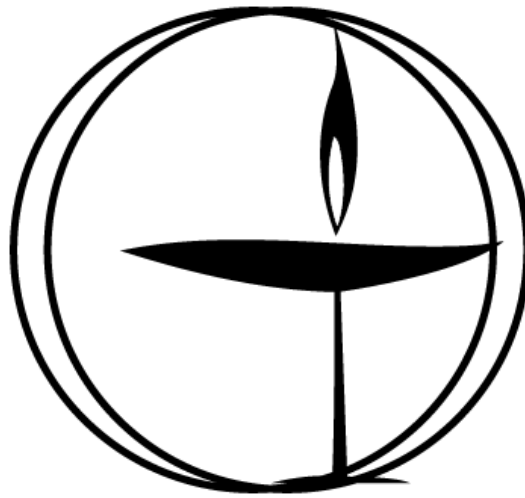


Financial Advisor's Report
to the 2002 UUA General Assembly

Quebec City, Canada

June 23, 2002



Lawrence R. Ladd
UUA Financial Advisor

<http://www.uua.org/TRUS/financial/>

“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 2002 General Assembly

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Larry Ladd, UUA Financial Advisor

It is my pleasure to submit to you my fifth 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.

For extensive information about the UUA's finances, refer to the Financial Advisor's website at
<http://www.uua.org/TRUS/financial/>

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 service¹.

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).

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 updated and reissued annually. All of the financial numbers are reported in FY01 dollars (i.e. I have taken out the effects of inflation).

A Mixed Outcome on the Number of Unitarian Universalists

The total number of Unitarian Universalists continues to increase, *but only because an increase in adult membership offset a decline in religious education enrollments. In 2001 religious education enrollments declined for the first time since 1982.*

Combined adult membership and RE enrollment increased to 218,404:

0.7% higher than 2000
11.5% higher than 1991
28.3% higher than 1982

Membership increased to 156,968:

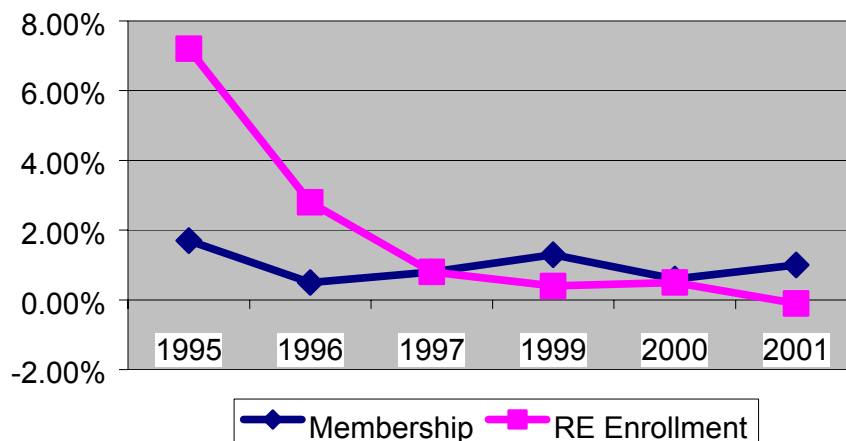
0.9% higher than 2000
9.5% higher than 1991 (ten years ago)
15.6% higher than 1982 (our low point)

Religious education enrollment **decreased** to 61,436:

0.1% lower than 2000
17.2% higher than 1991
36.0% higher than 1982

The decrease in religious education enrollments should be a wake up call for our movement. While it is a minuscule drop, the annual rate of increase in RE enrollments has been dropping since 1995, as show in this chart that compares the rates of increase of adult membership and RE enrollments:

Annual Rates of Increase in Membership & RE Enrollment Since 1995



We need to identify the causes of the slowing growth (and first time decline) in religious education enrollments. Is it that our adult membership is aging? Is it that we are becoming less successful in attracting young families and single parents? Is it other factors?

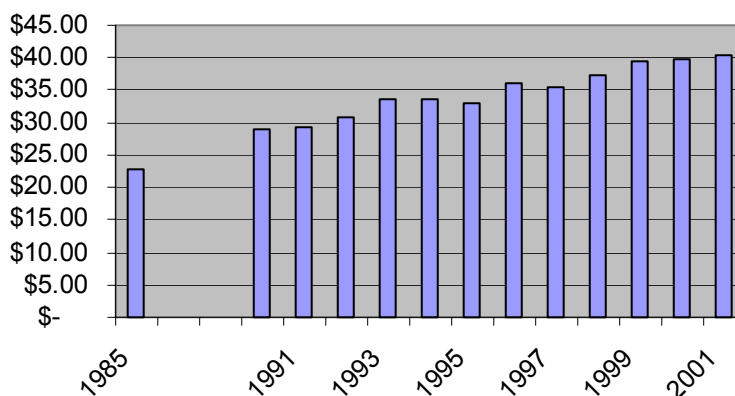
Most importantly, this indicator likely predicts a decline in adult membership in the near future.

