

Financial Advisor's Report to the 2014 UUA General Assembly

Providence, Rhode Island
June 27, 2005



Lawrence R. Ladd
UUA Financial Advisor

<http://www.uua.org/uuagovernance/officers/financialadvisor/6699.shtml>

“Those of us who serve volunteer organizations, even if we have fiscal awareness, cannot reach to the heart of finances. The treasurer usually represents management. What we need is a person who strives mightily (not always successfully) to give us an independent and critical view - the best assurance available that we are being responsible...The Financial Advisor must take that role as central.”

-the late Rev. Peter S. Raible in 1996



Unitarian Universalist Association of Congregations

Report to the 2005 General Assembly

Fort Worth, Texas

June 26, 2005

Larry Ladd, UUA Financial Advisor

Nine years ago I submitted what I believed was “my eighth and final annual report as your Financial Advisor.” Unexpectedly, in August of 2013 the UUA Board appointed me to fill the first year of the unexpired term of the individual elected Financial Advisor the previous June, and at this General Assembly I will be elected to complete the final two years of that term.

The Financial Advisor is a **volunteer** position 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, & 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.

The Financial Advisor’s responsibilities are carried out *in the public arena* of committees, boards and assemblies. They are also conducted *behind the scenes* in private conversations with the UUA administration and individual leaders. The public arena is particularly important for UU congregations, General Assembly delegates, and UUA trustees in the fulfilling your fiduciary responsibility. The private sphere is equally important, where most concerns are resolved and more risks are taken in examining ideas and options.

My own approach to financial planning and management is outlined in the “Standards for Financial Performance” which I gave to the Board of Trustees just prior to my election in June 1997 and which is attached at the end of this report. That approach is a result of both my professional experience and my denominational service.

At each meeting of the UUA Board of Trustees, I provide a report on the financial health of the Association and the current issues that I consider important for the Board to consider.

Governance

Bylaw amendments reduced the size of the UUA board effective in June 2013 and new officers were elected at that time. How has the transition gone? Very well indeed. The actual “transition” (getting the kinks out, resolving unanticipated issues) took only about three months, at which point the board was up and running efficiently and effectively, doing its good work of stewardship and vision setting. Long-standing tensions with the administration were resolved. The trustees and the administration worked very hard to row in the same direction.

Activities

A key responsibility of the Financial Advisor is the recruitment of highly qualified individuals to serve on the various business committees of the Association. I have treated that task as my first priority, recruiting new candidates particularly for the Investment Committee, Audit Committee, and Employee Benefits Trust (which administers the Health Plan).

The Board has before it for action a set of recommendations I have made, endorsed by the Audit Committee, for reducing the number of financial policies that require direct monitoring by the board. The board had direct monitoring responsibility for too many policies, reducing its capacity to focus on truly board-level work.

The Audit Committee, in addition to its traditional role of overseeing the annual financial statement audit, has broadened its work to include asking the administration to conduct an “Enterprise Risk Assessment” that identifies and ranks in importance all of the key risks faced the Association, most of which are not financial in nature. The administration is off to the good start in prepared the risk assessment and the Audit Committee will continue to encourage that important work.

The board’s responsibility for approving the administration’s proposed budget has reached a snag last year, when the board resisted approving the FY2014 budget because it was not convinced that the budget was adequately aligned with the adopted “ends” of the Association. I didn’t want that unfortunate outcome to repeat itself for the proposed FY2015 budget. As a result, I served as a “coach” to the administration, helping it to prepare a narrative that described specifically how the budget was linked to the administration’s strategy and the Association’s “ends.” The administration’s narrative served that purpose well, and the board unanimously approved the FY2015 budget with confidence.

