

Financial Advisor's Report To Unitarian Universalist Congregations

June 2012



UNITARIAN
UNIVERSALIST
ASSOCIATION OF
CONGREGATIONS

Dan Brody

UUA Financial Advisor

<http://www.uua.org/aboutus/governance/officers/financialadvisor/index.shtml>

dbrody@uua.org

"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)

Table of Contents

Table of Contents	2
Financial Reports.....	2
Fiscal Year 2011	3
Audit Report	3
Financial Results	3
Beacon Press.....	4
Fiscal Year 2012 and Beyond.....	5
Annual Program Fund	6
Endowment Management.....	6
A New Legal Structure for the Endowment.....	7
UUA Health Plan.....	8
Plan Results	8
The Future of the Plan	9
Future Topics.....	10

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/uuafinances/25499.shtml>
- The Independent Auditors’ Report on Fiscal Year 2011 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/110601_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 2011

Audit Report

The Association’s independent auditors, Mayer Hoffman McCann/CBIZ Tofias, gave the UUA a “clean” audit report, finding that “the 2011 financial statements ... present fairly, in all material respects, the financial position of the Association as of June 30, 2011.” The report is on the UUA website at http://uua.org/documents/auditcomm/110601_audited_financials.pdf

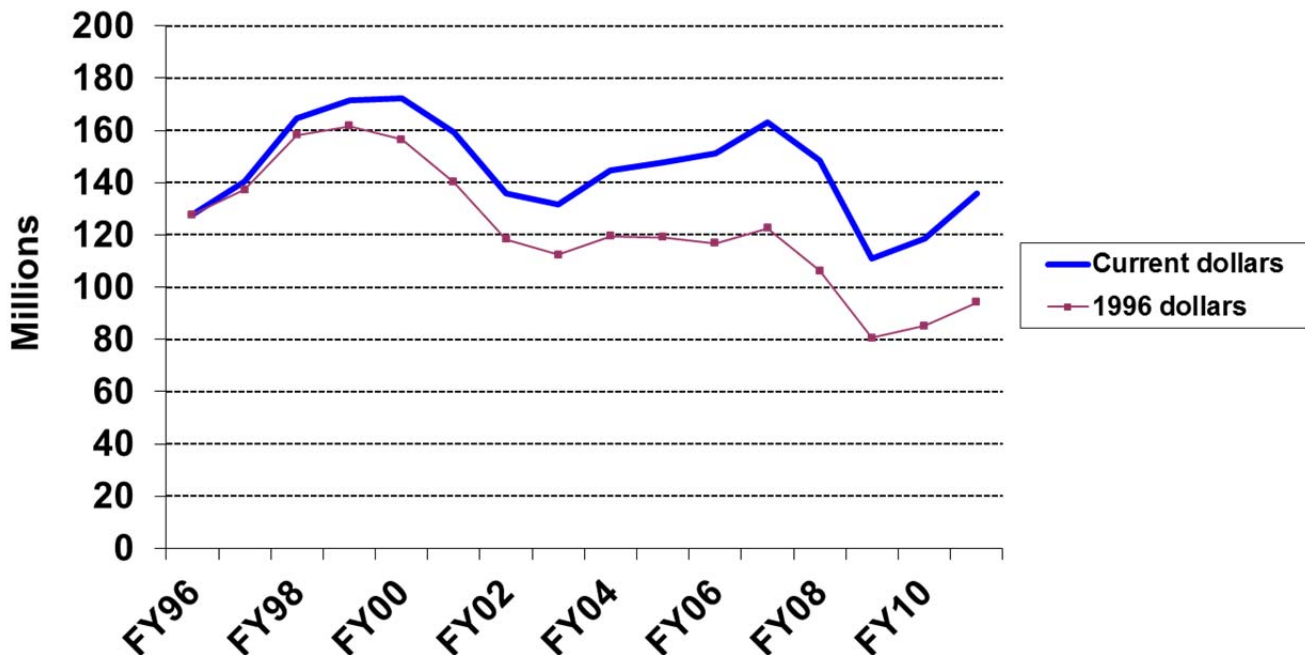
Financial Results

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 FY11, this number was \$280,000, which represents an operating surplus of about one percent of revenue.

