

# **Financial Advisor's Report To Unitarian Universalist Congregations**

**June 2013**



UNITARIAN  
UNIVERSALIST  
ASSOCIATION OF  
CONGREGATIONS

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

*"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 Independent Auditors' Report on Fiscal Year 2012 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.

These two reports, which can be found on the UUA website at <http://www.uua.org/uuafinances/25499.shtml>, 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 2012

### *Audit Report*

The Association's independent auditors, Mayer Hoffman McCann/CBIZ Tofias, gave the UUA a "clean" audit report, finding that the 2012 financial statements "present fairly, in all material respects, the financial position of the Association as of June 30, 2012."

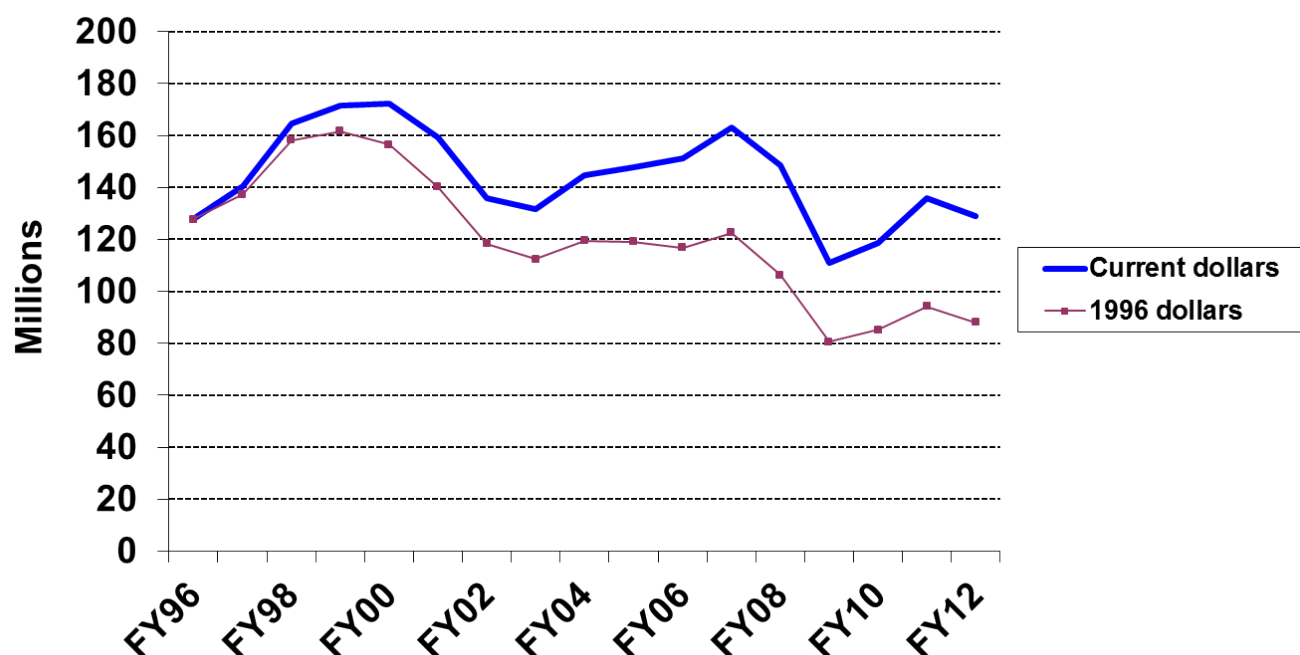
### *Financial Results*

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 FY12, this number was \$89,000, which represents an operating surplus of less than one half of a percent of unrestricted revenue.

Meanwhile, the stock market recovery that began during FY10 and continued through FY11 (when the value of the UU Common Endowment Fund (UUCEF) rose by \$15 million), faltered during FY12. The total value of the portion of the endowment owned by the UUA fell by \$5 million during the year.

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, but performance lagged in 2012.