The two “UU-identity” theological schools, Starr King and Meadville/Lombard, need to survive and prosper to maintain and nurture our UU DNA. Each has faced its own financial challenges over the years, and our Association’s policies toward the schools have been inconsistent, sometimes strongly supportive and sometimes indifferent. I’ve written a paper that is a combination of history and policy analysis, the strong recommendations for how our Association can take the lead, as it did several decades ago, to keep the identity schools as an important part of the institutional universe. The paper is entitled “The Ecology and Economics of the Theological Schools” and is available by contacting me at lladd@uua.org.

Financial Results

Investment returns for the UUA Common Endowment Fund remained strong over the long term. Over ten years, the average annual return has been 7%, compared to 6.5% for other endowments of a similar size. Over five and ten year periods, the investment performance of the endowment has ranked in the top quartile of endowments of a similar size.

The annual audit of the UUA's financial statements produced a "clean opinion" for the FY2013 fiscal year. These statements, and other financial information, can be found on the UUA website at <https://www.uua.org/uuafinances/25499.shtml>

As previously mentioned, the FY2015 budget of the Association is directly linked to the administration's strategy and the Associations ends.

The administration will soon be announcing a new capital campaign, a long overdue development. The Association, as any mission-based not-for-profit does, needs a steady replenishment of capital not only to sustain its current activities but, more importantly, to fund future initiatives.

Socially Responsible Investing

Our Association has a long standing commitment to using its assets to advance our values. You can be a good fiduciary and a socially responsible investor. It requires care and solid homework, but it can be done.

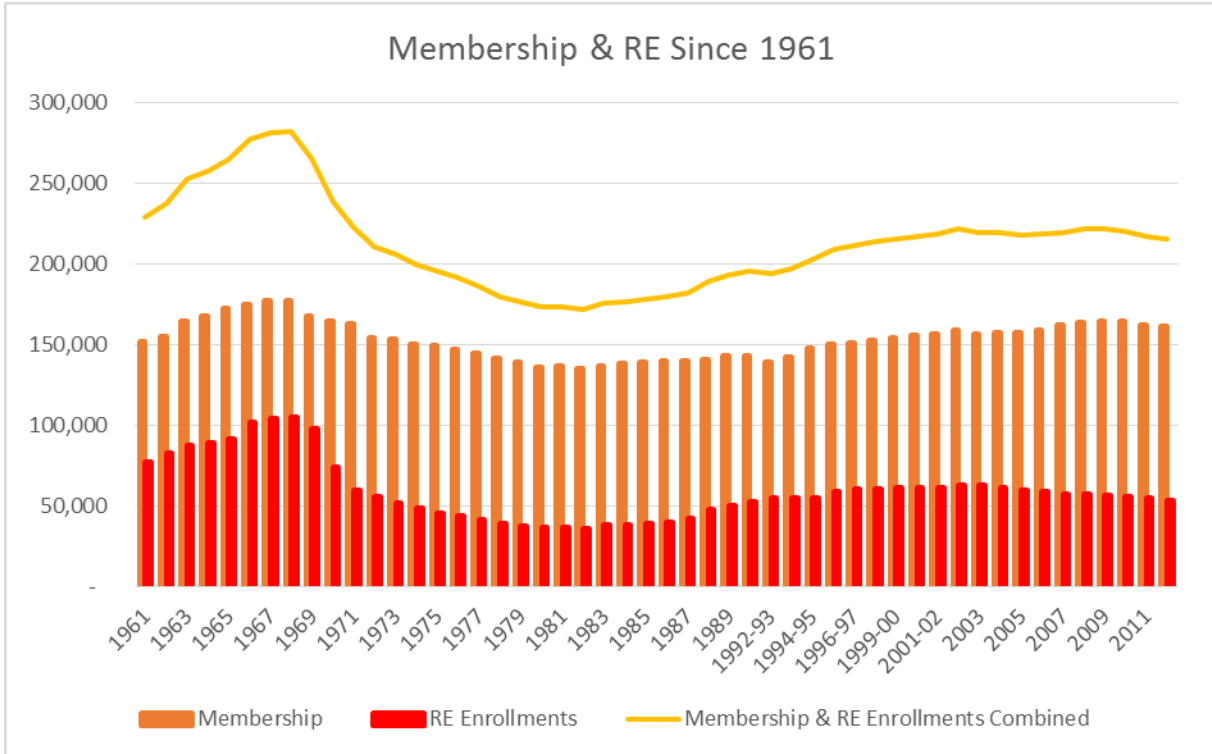
The UUA's history of commitment begins with the 1967 General Assembly, which passed the "Kodak resolution" calling for voting the Association's Kodak shares in favor of proxy motions against Kodak's racist behavior in the Rochester community. From that beginning, shareholder activism has been the hallmark of our socially responsible investing activity, because it not only provides witness to our values, but it also creates effective change.