Meanwhile, the stock market continued the recovery that began during FY10. As a result, the total value of the UU Common Endowment Fund (UUCEF), including funds invested by congregations, rose by \$15 million 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. The rebound began in 2009 and has continued.

UUA Total Net Assets at Fiscal Year End



From 1996 through 2011, the Association’s net assets have not grown, even before inflation is considered. Measured in “real” 1996 dollars, taking into account the impact of inflation, the UUA’s net assets have declined by 26% over the last 15 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.

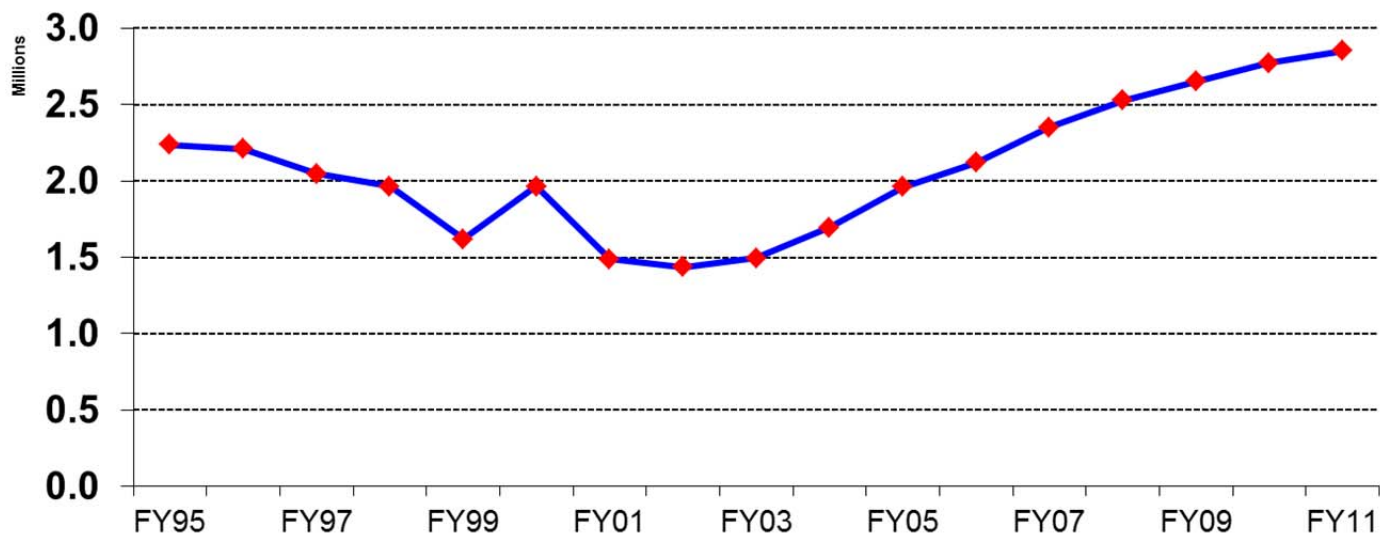
However, the increase in the value of the endowment over the last two years has at least stabilized this source of income. And the new endowment spending policy adopted by the Board in 2010 should cushion any future declines by setting aside more funds during years of strong endowment performance.

Beacon Press

Beacon Press achieved an operating surplus of \$66,000 in FY11, for its ninth 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 over any three years.

In response to the weak national economy, Beacon carried out several cost-cutting measures that permitted it to avoid deficits in the recession years. Beacon expects to produce a surplus of about \$100,000 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 \$1.4 million in the past nine years. With a reserve of almost \$3 million at the beginning of FY12, Beacon and the UUA are well-protected.

