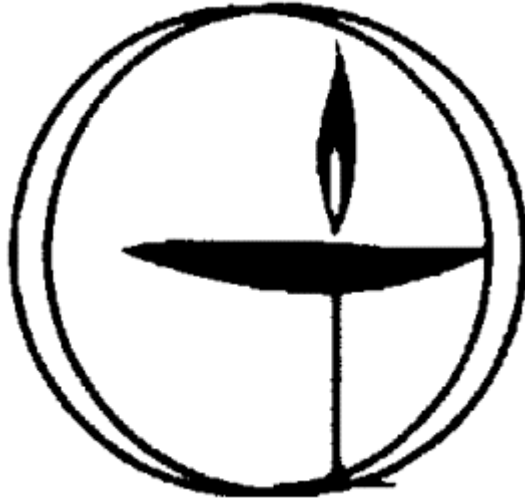


Financial Advisor's Report to the 2001 UUA General Assembly

Cleveland, Ohio

June 24, 2001



Lawrence R. Ladd
UUA Financial Advisor

"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."

-Advice from a long-time UU leader in 1996



Unitarian Universalist Association of Congregations

Report to the 2001 General Assembly

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Larry Ladd, UUA Financial Advisor

It is my pleasure to submit to you my fourth annual report. The Financial Advisor is 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, and the Financial Advisor recommends changes that will improve the quality of fiscal planning and management of the UUA.

These 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 UUA trustees and General Assembly delegates 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.[\(1\)](#)

This is a wonderful time to be the Financial Advisor of the Association. There is energy and excitement throughout our growing movement. As a result, membership and revenues are growing. Most so-called "mainline" denominations have been shrinking for thirty years. Unitarian Universalists are not debating how to cut back. We are debating how to allocate growing resources to sustain our growth.

For a Financial Advisor, who is elected to be the skeptic, the challenge is to avoid complacency, and to remember that my job is to **worry** and **warn**. It is in good times that we are most likely to get overly optimistic, and over extended.

[UUA Financial Monitor](#)

I have created the UUA Financial Monitor to be a brief, simple presentation of the most important indicators, over time, of the financial health of the Association. It is included as the second attachment at the end of this report. It is updated and reissued annually. All of the financial numbers are reported in FY99 dollars (i.e. I have taken out the effects of inflation).

Our community of faith continues to grow. We are growing in numbers, in generosity, and in congregational resources.

Membership increased to 155,449:

- 0.6% higher than 1999
- 8.8% higher than 1990
- 11.6% higher than 1985

Religious education enrollment increased to 61,482:

- 0.5% higher than 1999
- 22.4% higher than 1990
- 57.6% higher than 1985

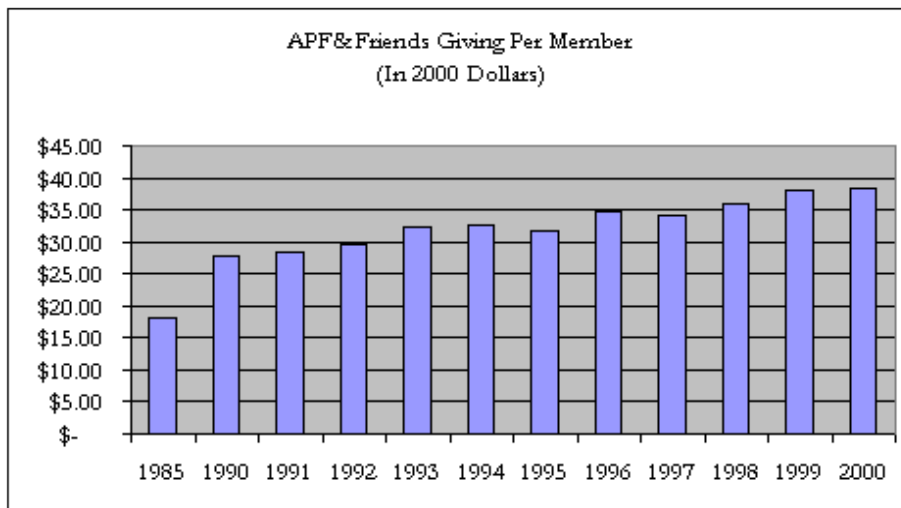
Combined adult membership and RE enrollment increased to 216,931:

- 0.6% higher than 1999
- 12.3% higher than 1990
- 21.7% higher than 1985

Growth in generosity:

Giving to the UUA though APF and Friends on a per capital basis reached \$38.38. In real terms (2000 dollars), our per capita giving continues to increase:

- 1.1% higher than 1999
- 37.5% higher than 1990
- 111% higher than 1985

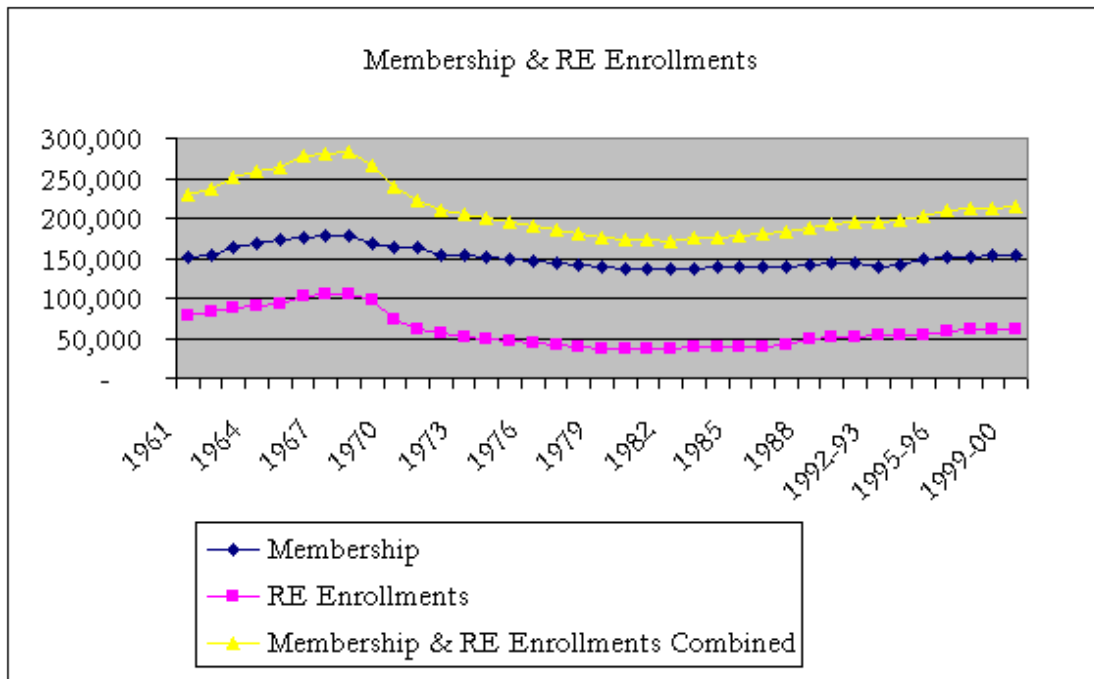


Growth in congregational resources:

Congregational expenditures reached \$152,723,000 in 2000. In real terms that's

- 3.8% higher than 1999
- 42.3% higher than 1990
- 62.2% higher than 1985

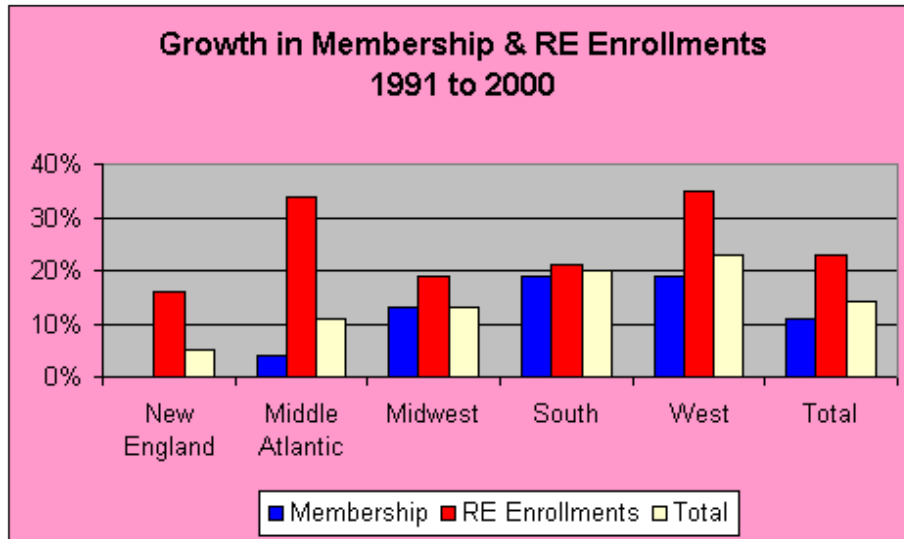
The following graph shows our membership and RE enrollments since the merger in 1961. Remember that these figures are fraught with difficulties [\(2\)](#), but are also the only ones we have.



