

Financial Advisor's Report To Unitarian Universalist Congregations

June 2011



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)

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Financial Reports

More information about the UUA’s recent financial results can be found in these two reports:

- 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 can be found on the UUA website at <http://www.uua.org/aboutus/finance/25499.shtml>
- The Independent Auditors’ Report on Fiscal Year 2010 presents audited financial statements for the Association, including a balance sheet (“Statement of Financial Position”), an income statement (“Statement of Changes in Net Assets”), and many supporting schedules, including detailed information about the UU Common Endowment Fund. This report is at http://uua.org/documents/auditcomm/100630_audited_financials.pdf

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

My previous reports to General Assembly and to each quarterly meeting of the UUA Board are available at <http://www.uua.org/aboutus/governance/officers/financialadvisor/6760.shtml>.

Fiscal Year 2010

Audit Report

In early 2010, on the recommendation of the Audit Committee, the UUA Board appointed Mayer Hoffman McCann/CBIZ Tofias as the UUA's new external auditing firm. In November, the auditors gave the UUA a "clean" audit report, finding that "the 2010 financial statements ... present fairly, in all material respects, the financial position of the Association as of June 30, 2010."

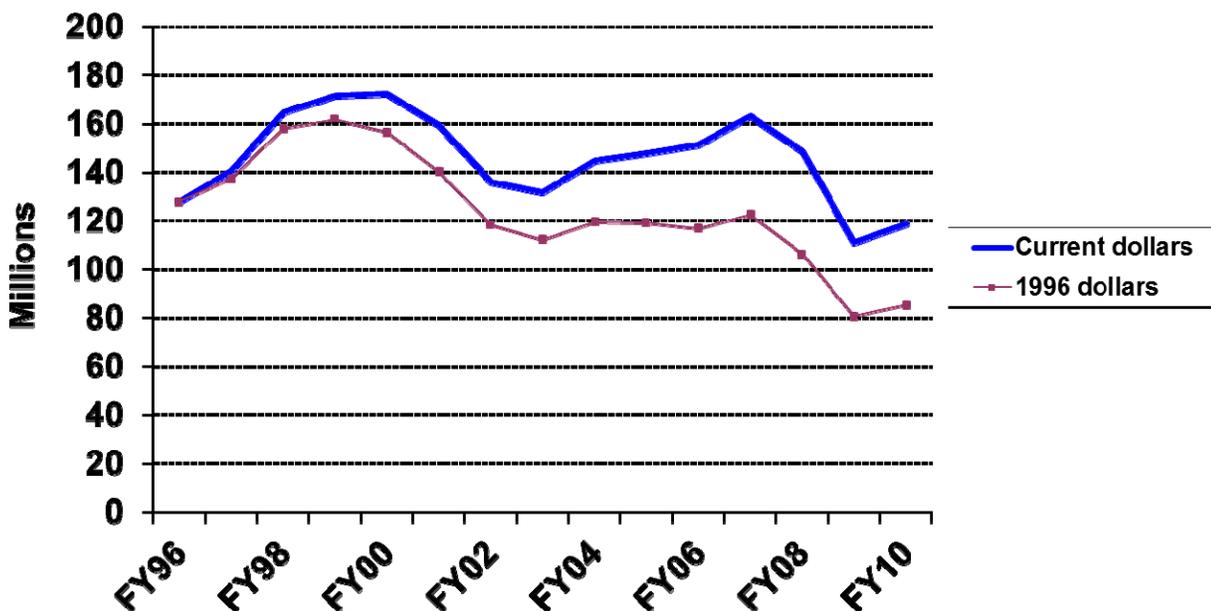
Financial Results

The surplus or deficit in the operating budget is the most important measure of the fiscal health of a nonprofit organization. In the UUA's audited financial reports, this number is called the "change in unrestricted net assets from operations." For FY10, this number was \$112,000, which represents an operating surplus of about one third of one percent of revenue.

Meanwhile, the stock market decline that began during FY08 reversed during FY10. As a result, the total value of the UU Common Endowment Fund (UUCEF), including funds invested by congregations, which had fallen by \$38 million during FY08 and FY09, rose by \$11 million during FY10. (The value of the UUCEF has continued to increase during FY11.)

The endowment is the largest component of the UUA's "total net assets," the level of which is another important measure of its fiscal condition. The value of total net assets is calculated by adding everything the organization owns, and then subtracting 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 recession and bear market began in late 2007. A modest rebound began in 2009.