Fiscal Year 2012 and Beyond

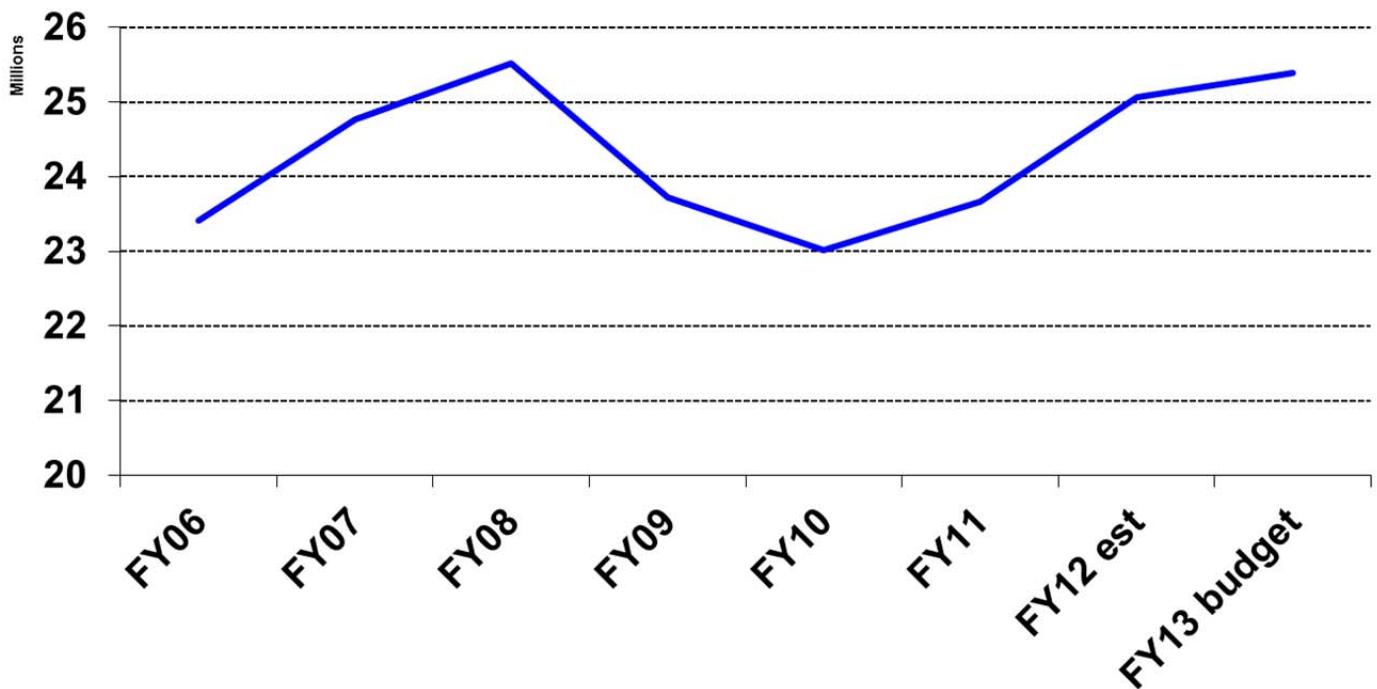
The UUA is finally beginning to recover from the recession that began in December 2007, and which made the last five fiscal years extremely difficult for the association as well as for most of our congregations.

Total UUA income fell by \$3.6 million, or 10%, from FY08 to FY09, and continued to fall in FY10, recovering only slightly in FY11.

The budget for FY12 was based on the assumption that income would increase by about 4%. In the operating segment of the budget (which excludes Beacon Press, General Assembly, the building loan fund, and endowment assets), total FY12 income is now expected to be \$25.1 million, compared to \$25.5 million in FY08. And of course, four years of inflation have reduced the purchasing power of this income.

The administration expects another small improvement for FY13, but total income will remain below the FY08 level, even before taking inflation into account. This chart shows the trend in available operating income:

Operating Budget Income



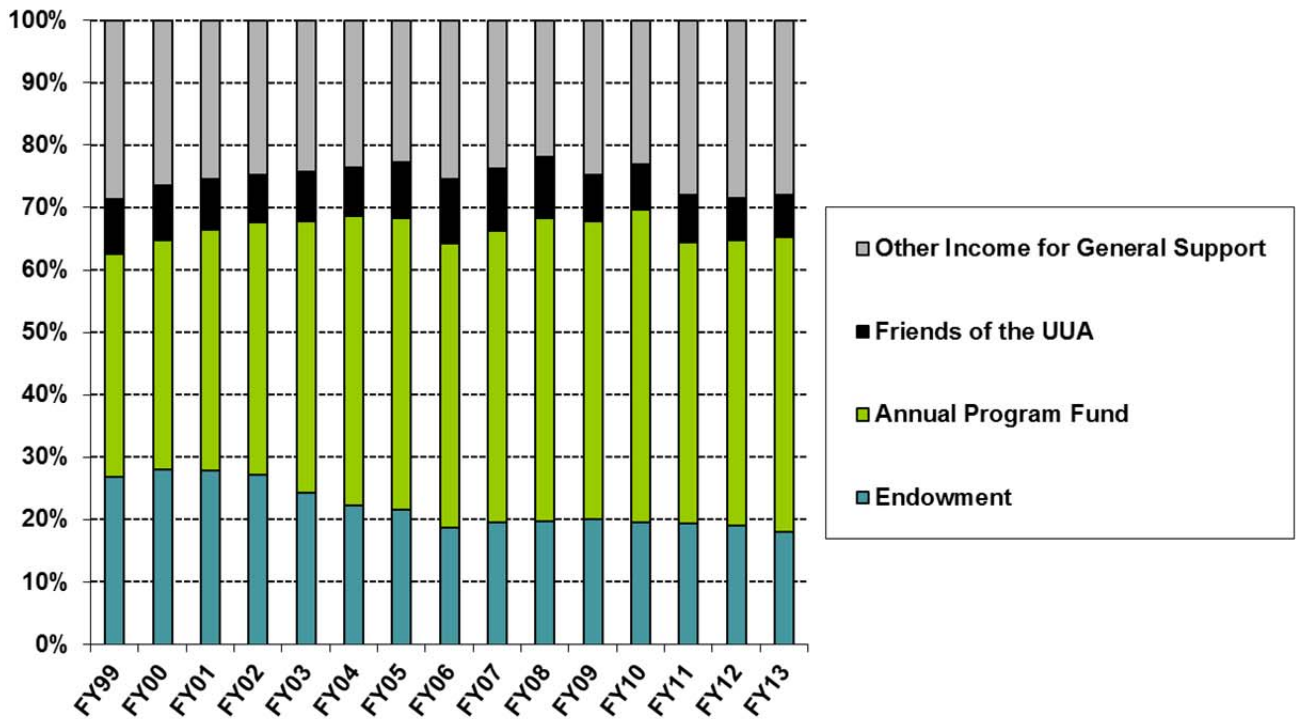
Balancing the budgets for recent fiscal years has required significant cuts in spending, including personnel savings through both layoffs and attrition. I believe that the administration has acted responsibly in making these painful, though necessary, reductions in spending. I'm optimistic that the coming years will be better ones.

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 below shows this trend.

Although contributions from congregations to the APF have declined by about 3% 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

As the recession began in 2008, 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, for a total return of negative 16%.

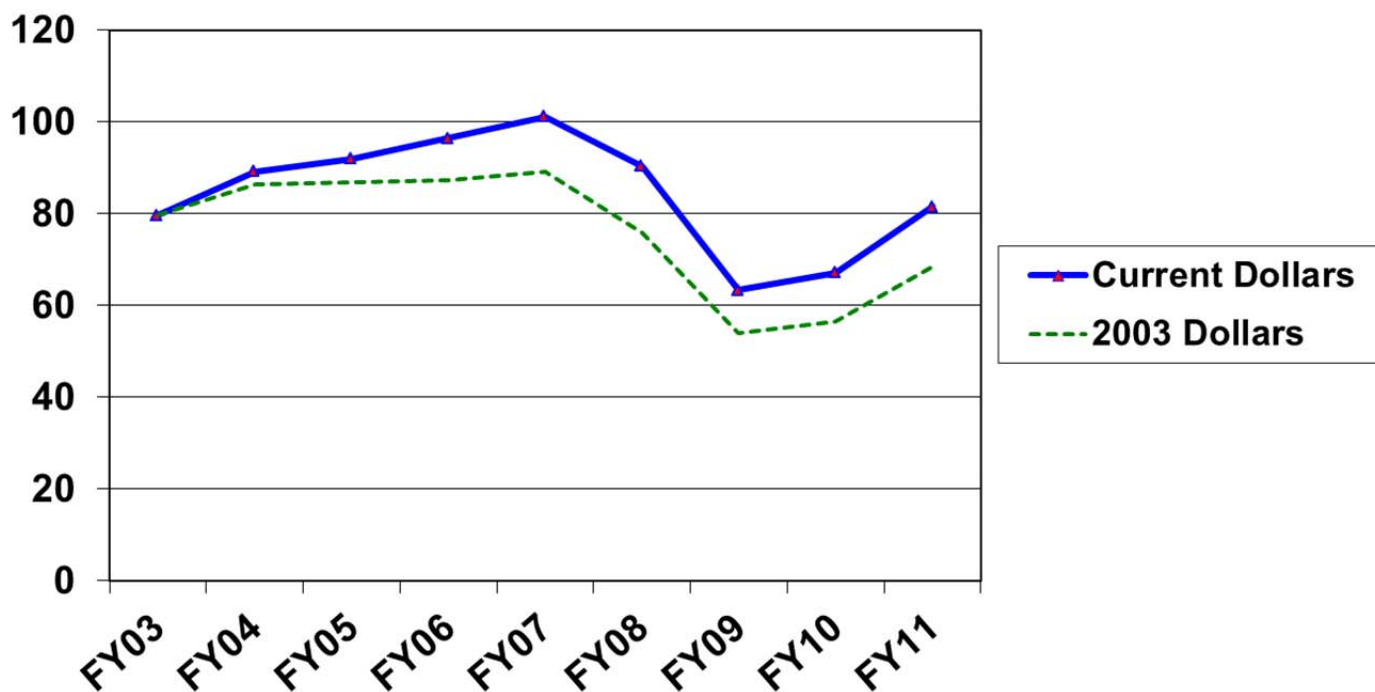
The UUCEF has since rebounded significantly, with total return of 15% in FY10, 23% in FY11, and 1% in the first nine months of FY12. The total value of assets in the UUCEF rose to \$143 million by March 31, 2012.