Growth by Region

Thanks to the very good efforts of Tracey Robinson-Harris in the CD&E Department, I have acquired participation information by region.

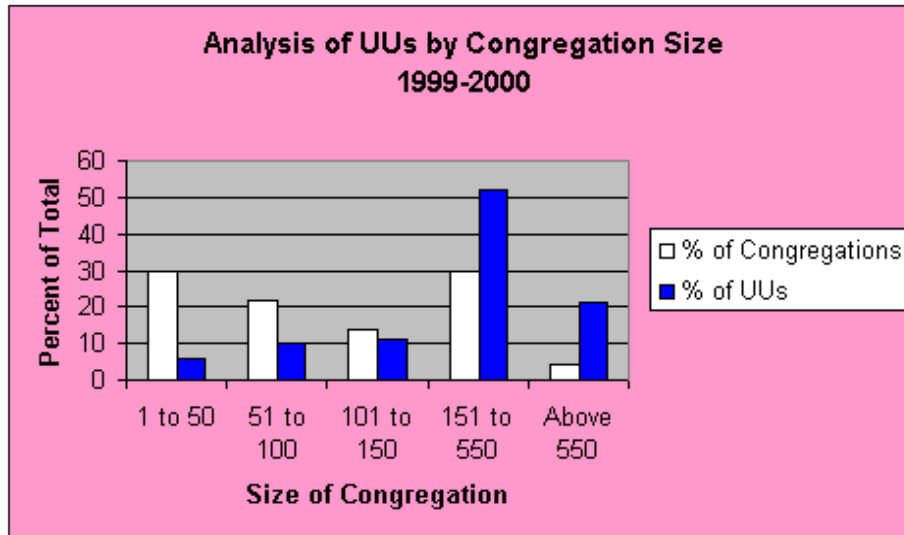
This next graph shows the growth in adult membership and religious education enrollments by region from 1991 to 2000. The 2000 data is based on information submitted by congregations to be included in the latest UUA directory:



Some observations:

- The total UU population is growing in every region.
- Our adult population is growing in every region except New England, where growth is flat.
- Our religious education enrollment is growing in every region.
- Our growth in RE enrollment exceeds our growth in adult population in every region.

The second graph shows the proportion of our congregations and UU population by size of congregation in 2000:



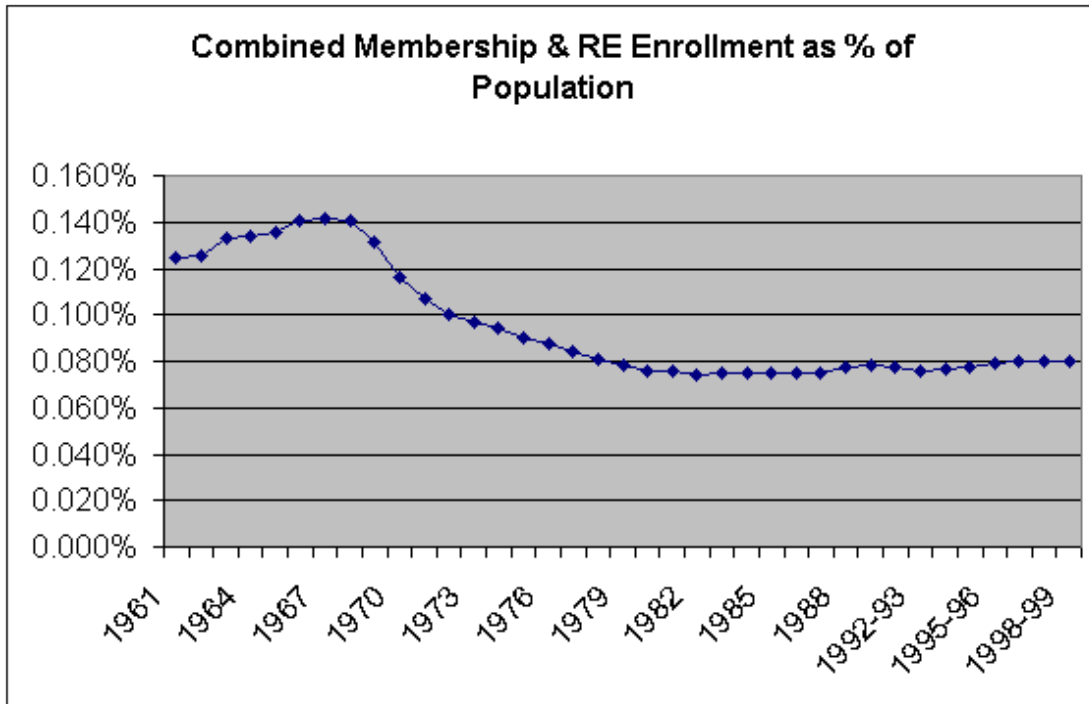
Some observations:

- 66% of our congregations reporting having under 150 members, and they represent 27% of our total UU population. Indeed, 30% of our congregations reported a total population of 50 or under.
- 30% of our congregations report having from 151 to 550 members, and they represent more than half of our total UU population.
- The 4% of our congregations who report having more than 550 members represent 21% of our total UU population.

The adult membership and RE enrollments are almost perfectly proportioned among the different size congregations, so the UU population percentages reported above do not differ if you exclude the RE enrollments.

Market Share

Another interesting way to look at our membership is to compare it to the U.S. population, to see if we are growing as a share of the larger society (i.e. increasing our market share). For that purpose, I only have comparable data through 1998-99. But that data shows that, after slowly increasing our market share over the past two decades, for the past three years we are holding our own at .08%. Here is the updated graph for our market share since the consolidation in 1961:



Endowment Performance

Our endowment performance for FY00 was 7.2%, matching the S&P 500 (7.2%) and besting the Dow Jones Industrial Average (a negative 3.3%). Our performance was better than the average of balanced fund managers (6.6%). But the most important measure is how we perform relative to other endowments, and there we didn't make the grade. Our 7.2% does not compare favorably with the 13.0% average return for 400 other endowments. And, I must say, it compares very unfavorably with Harvard's 32.2%, after we exceeded Harvard's performance for the prior two years. The high average return for other endowments, however, is driven by the larger endowments that placed large proportions of their funds in private placement and venture capital endeavors, which the UUA avoids.

So our performance was adequate but not as good as the relative performance that we saw in the prior three years.

	1996-97	1997-98	1998-99	1999-00
UUA Pool B	20.6%	22.2%	13.1%	7.2%
Other Endowments	20.7%	18.0%	11.0%	13.0%
Harvard	25.8%	20.5%	12.2%	32.3%

There are two reasons for our comparative underperformance in 1999-2000.

First, the style of investing called "value" investing did not perform well and we have two managers who follow that style. So while our other three managers had performances of 11.8%, 13.3% and 12.9% for the year, our two value managers were at 3.3% and negative 2% respectively.

Let me repeat what I said about value managers in a report to the Board of Trustees:

"A 'value manager' invests in large companies with strong earnings over long periods of time but which do not promise extraordinary growth. Typical sectors for such investors are consumer staples, capital goods, and finance (as opposed to technology and communications). Such a management style should be represented in any responsible portfolio, since styles move in and out of favor. At the moment, however, value investing is a loser, and our value manager, who at the end of 1999 held \$22 million of our \$86.2 million endowment, actually had a negative return of 1% in 1999. In contrast, the returns of our other managers were 19%, 10%, 18%, and 27%.

"Perhaps the most famous value investor is a gentleman named Warren Buffett, who has made billions through his holding company Berkshire Hathaway. Even Mr. Buffett faced misfortune last year, also by experiencing a 1% decline in the market value of his funds (to a paltry \$37 billion)." [\(3\)](#)

Second, the performance of most other endowments was strengthened by their use of alternative investments, primarily venture capital. The larger the share of alternative investments, the better the performance. We have almost no "alternative investments" at this point [\(4\)](#), while the mean for the universe of endowments tracked by our advisors is 15%.