UUA Total Net Assets at Fiscal Year End



From 1996 through 2010, the Association’s net assets fell slightly, even without taking into account the impact of inflation. Measured in “real” 1996 dollars, the UUA’s net assets have declined by 33% over the last 14 years. This decline, and the corresponding drop in income from the endowment, contributed to the need to make major cuts in spending during the preparation of recent budgets.

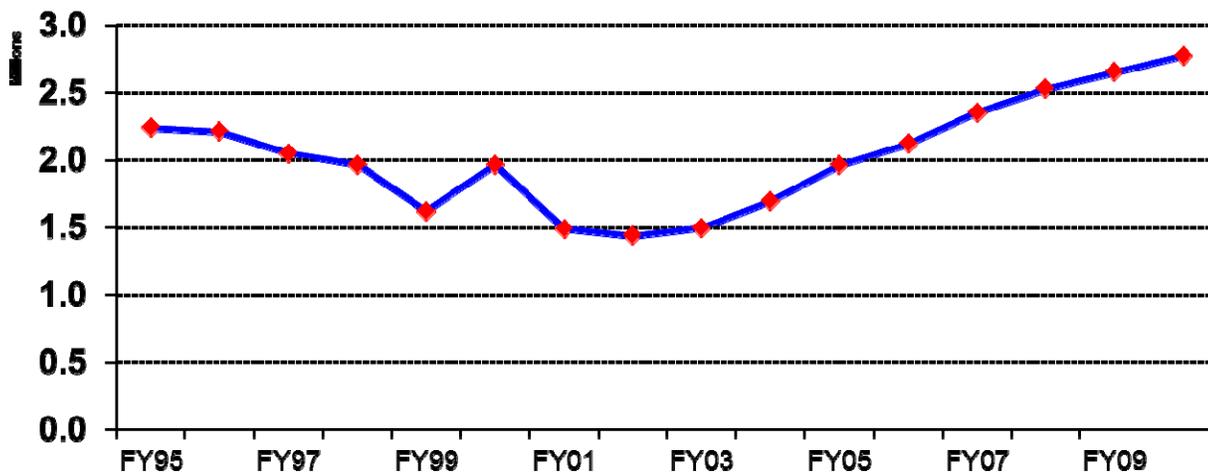
While fluctuations in the value of the endowment are inevitable, an endowment spending policy can insulate the current operating budget from the impact of these changes. A year ago, the UUA Board changed its endowment spending policy with this goal in mind, as I discuss below in the section on Endowment Spending Policies.

Beacon Press

Beacon Press achieved an operating surplus of \$129,000 in FY10, for its eighth 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 \$600,000 in three years.

In response to the weak national economy, Beacon carried out several cost-cutting measures that permitted it to avoid a deficit in FY09 and FY10. Beacon expects to produce a surplus of about \$100,000 in FY11 and to achieve a balanced budget in FY12.