Along with the Board of Trustees, I support the proposed Business Resolution on Fossil Fuel Divestment and recommend its passage with its current wording, which is designed to make a strong statement about fossil fuels while allowing the Investment Committee to continue its nuanced and effective work for using our assets to create effective change.

Growth: Urgency and Hope

Our adult membership has been declining for five years and our religious education enrollments have been declining for seven years. But the total numbers, at least for membership, mask large swaths of growth and hope in our congregations.

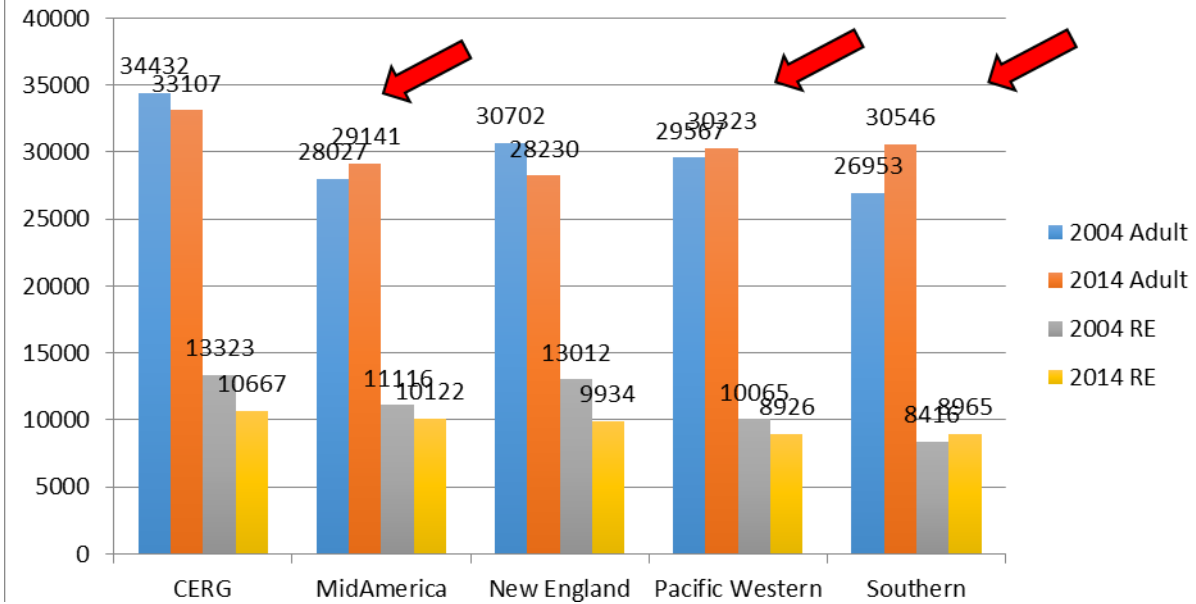
This graph of our membership and RE enrollments since consolidation shows the key average trends over the history of our Association. While the numbers are imperfect, they show rapid growth in the sixties, sharp decline in the seventies, and then a slow, steady, and slight annual growth ever since (until the last four years when we have experience a slow, steady, and slight annual decline).