Continued Growth in Generosity

Giving to the UUA through APF and Friends on a per capita basis reached \$40.40. In real terms (2001 dollars), our per capita giving continues to increase:

- 1.5% higher than 2000
- 37.0% higher than 1991
- 77% higher than 1982

APF & Friends Giving Per Member



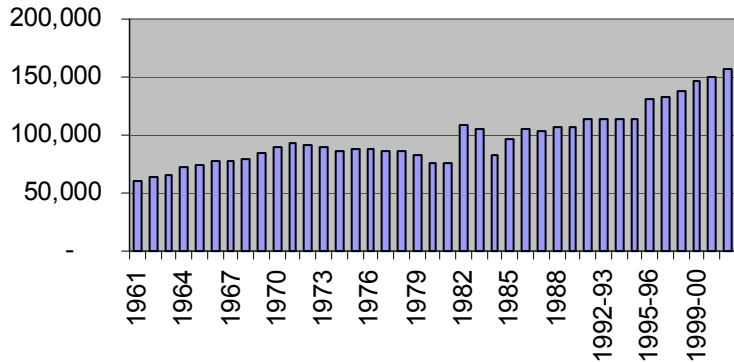
Growth in congregational resources:

Congregational expenditures reached \$165.8 million in 2001. In real terms that's

4.7% higher than 2000
 40.6% higher than 1991
 53.4% higher than 1982

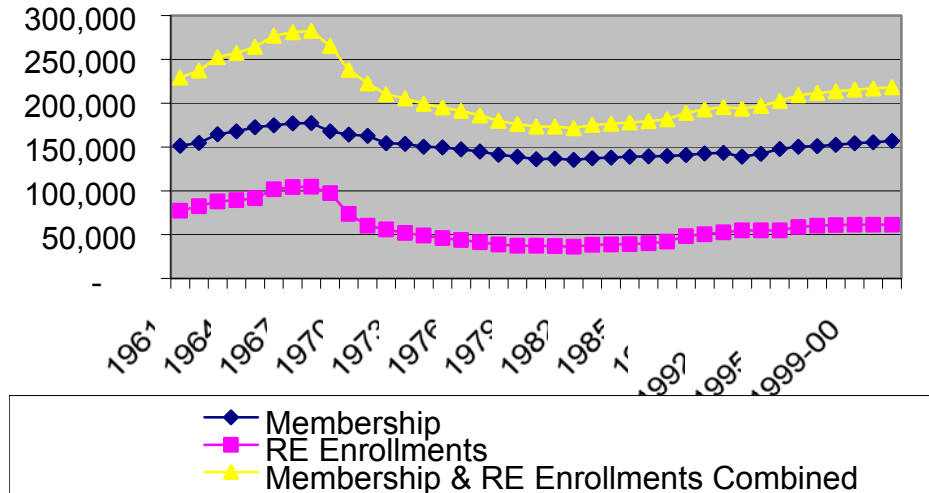
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Congregational Resources (Expenditures per Congregation)



The following graph shows our membership and RE enrollments since the merger in 1961. Remember that these figures are fraught with difficulties², but are also the only ones we have.

Membership & RE Enrollments 1961-2001

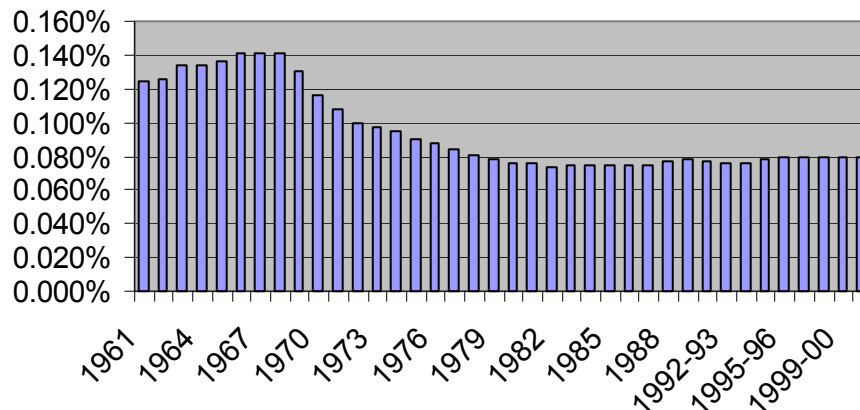


² Most notably, the figures in the 1960s were likely to be inflated (this was before the formula that determined fair share by the numbers of members) and recent figures are likely to be deflated for the same reason. The trends are still likely to be true; they are simply exaggerated.