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

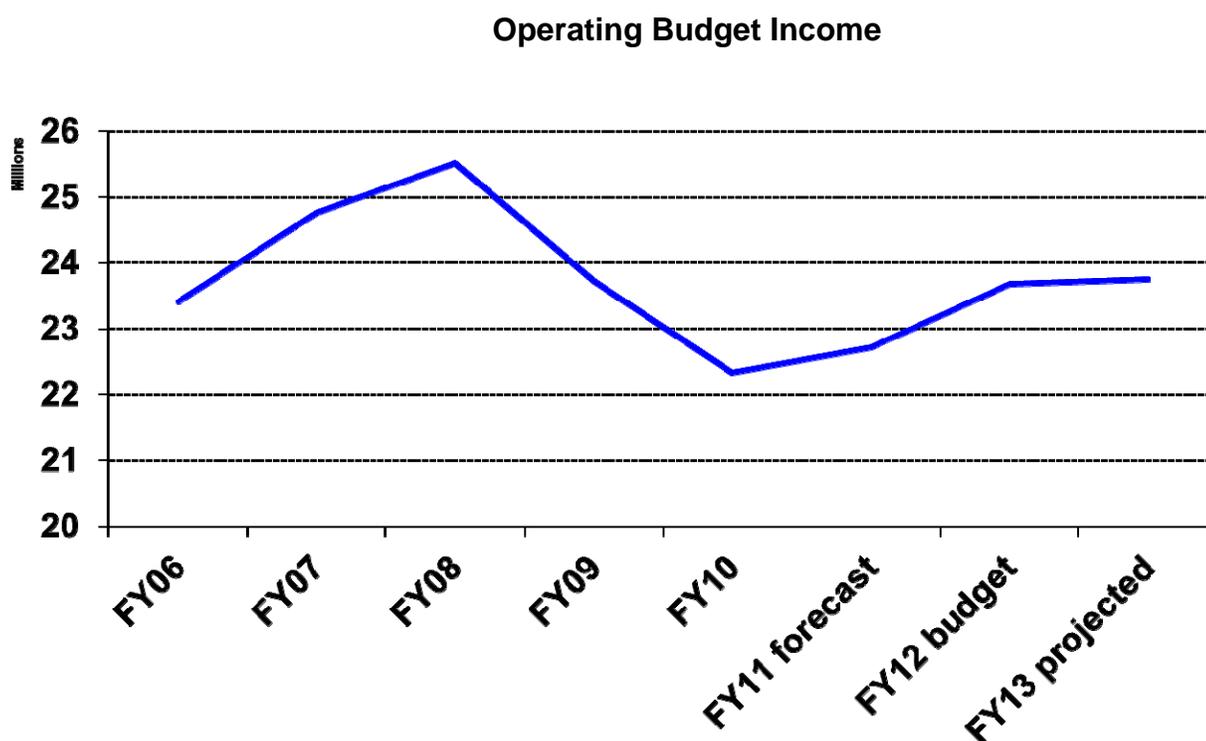


The chart shows Beacon’s year-end net assets, which I regard as a “stabilization fund.” The funds are available to avoid the need to draw down other Association assets should Beacon experience operating deficits. These funds can also be used, with prior approval from the UUA Board, to finance significant new publishing opportunities, such as the recent acquisition of the rights to publish the writings of the Rev. Martin Luther King, Jr. (See [The King Legacy](#) website.) The net assets of the press have grown by more than \$1.3 million in the past eight years. With a reserve of almost \$2.8 million at the beginning of FY11, Beacon and the UUA are well-protected.

Fiscal Year 2011 and Beyond

The recession that began in December 2007 has made the last four fiscal years extremely difficult for the UUA as well as for most of our congregations.