Markets go up and markets go down, but on average they increase over time. This may seem a simple adage, but we need to remember it in light of recent history in which markets have only gone up. We are now entering a period where it is likely that we will "give back" a modest amount of the extraordinary gains we experienced in the past decade.

Fundraising Achievement

In an earlier section of this report, I reported on the astonishing generosity of congregational and individual support in support of the day-to-day operations of the UUA.

At this General Assembly, John Buehrens will announce a new \$32 million capital campaign to provide the resources to further grow our movement. As of the day of this writing (May 9, 2001), generous donors to the campaign have already made cash gifts, pledges, or verbal commitments totaling \$16.8 million. We are more than halfway to the goal already! And another \$7.4 million is under direct negotiations.

Compensation

The 2000 *Report on Clergy and Church Staff Compensation* has been completed and distributed to congregations. The report serves as a basic handbook and resource for evaluating compensation matters and developing sound and fair practices.

We continue to get very good data from our pension manager. The UU pension plan had 1801 participants and assets of \$113.1 million as of June 30, 2000. That compares to 1696 participants and \$100.7 million of assets as of September 30, 1999 (the first date when we have comparable information from Fidelity because that is the end of the first quarter where Fidelity had responsibility for management of the pension fund). Over those nine months, the number of participants increased by 105.

During that period, we offered participants eight funds for allocation of their pension assets. Two of those funds (the Walden funds) are socially responsible. By choice of the participants, those funds manage 39% of the assets. That share may go up now that we are offering the Domini Social Equity Fund as another socially responsible alternative. If you look at the use of Walden by participant rather than by asset size, the Walden Social Equity Fund is the most frequently chosen fund among all of our participants save those over age 65.

Socially Responsible Investing

I'm pleased to report that the Board of Trustees has voted to update and strengthen our historical commitment to socially responsible investing. It has revised our policies, decided that the UUA should become more aggressive lobbying within corporations for better practices, and established a permanent Committee on Socially Responsible Investing to coordinate and lead our efforts.

FY 2000 Financial Results

The FY2000 financial results were positive all around. The operating budget (our operating revenues and expenses exclusive of Beacon Press) was positive. **We have experienced a surplus now for five years in a row.**

Overall, the assets of the Association increased in all categories increased by 2%, slower than last year's 4% increase but still an increase. The biggest reason for the slower increase is the modest growth in the assets coming from our last capital campaign.

	Net Assets			
	1999	2000	\$	%
Current	58,740,311	60,142,067	1,401,756	2.3%
Beacon Press	1,618,397	1,963,911	345,514	17.6%
CPLC	7,267,922	7,303,334	35,412	0.5%
Endowment	103,882,985	105,794,047	1,911,063	1.8%
Total	171,509,615	175,203,358	3,693,745	2.1%

Beacon Press is the most significant news for FY2000. After running a deficit of \$346,000 in FY99 and \$118,000 in FY98, the Press in FY00 ran an operating surplus of \$241,000 (and a total surplus of \$345,000 taking into account bequests). In FY2000, Beacon Press experienced the highest sales in its history. Overall sales were \$5.9 million, 37.5% above FY99. Returns dropped 19.4% from FY99, the lowest since FY94.

- Cloth net sales increased
- Paperback sales increased
- Backlist sales increased
- Distributor sales increased
- Only "house sales" were down.

On Beacon's balance sheet, cash in FY00 was \$233,000 higher than FY99 and inventory is \$172K lower.

Last year, I noted that our financial challenges with Beacon are not over, pointing out that Beacon was budgeting a \$141,000 deficit in FY2001

The deficit for FY2001 is significantly worse than anticipated. We budgeted a deficit of \$141,000 for the year. In January the actual deficit appeared to be more in a range of 190,000 to \$240,000. It is now projected that the deficit will be \$348,000.

The results for Beacon Press are not included in our operating budget results, but of course they need to be taken into account when we look at our overall financial performance. We can't responsibly predict whether the operating budget results will be positive enough to offset the Beacon Press losses, but it will be close and I hope that they do.

John Buehrens' Good Stewardship

I will devote the rest of this report to paying tribute to John Buehrens' superb overall stewardship of resources during his eight years as President. I also intend to repeat that tribute as a part of my report to the General Assembly in Cleveland.