The averages, however, hide the important growth that is occurring in many regions and congregations.

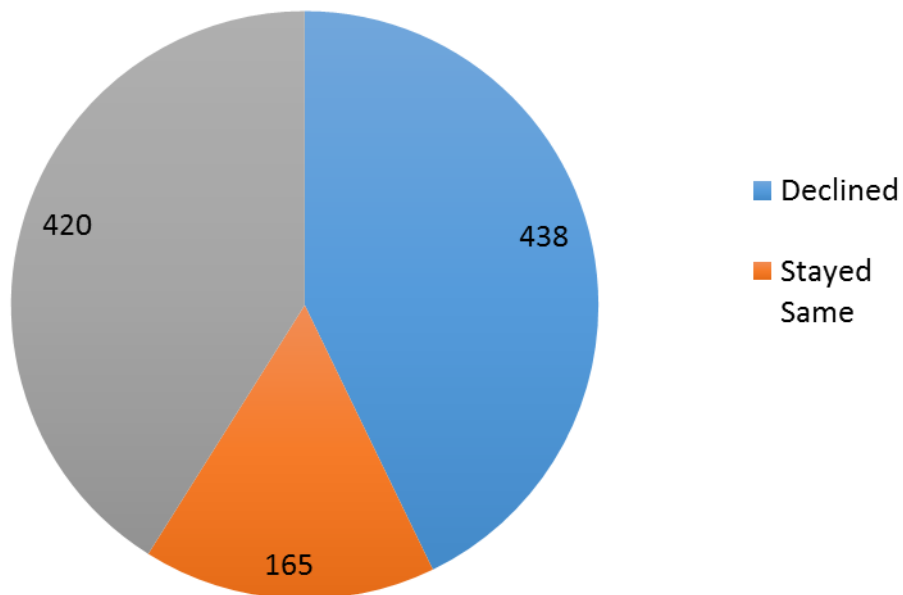
For instance, we are growing in the Mid-America, Pacific Western, and Southern regions:

10 Year Comparison by Region Adult Membership & RE Enrollment



And approximately 40% of our individual congregations are growing:

UUA in the USA Adult Membership



My observations/recommendations are:

First, we need to nurture and encourage the growth that is occurring.

Second, while we should encourage new emerging forms of faith communities, our primarily focus must remain on congregations themselves.

Third, the decline in RE enrollments is a serious issue receiving little attention and little policy analysis. It is likely to be telling us something important.

Thank you for the opportunity to serve!

Attachment:

1. Standards for the UUA's Financial Performance



Unitarian Universalist Association of Congregations

Standards for the UUA's Financial Performance

Larry Ladd, UUA Financial Advisor
Original from June 1997, rev. June 2014

1. A Clear Religious Message

- The vitality of our religious community - our capacity to serve effectively as a catalyst for personal and social renewal - is a precondition to financial health. It is the fundamental reason we attract funds.
- The leading indicator of our value is the existence of financially strong congregations. Such congregations are the second essential precondition to the UUA's financial health.

2. A Continental Program Worthy of Support

- Congregations and individuals will give, and increase giving, only to programs that respond effectively to their deepest needs and aspirations.
- Congregations and individuals will give, and increase giving; only when they are confident their gifts will be used prudently.

3. Strategic Planning

- Spiritual, membership, and financial growth represents an opportunity to target our energies on the most important goals - if we are clear about what those goals are.
- The UUA should identify and pursue the opportunities for growth.
- The UUA needs
 - objectives grand enough to motivate giving, and
 - priorities specific enough to guide decisions about resource allocation.

4. Expanding Resources

- The UUA leadership must place continued emphasis on the message that living a life committed to UU values requires generosity and compassion for others. UU's live in abundance and need to learn to increase their gifts to the religious community at all levels (local and denominational).
- Capital giving must be a high priority for the UUA leadership, even during times between formal capital campaigns.
- Congregations should be motivated to fully support the Annual Program Fund.
- Financial return on existing assets, especially endowment (see below), should be maximized.