Total UUA income fell by \$3.6 million, or 10%, from FY08 to FY09, and continued to fall in FY10. The budget for FY11 was based on the assumption that income would remain at about the FY10 level. In the operating segment of the budget (which excludes Beacon Press, General Assembly, the building loan fund, and endowment assets), total FY11 income is expected to be \$22.7 million, compared to \$25.5 million in FY08. The administration expects only a small improvement for FY12, with total income remaining almost \$2 million below the FY08 level. This chart shows the trend in available operating income:



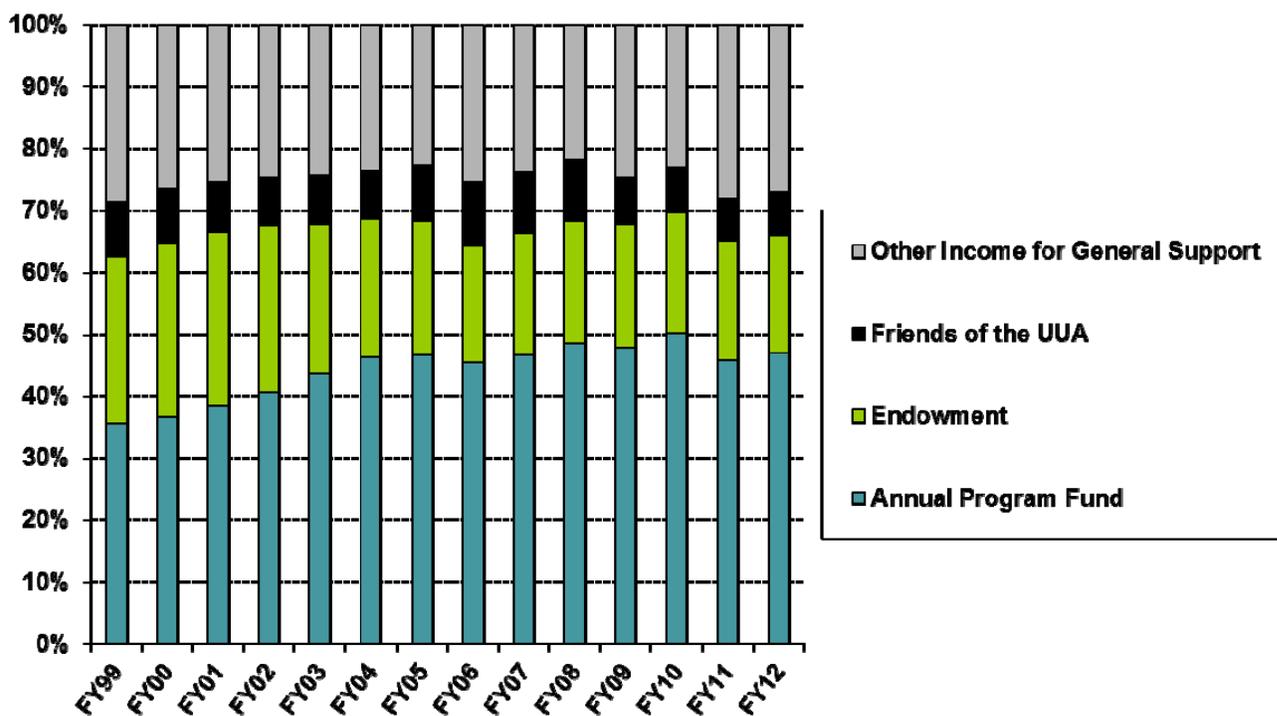
Balancing the budgets for recent fiscal years has required significant cuts in spending, including personnel savings through both layoffs and attrition. I believe that both the Sinkford and Morales administrations have acted responsibly in making these painful, though necessary, reductions in spending.