As you know, part of my job is to be an independent observer and critic, and part of preserving both the appearance and the reality of my independence is to focus on criticism, so neither John nor you may have fully understood my deeply felt respect and appreciation for John's financial leadership during his two terms as President of our beloved association of congregations.

Let me just mention a few things:

First and foremost, he has been a superb fundraiser. He successfully completed our largest capital campaign in history (\$13.4 million). He planned our next one and is making extraordinary progress toward that new, higher goal (\$32 million) as well.

Second, he has been made our finances more transparent to all of us. John inherited a practice in the UUA of keeping many sets of books and keeping many of our resources out of the actual

operating budget. The boards didn't see all of the money, and certainly not all on a few sheets of paper. John established the goal of making our finances transparent and has largely succeeded.

Third, he has improved our fiscal practices, so that we are more conservative and prudent. During his tenure the spending draw from the Manhasset Trust has been lowered to the level of our other endowment funds, we have used conservative income projections for the operating budget, expenses have been budgeted realistically, and the use of the Holdeen Trusts has been rationalized.

UUA Presidents are not remembered for their fiscal prudence, although all but the first have demonstrated it in varying degrees depending on the other challenges they have faced. But John's legacy in this regard should not be forgotten or trivialized, which is one reason why I choose to speak in praise of this one small portion of his important and ongoing ministry to us

Thank you, John.

Conclusion

In conclusion, on the positive side of the ledger:

- Our movement continues to grow in membership, religious education enrollments, and financial generosity
- One example of that generosity is that more than half of the new \$32 million capital campaign goal has already been made as cash gifts, pledges, or verbal commitments.
- We ended FY00 in operating income in excess of operating expenditures (the fifth straight year of positive results) and are likely to end FY01 positively as well
- We have updated our policies on socially responsible investing

On the negative side of the ledger:

- Beacon Press is projected to run a sizable deficit
- The investment performance of the endowment beat most market indices but under performed the average of other endowments

The positives clearly outweigh the negatives, as I hope they always will. I remain very impressed with the leadership of this administration and the stewardship of this board. **You are well served.**

Attachments:

1. [Standards for the UUA's Financial Performance](#)
2. [UUA Financial Monitor](#)
3. [UUA Statistics](#)

Larry Ladd can be reached at 26 Sargent St., Needham MA 02492. E-mail lladd@uua.org. Tel. 781-444-3299 (home); 617-848-4801 (office). He was elected at the 1997 General Assembly to a four year term as the UUA Financial Advisor, a volunteer position. As Financial Advisor, he serves as a member of the UUA Board of Trustees and its executive, finance, and administrative organization and personnel committees. He is a member of the Investment Committee, Congregational Properties Loan Commission, the Committee on Compensation, Benefits & Pension, and the Fulfilling the Promise Committee (aka strategic planning committee). He is a member of the UUA President's Council. He chaired the Board's ad hoc task force on church staff compensation in 1998.



Unitarian Universalist Association of Congregations

Standards for the UUA's Financial Performance

Larry Ladd, UUA Financial Advisor

June 1997

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 remain a high priority for the UUA leadership, even after the capital campaign formally ends.
- 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 develop a "financial monitor" that provides 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.

(1) Currently the practice leader for consulting services to higher education and not-for-profit organizations for Grant Thornton LLP, the sixth largest accounting and consulting firm in the U.S. Prior experience includes Director of Budget & Financial Planning for Harvard University, Chief Financial Officer of the Woods Hole Oceanographic Institution, and Dean of Administration of Tufts University, as well as service as a board member and financial consultant for other nonprofit organizations. Denominational experience includes service as a member of the Commission on Appraisal and the Connecticut Valley District Board, as a board member and treasurer of the Church of the Larger Fellowship, and as a former President of Liberal Religious Youth (predecessor of YRUU).

(2) Most notably, the figures in the 1960s were likely to be inflated (this was before the formula that determined fair share by the numbers of members) and recent figures are likely to be deflated for the same reason. The trends are still likely to be true; they are simply exaggerated.

(3) See "Buffett Offers a Mea Culpa for a Bad Year," *The Wall Street Journal*, March 13, 2000, pages C1 and C15. A quotation from the article: "Mr. Buffett warns that the stock market's current level shows investors' expectations of future returns have become 'wildly optimistic.'"

(4) Our alternative investments are: JMBII (real estate) \$ 72, 893 and TCW (toys) \$159,955, for a total of \$232,848