the budget accurately reflects to true cost to the Association of the employees working in each program. No overall change in spending results from instituting this practice.

UUA Health Plan

The UUA Health Plan completed its first year of operations in December 2007. The plan, which is supervised by a separate group of trustees, has been a tremendous success.¹

Background

Until 1998, the UUA sponsored a health insurance plan that was open to ministers and other employees of UU organizations. In that year, the plan was cancelled by its insurer. 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.)

A survey carried out 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, in our case the UUA, collects premiums and is responsible for the cost of all claims.

The UUA plan is open to ministers and other employees of congregations and other UU organizations who work at least 750 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.

First-Year Results

The plan began with 587 enrollees, and has now reached 680. Its financial performance has far exceeded expectations. The budget for 2007 assumed a surplus of \$460,000 or about 10% of revenue. Because claims payments were much lower than expected, the actual surplus for the year was \$944,000.

¹ Information on the health plan is available at <http://www.uua.org/leaders/healthplan/index.shtml> .

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 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 took 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.

Changes for 2008

With the strong performance in 2007, the Trustees of the Health Plan were able to add some new benefits (no deductible for routine eye exams and adult immunizations; increased mental health coverage) while holding premium increases to a minimum. Most participants saw only a 4% premium increase from 2007 to 2008, which was far below the level experienced by participants in other health insurance plans.

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 in each of the last two years, 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 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 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, particularly those who now have inadequate coverage or no coverage at all.

The creation of the UUA Health Plan gives each congregation a cost-effective way to meet this responsibility. Congregations that participate are also 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 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.

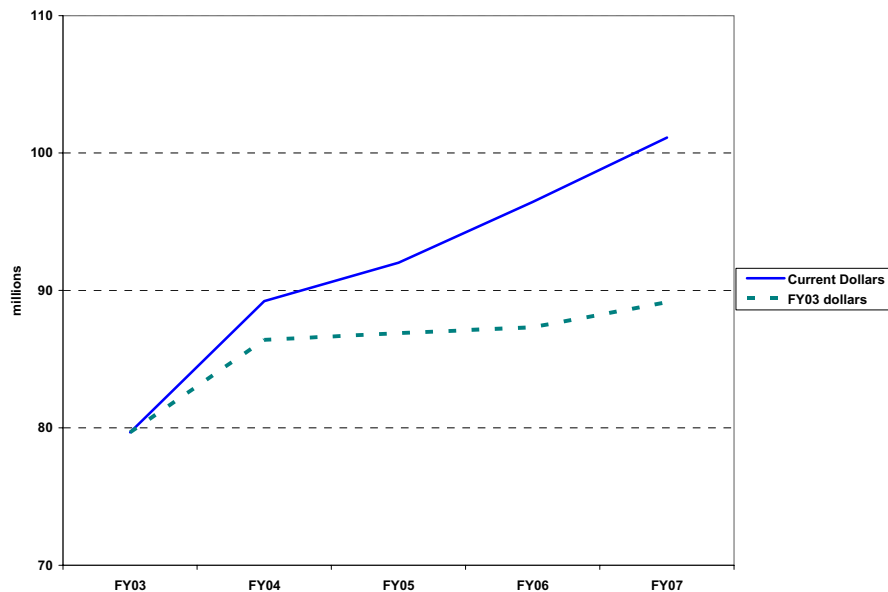
As I have done for the past two years, I strongly urge **all** congregations, including ones that obtain health insurance from other sources as well as ones that do not now provide insurance to their ministers and other employees, to participate in the UUA Health Plan.

Investment of UUA Assets

Endowment

During FY07, the total value of the assets held in the UU Common Endowment Fund (or UUCEF, formerly called the “General Investment Fund,” or GIF) rose from \$116 million to \$136 million. Much of this increase, \$13 million, came from new investments in the fund by congregations and other UU organizations. The total return of the fund was a very strong 14.5%.

UUA-Owned Assets in the UUCEF



During 2003, the UUA Investment Committee restructured the endowment to increase the diversity of the portfolio, with the goal of improving return and reducing volatility. In the four years since the restructuring, the assets in the UUCEF that are owned by the UUA have risen from \$80 million to \$101 million. (Assets owned by congregations and other UU organizations have grown from \$14 million to \$40 million.) As the chart shows, this growth in value has been sufficient to allow the endowment to grow in “real” value even after adjusting for inflation. While FY 2008 looks to be a difficult year for most investments, including ours, I am confident that the UUA endowment is being well managed for long-term stability and growth.

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 of less than 1% of assets. 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 UUCEF. Therefore, I urge all congregations and other UU organizations to give careful consideration to investing their endowment in the UUCEF.

Investment Policy and 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.

In January 2008, the Board of Trustees approved a new UUA Investment Policy² that had received the unanimous support of both committees.

In the past several years, the Investment Committee and the Committee on Socially Responsible Investing have worked closely together, and have made great progress on a number of fronts. Accomplishments have included:

- 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 UUCEF’s domestic stock portfolio managers

² http://www.uua.org/documents/investmentcomm/080120_investmentpolicy.pdf

- Investment of a portion of the UUCEF in a “UU index fund,” based on the screening system

“Now Is The Time” Comprehensive Fundraising Campaign

The Campaign for Unitarian Universalism concluded at the end of FY04. Since then, the UUA administration has worked with the Board of Trustees and the President’s Council to launch 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 approved a goal of \$50 million (including \$20 million in cash and \$30 million in legacy gifts) for the campaign.

The new campaign, entitled “Now Is The Time,” was formally launched at General Assembly in June 2007. As of March 2008, the campaign has already been extremely successful. Pledges and receipts of \$16 million in cash and \$21 million in legacy gifts represent 75% of the goal for the campaign. With another \$16 million of gifts in negotiation with donors, I am confident that the campaign will reach its ambitious goals.

Future Topics

My term as Financial Advisor ends in June 2009. I am eligible for re-election to a second four-year term, and I’ve told the Nominating Committee that I would be delighted to serve another term. I hope to be re-nominated and re-elected.

Information about the June 2009 elections for President, Moderator, and Financial Advisor is on the UUA website: <http://www.uua.org/aboutus/governance/elections/index.shtml>

In the next year (or five years, should I be re-elected), I hope to 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
- Conflict of interest and whistle-blower policies
- Management of debt, cash, and short-term investments
- Facilities renewal policies

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