Annual Program Fund

The Annual Program Fund continues to grow in importance as a source of general operating revenue. As endowment income and other sources of unrestricted income have declined, the share of the unrestricted budget supported by the APF has risen, from about one third in FY99 to almost half today. The chart on the next page shows this trend.

Although contributions from congregations to the APF have declined by about 5% from their peak in FY08, this source of funds has been remarkably stable during these difficult economic times. I applaud the generosity of our congregations in supporting the work of the Association.

Sources of General Income



Endowment Management

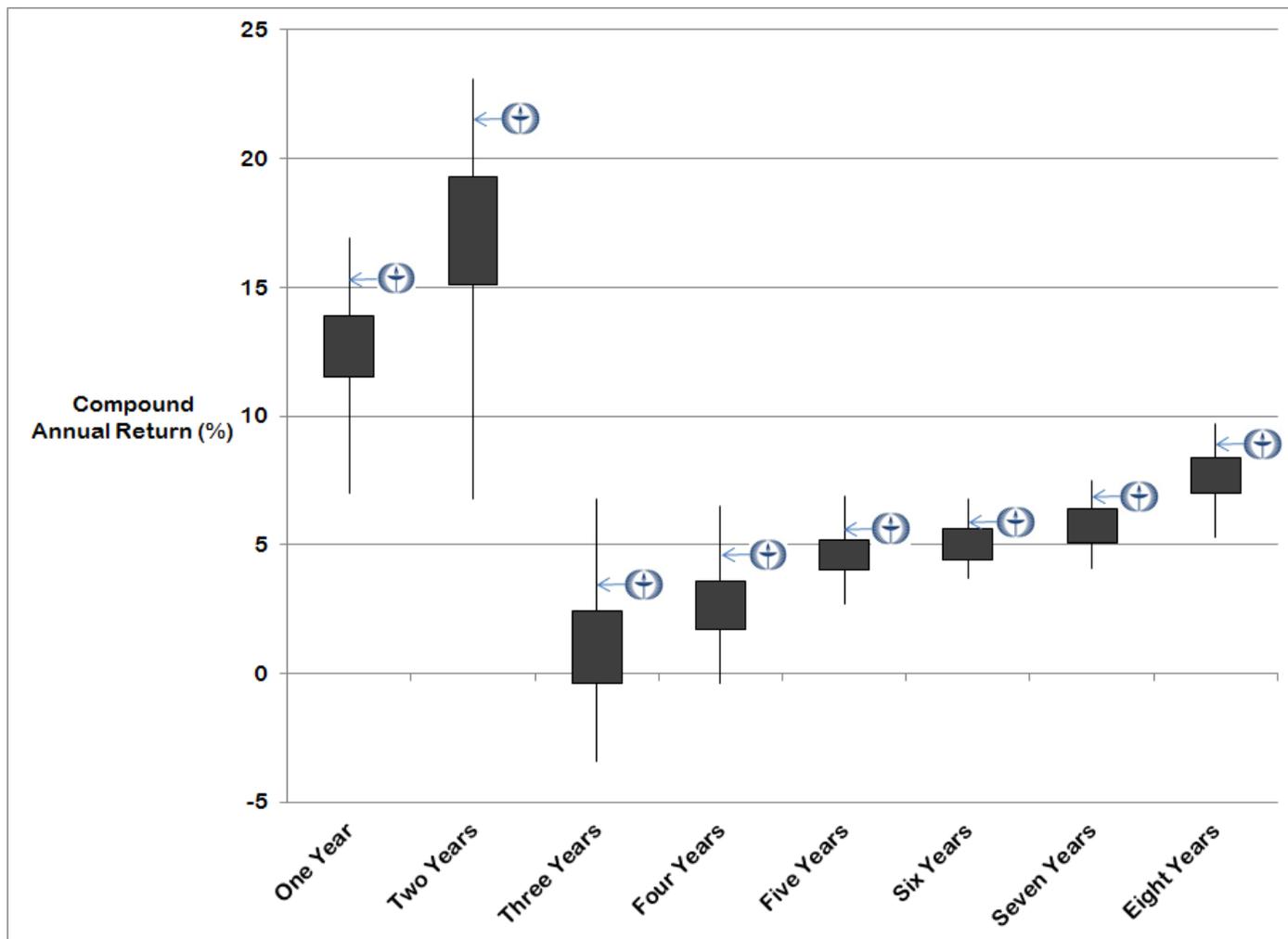
After several years of strong growth, the value of the UUA endowment declined sharply in FY08 and again in FY09. During FY09, the total value of the assets held in the UU Common Endowment Fund (or UUCEF, formerly called the “General Investment Fund”) fell from \$123 million to \$99 million. The total return of the fund was negative 16%.