5. Strong Endowment Performance

- Because the UUA relies heavily on its endowment, investment performance must be a high priority.
- The investment approach should be stable, consistent, and long term - not subject to fads or changes in investor mood.

- The investment objective should be total return - income plus capital appreciation over the long term.
- Asset allocation should be heavily weighted toward equities - which have historically had the best long-term return.
- Endowment performance should, *at a minimum*, be equivalent to the average endowment performance of other non-profit organizations. After meeting that modest goal, the next, achievable objective should be performance equivalent to the market indices.
- Spending from the endowment should be low enough to preserve the inflation-adjusted value of the endowment (excluding new gifts or other additions).

6. Conservative Budget Management

- The budget should reflect the strategic plan.
- The central question should not be “can we do this cheaper?” but rather “can we do this better?”
- Revenue should be budgeted conservatively, not optimistically.
- Less predictable expenses, such as employee fringe benefits, should be budgeted with a "cushion for error" to accommodate unanticipated short-term cost increases.
- Periodic projections of revenue and expense, based on timely and reliable information, should identify problems early enough to be remedied before deficits occur.
- The budget should include a contingency plan for addressing issues raised by a projected deficit.
- The proposed budget should be accompanied by projected budgets for the following two years.
- Each budgetary activity (for both revenue and expense) should have an administrator clearly accountable for its performance relative to budget.

7. Creative Use of Assets

- Systems for cash management must be in place to assure adequate working capital and a good return on that capital.
- Investments for congregational building should be encouraged. Additional capital should be obtained if needed.

8. Explicit Policies Consistently Applied

- All fiscal policies, including those related to investments, insurance, risk management, contracts, transfers and inter-fund borrowings, and fund raising, should be clearly stated in writing and consistently implemented.

9. Risk Avoidance

- Procedures must be in place to prevent conflict of interest, employee theft, losses from catastrophe, or contracts that inadequately protect the UUA.
- Procedures must be in place to assure compliance with law (including tax laws as they apply to nonprofit organizations), health and safety regulations, and good accounting practices.
- The external auditor should be encouraged to identify real or potential problems with respect to financial reporting and internal controls.

- Fund balances or reserves must be sufficient to absorb unanticipated financial setbacks.

10. Low Overhead

- Direct program expenditures are the top priority in resource allocation. Overhead services should be made as efficient and simple as possible.
- There should be no duplication of services.

11. Quality Financial Information

- The UUA should have clear, simple measures or indicators of the Association's financial well being over time.
- The annual, audited financial statements of the UUA must show the true position of the UUA without compromise, including the proper valuing of inventories and funding of obligations and liabilities.
- The UUA should know the full and incremental costs of its programs.

12. Skilled and Knowledgeable People

- The Financial Advisor should assist the Committee on Committees in recruiting bright and knowledgeable individuals to serve on the key financial committees of the UUA.
- In hiring professional financial staff, the UUA will be well served by appointing highly trained and experienced professionals. The premium in salary will be modest relative to the benefits and risk avoidance of such appointments.
- High priority should be given to the continuing education and professional development of the financial staff.

13. Don't Forget Beacon Press!

- Since profits and losses of Beacon Press accrue to the UUA, the Financial Advisor must pay as much attention to the Press as to the UUA itself.

Larry Ladd can be reached at 289 Devonshire St., Boston, MA 02110. E-mail lladd@uua.org. Tel. 617-848-4801. He is serving his third (nonconsecutive) term as the UUA Financial Advisor, a volunteer position. His new term began in 2013, with his first two terms in 1997-2005. As Financial Advisor, he serves as a member of the UUA Board of Trustees and its executive and finance committee. He is a member of the Investment Committee, Committee on Socially Responsible Investing, Audit Committee, Employee Benefits Trust, and Retirement Plan Committee.