**UUA Total Net Assets at Fiscal Year End**

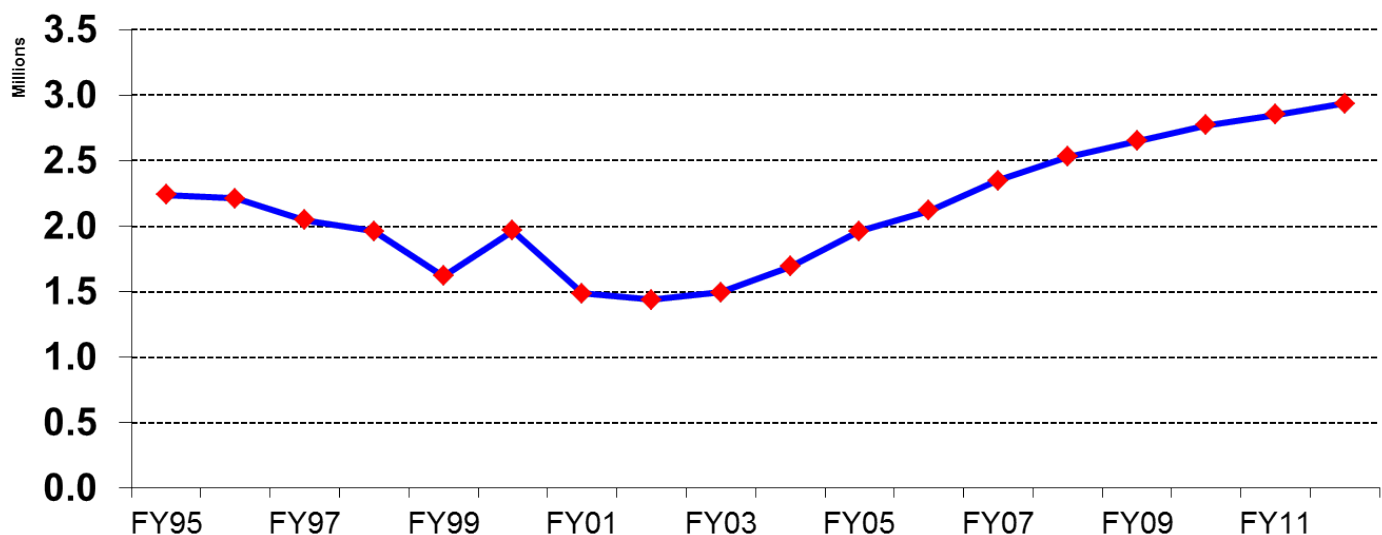


From 1996 through 2012, the Association's net assets have not grown, even before inflation is considered. Measured in "real" 1996 dollars, taking into account the impact of inflation, the UUA's net assets have declined by about 30% over the last 15 years. This decline, and the corresponding drop in income from the endowment, contributed to the need to make major cuts in spending during the preparation of recent budgets, including in the budget just prepared for FY14.

### ***Beacon Press***

Beacon Press achieved an operating surplus of \$87,000 in FY12, for its tenth 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.

### **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 acquisition of the rights to publish the writings of the Rev. Martin Luther King, Jr. The net assets of the press have grown by \$1.5 million in the past 10 years. With a reserve of almost \$3 million at the beginning of FY13, Beacon and the UUA are well-protected.

### **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%.

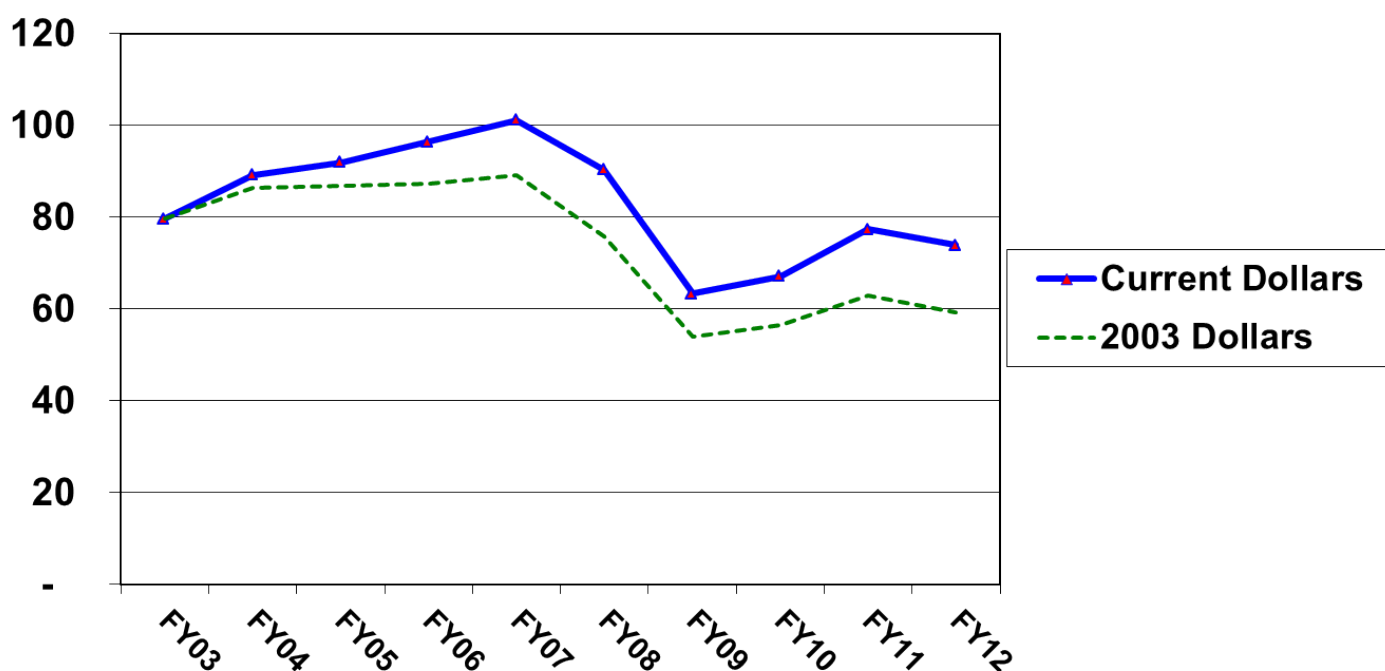
The UUCEF has since rebounded significantly, with total return of 15% in FY10, 23% in FY11, -1% in FY12, and 11% in the first nine months of FY13. The total value of assets in the UUCEF rose to \$160 million by April 30, 2013.