The UUCEF rebounded significantly in FY10 and the beginning of FY11, with total return of 15% in FY10 and 24% in the first ten months of FY11. The total value of assets in the UUCEF rose to \$110 million by the end of FY10, and to \$144 million by April 30, 2011.

The UUCEF’s performance has been outstanding over the last decade. Our endowment advisory firm, New England Pension Consultants, gives the UUA Investment Committee data that compares the UUCEF’s performance to that of similar-sized endowment funds in the nation.

The chart on the next page shows this comparison for reporting periods of different numbers of years, with each period ending on December 20, 2010.

UUCEF Performance Compared to Other Endowment Funds

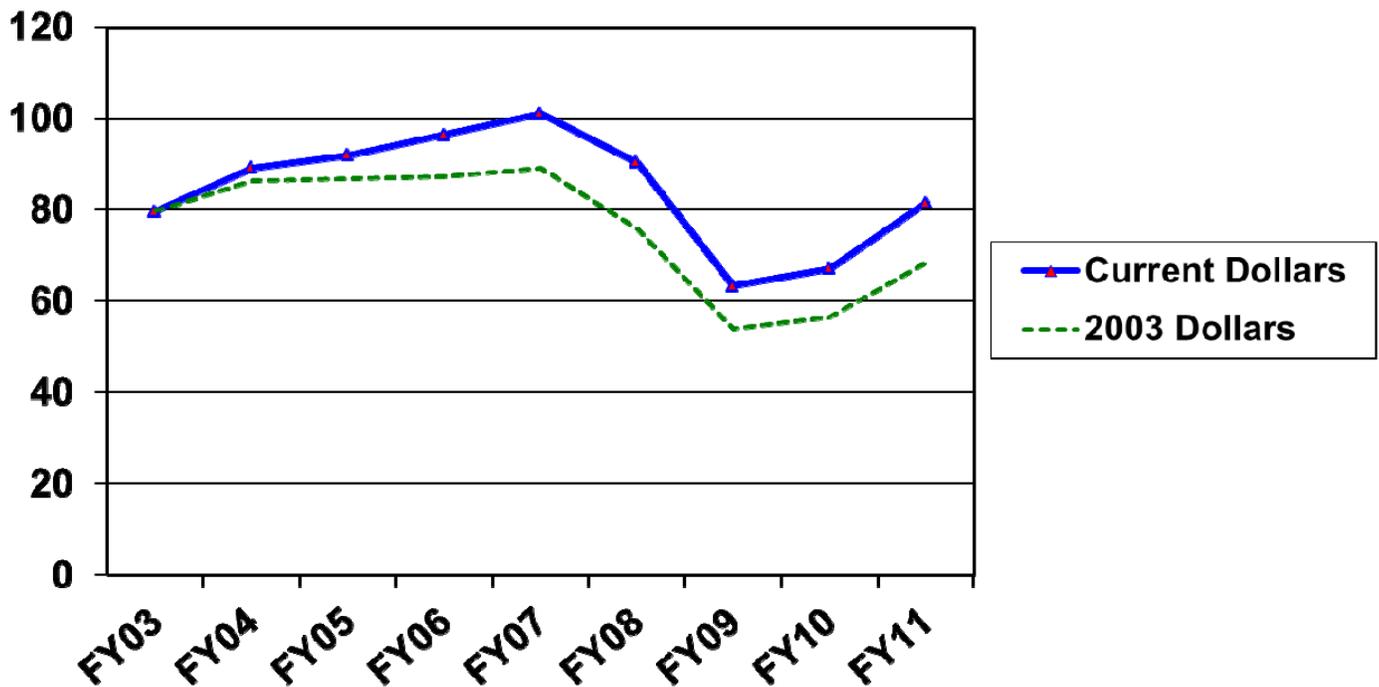


In this chart, each black rectangle shows the range of performance of the **middle half** of all comparably sized endowment funds over the period indicated. For example, in two years ending in December 2010, as the stock market has rebounded, half of all funds produced annual returns between 15% (the bottom of the black rectangle) and 19% (the top of the rectangle). The UUCEF performance, shown by the chalice symbol, was 21.5% a year over this period.

The lines extending above and below each black box encompass the performance of 90% of all comparable endowment funds. The location of the chalice symbols, near the top of each line, shows that the UUCEF has outperformed 85% of its peers in each measurement period going back from one through eight years. This excellent performance reinforces my conclusion that congregations that now manage their own endowments should move their funds into the UUCEF.