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 hundreds of similar-sized endowment funds in the nation.

The UUCEF has outperformed 88% of its peers over the last five years and 81% over the last 10 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



A New Legal Structure for the Endowment

The “information memorandum” for congregations and other UU organizations that wish to invest in the UU Common Endowment Fund contains this statement: “The Fund is a business unit of the UUA and not a separate entity. As a result, the assets in the Fund that are owed to investing UU Congregations could be subject to claims against the UUA from other parties if those claims exceeded the value of the UUA’s own operating funds, endowment funds and physical assets.”

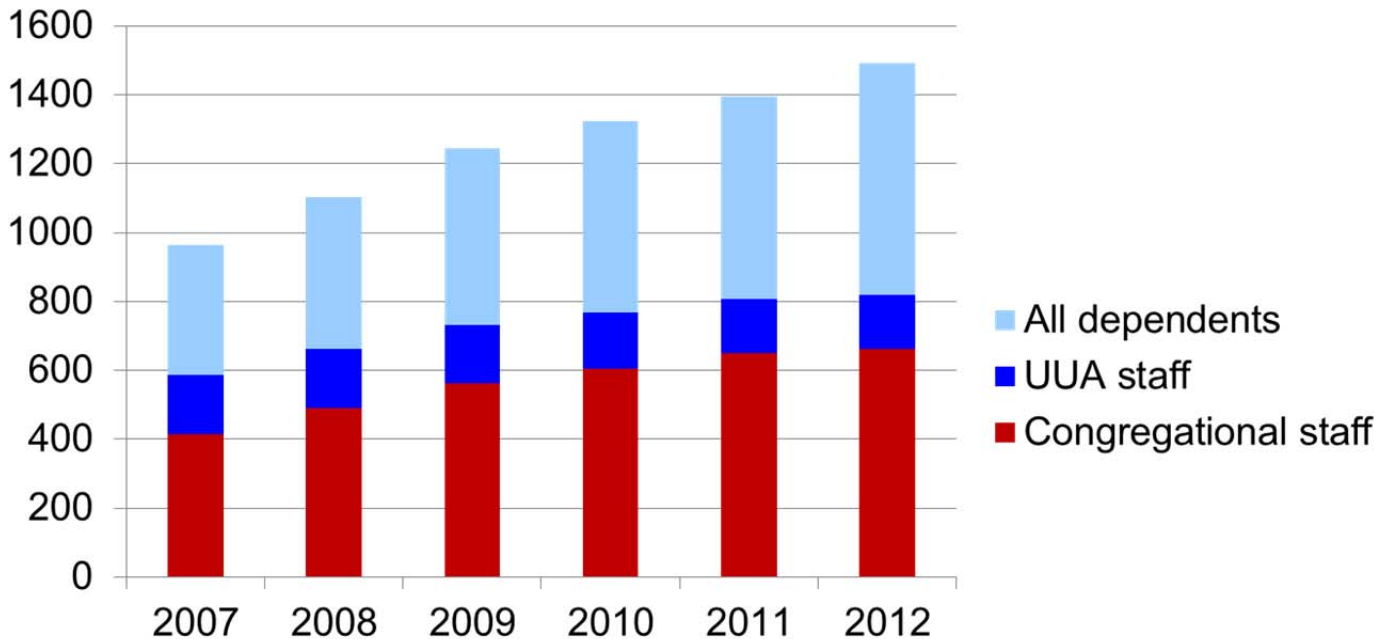
While the likelihood of such a large claim is remote, it is not impossible. Therefore, our auditors recommended to the UUA Board that “the organization should consider establishing a separate legal entity to invest funds of the organization and member churches to reduce risks of potential creditor claims against such assets.”