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 94% of its peers** over the last seven 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 far 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. The transfer of assets to the LLC is expected to occur during FY14.

## **UUA Health Plan**

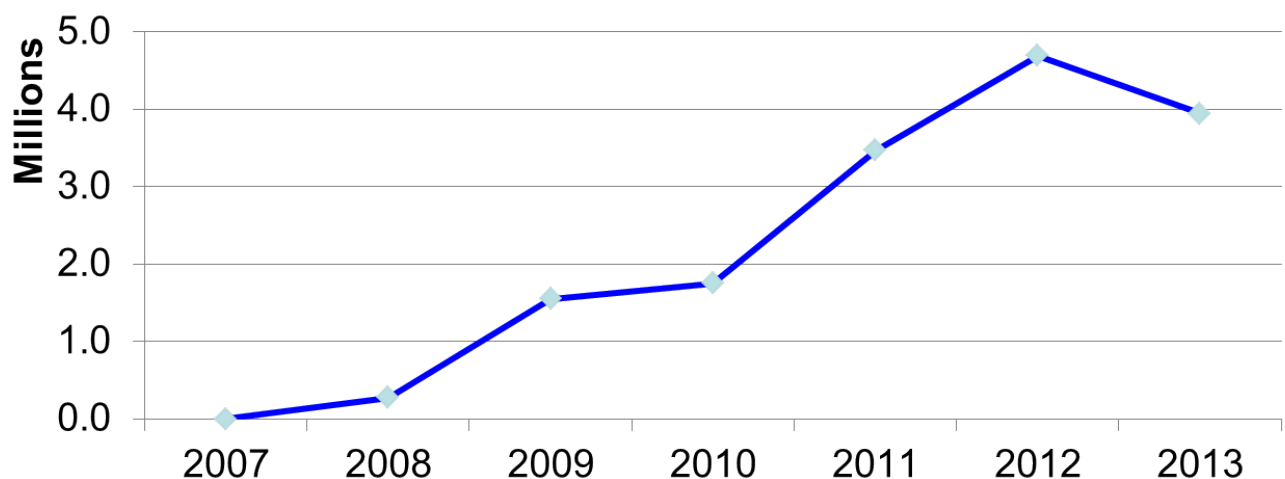
The UUA Health Plan continues its history of six successful years of service. The plan now serves more than 800 ministers, church employees, UUA employees, and retirees, as well as almost 700 dependents, in UUA offices and in more than 330 congregations. Plan membership in congregations has grown by 10% a year since the plan began in January 2007.

### ***Plan Results***

The plan has accumulated a surplus of about \$4 million, which is the equivalent of almost six months of revenue. 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.

## **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 Affordable Care Act, passed by Congress in 2010, continues to make employer-based health plans the foundation of the nation's system for financing health care. The law will take full effect in 2014, and its impact on our plan is still uncertain. But regardless of what happens at the federal level, we have an obligation to work to assure the continued success of the 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.

## **Transition**

This is my final report as UUA Financial Advisor. At the 2013 General Assembly, delegates will vote to elect my successor. Since Ed Merck was the sole candidate nominated by the Nominating Committee, and since no one ran for the post by petition, Ed will succeed me as Financial Advisor.

Ed has outstanding qualifications for the position, including a distinguished career in nonprofit financial management and service on the UUA Audit Committee. I am delighted to be leaving the job in such strong hands.

It has been an honor and a privilege for me to serve our Association as Financial Advisor.