The chart below tracks the value, both in current dollars and in inflation-adjusted dollars, of the portion of the UUCEF that is owned by the UUA. Despite the significant rebound since the spring of 2009, the real (inflation-adjusted) value of our endowment has fallen since FY03. The real value is still 25% below its FY07 level.

UUA-Owned Assets in the UUCEF



Endowment Spending Policies

In January 2010, the UUA Board of Trustees approved a new policy designed to reduce the volatility in endowment spending. The previous policy, which was similar to that used by most endowment funds, tried to reduce volatility by basing spending on a multi-year average of the value of the endowment. But a major market decline still required substantial spending cuts. The prior policy reduced allowable endowment spending by 25% in just three years after the stock market peak in 2000, and caused a similar decline beginning in 2008.

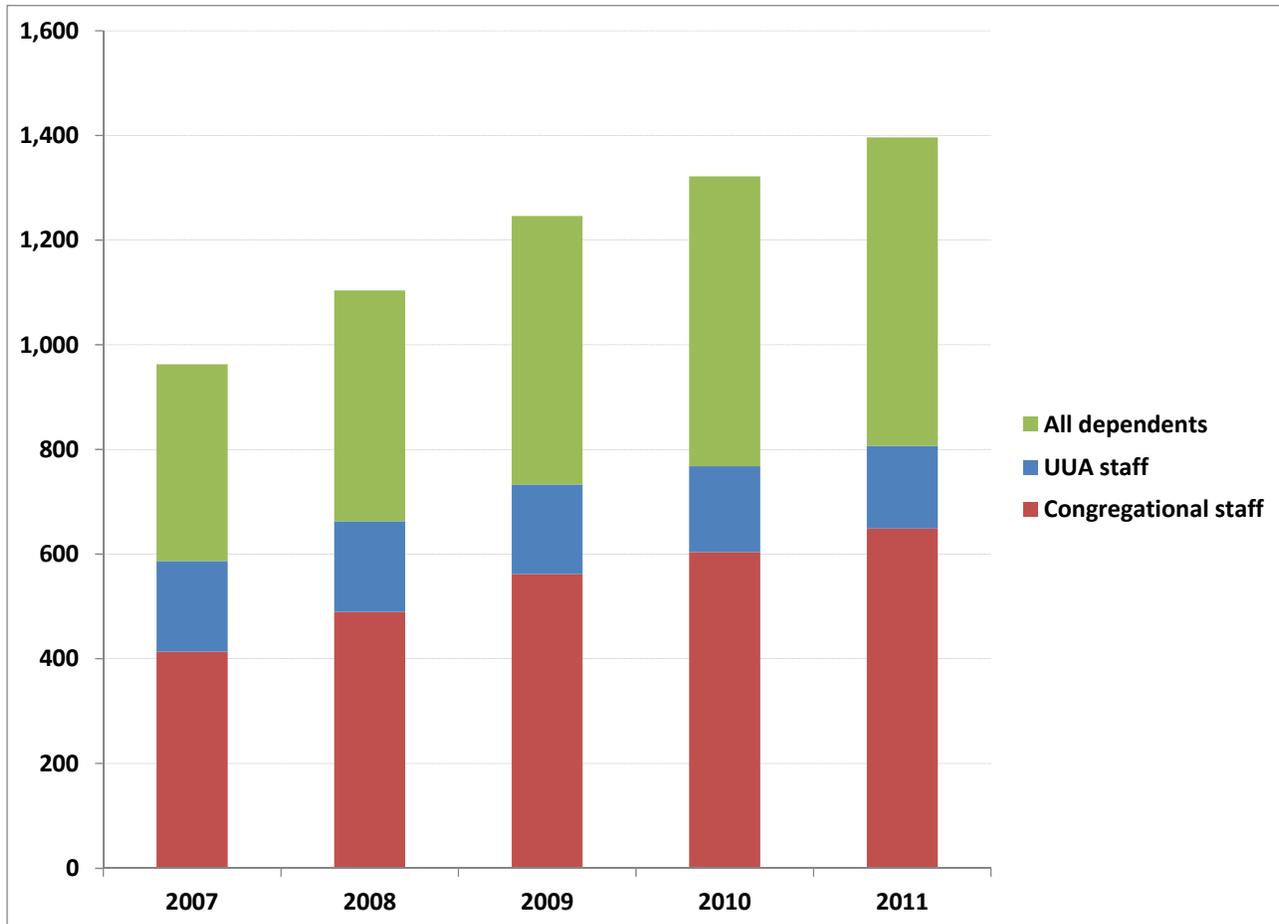
In response to this sort of problem, many American universities that depend heavily on endowment have developed spending policies that minimize year-to-year fluctuations in allowable spending while also protecting the inflation-adjusted value of the endowment. Yale pioneered this approach, which has been adopted by Stanford, Dartmouth, and others.