In April 2012, the Board authorized the Treasurer to begin to set up a tax exempt “limited liability company,” or LLC, that will own the endowment. The LLC will be under the full control of the UUA Board, but its existence will provide investors with greater assurance that their assets are secure.

UUA Health Plan

The UUA Health Plan has been a huge success in its five years of service. The plan, whose membership grew by 7% during 2011, now serves more than 800 ministers, church employees, UUA employees, and retirees, as well as almost 700 dependents, in UUA offices and in more than 300 congregations. Plan membership in congregations has grown by 60% since the plan began in January 2007.

UUA Health Plan Enrollment



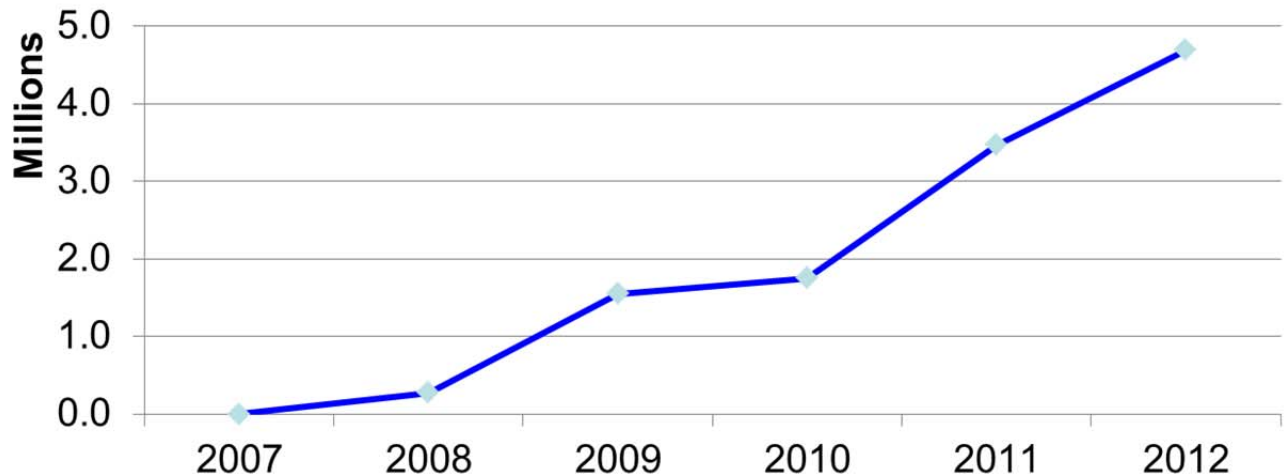
Enrollment as of January 1

Plan Results

The plan generated a surplus of almost \$1.5 million in calendar year 2011 on revenues of \$8.4 million. By the end of 2011, the plan had accumulated a surplus of about \$4.4 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. Our premium increases have been well below the levels experienced in comparable plans. The excellent financial results in recent years will again allow the trustees to hold the 2013 rate increase to a minimum.

UUA Health Plan Reserves



Unencumbered reserves at start of calendar year

And during this period, while many other health 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 of \$2,000 every two years

The Future of the Plan

The national health care reform law passed in 2010 continues to make employer-based health plans the foundation of the nation's system for financing health care. The future of this law is in question. But regardless of what happens at the federal level, 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 95% 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. While this is great progress, our goal is to have **100%** of eligible employees covered by health insurance.

As I have done in past 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.

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.