The new UUA policy follows this precedent. It requires the Association to set aside more money in years of strong endowment performance in order to prevent the need for spending cuts during downturns. I'm confident that this prudent policy will reduce the volatility of our endowment spending in the coming years.

UUA Health Plan

The UUA Health Plan has been a huge success in its four years of service. The plan, whose membership grew by 5% during 2010, now serves 800 ministers, church employees, UUA employees, and retirees, as well as almost 600 dependents, in UUA offices and in 306 congregations. Plan membership in congregations has grown by 57% since the plan began in January 2007.

UUA Health Plan Enrollment



Plan Results

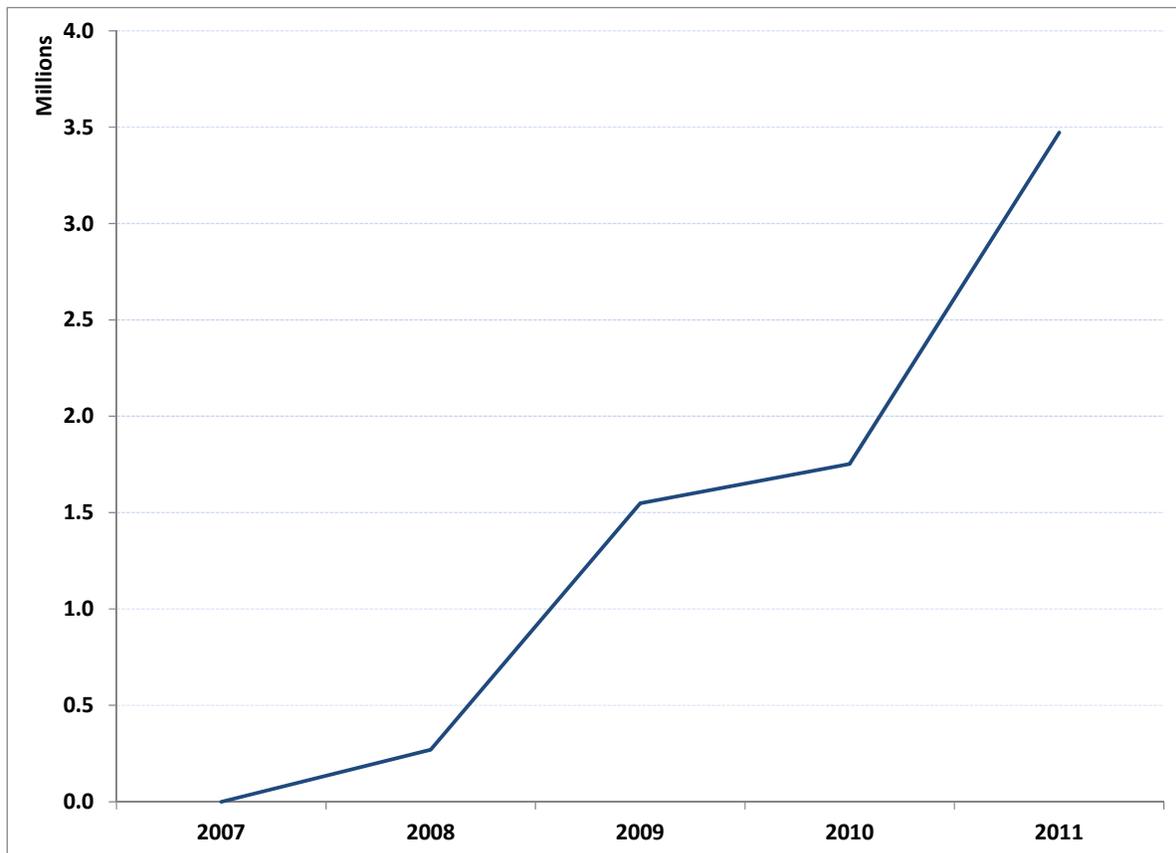
The plan generated a strong surplus of almost \$1.5 million in calendar year 2010 on revenues of \$7.6 million. By the end of 2010, the plan had accumulated a surplus of almost \$3.5 million. This surplus will be carried forward on the books of the health plan to cushion against premium increases in 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 board of trustees, on which I serve, to hold premium increases to a minimum while making improvements in benefits. Over the past four-year period, when cumulative increases of 30% or more in health insurance premiums have been typical among other plans¹, the base

¹ New York Times: <http://prescriptions.blogs.nytimes.com/2010/11/29/steep-rise-in-h-m-o-costs/>
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premium² for the UUA plan has risen by a total of only 22%. The excellent financial results in 2010 and the beginning of 2011 will again allow the trustees to avoid any substantial increase in rates for 2012.

UUA Health Plan: Unencumbered Reserves



And during this period, while many plans have cut benefits, our plan has made these benefit enhancements:

- adding an annual vision screening
- covering adult immunizations 100% without a deductible
- increasing mental health outpatient visits to 40 maximum per calendar year
- making coverage for mental health and substance abuse treatment the same as other coverage
- continuing coverage of dependents to age 26
- removing the deductible on injectables, implantables, and devices under the birth control benefit
- providing 100% coverage of diagnostic services
- including a childhood disability benefit of up to \$2,500 per year
- providing a hearing aid benefit

An Unusual New Benefit

Very few health insurance plans provide **any** coverage for hearing aids, which can cost thousands of dollars. Beginning this year, the UUA Health Plan includes a \$2,000 benefit every two years to participants who

² Premiums are based on the enrollee's age and geographic location. The actual premium increase for any enrollee is a combination of the base 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).

need hearing aids. In making the decision to include this benefit in the plan, the trustees were putting into action our stated commitment to encourage the full participation of historically marginalized individuals—in this case, the hard of hearing—in the lives of our congregations.

The Future of the Plan

The national health care reform law passed in early 2010 continues to make employer-based health plans the foundation of the nation's system for financing health care. Therefore, we have an obligation to work to assure the continued success of the UUA Health Plan.

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 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 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.

All congregational employees who work at least 750 hours a year (the equivalent of a half-time job during the church year) are eligible to participate in the plan. The Health Plan staff estimates that about 90% of eligible employees now have coverage either through the UUA Health Plan, through a different plan offered by the congregation, or through dependent coverage on a spouse's or partner's plan. Our goal is to have **100%** of eligible employees covered by health insurance.

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

Help Wanted

My second and final term as UUA Financial Advisor will end in June 2013, when General Assembly delegates will elect my successor. In the fall of 2012, the UUA Nominating Committee will nominate one or more candidates for the position.

This is a great job. The pay isn't so good—actually, there's no pay, because it's a volunteer position—but the job is important, the work is challenging, and the people you work with are inspiring. If you are interested in this position, first check out [the Financial Advisor page on the UUA website](#), and then contact me or any member of the [Nominating Committee](#).

Future Topics

In my remaining time as Financial Advisor, I will work to address the following topics:

- 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.