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 have comparable data through 2000. That data shows that, after slowly increasing our market share over the past two decades, for the past four years we are holding our own at .08%. Here is the updated graph for our market share since the consolidation in 1961:

**Combined Membership & RE Enrollment
as % of Population thru 2000**



Endowment Performance

Our endowment performance for FY01 was negative 6.0%, compared to a negative 14.8% for the S&P 500. Our portfolio emphasizes large cap equities with a tilt toward **growth** stocks, which is why we have done so well in recent years (double digit returns in seven of the last ten years). Right now, **value** managers are doing well (up 13.3%) and growth managers not so well (down 23.9%).

The Investment Committee is currently re-evaluating its allocations among asset types and managers with the intent of improving on a performance that isn't satisfactory.

The new Committee on Socially Responsible Investing has produced impressive results in the past year. Most notably, the committee has recommended new positive and negative screens which the Board of Trustees has adopted and the Investment Committee is now implementing.

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. One further example is that the Annual Program Fund exceeded its goal in FY2001.

At last year's General Assembly, a new \$32 million capital campaign was announced 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 \$27.5 million.

FY 2001 Financial Results

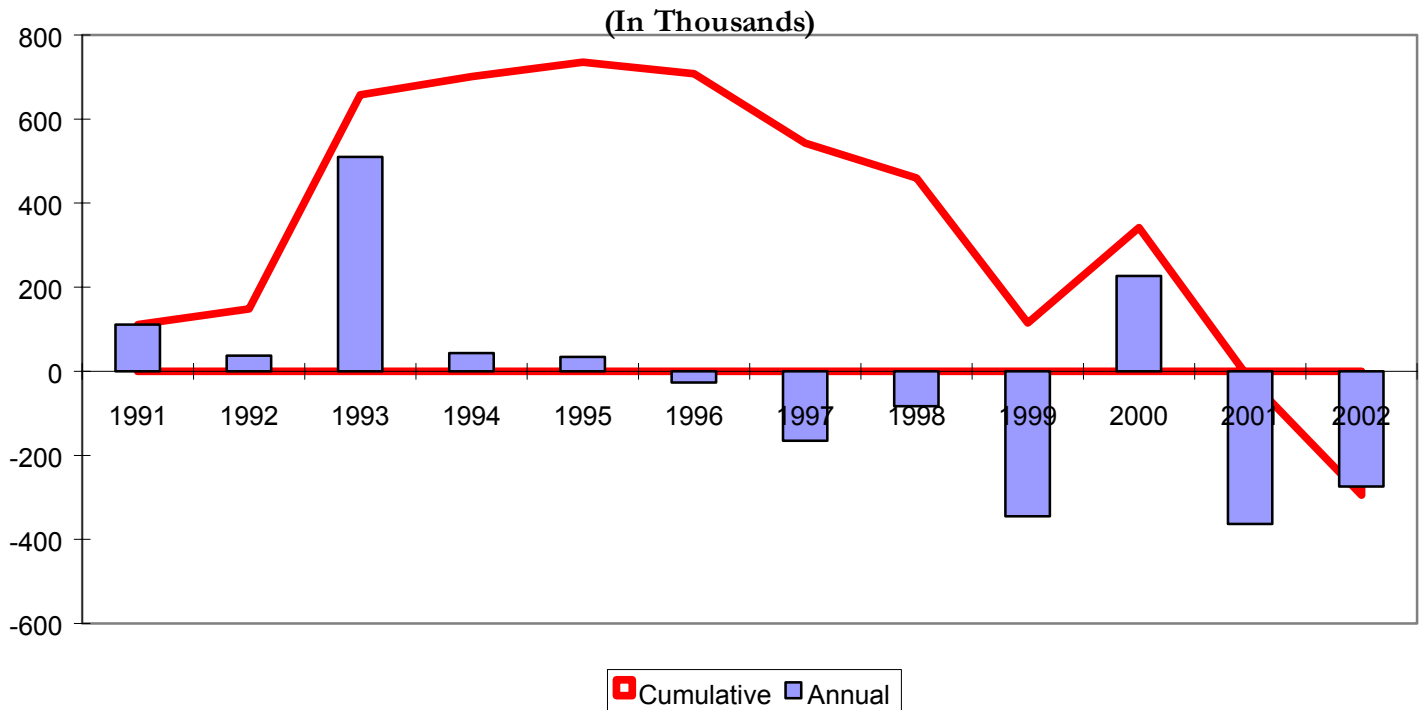
Financial results for the UUA in FY2001 were very disappointing, with an operating deficit of \$363,000 after six successive years of operating surpluses. The deficit was largely the result of unanticipated revenue shortfalls from Friends of the UUA, endowment, and bookstore, as well as unexpectedly high fringe benefit costs.

The administration and the board have taken steps to reduce the likelihood of future deficits, including more conservative estimates of income and of expenses over which there is little control during the course of the year (such as fringe benefits).

The following chart shows the net financial assets of the Association for the past four years, broken down into components.

Net Assets				
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Current	56,842,824	58,740,311	60,142,067	59,616,575
Beacon Press	1,963,955	1,618,397	1,963,911	1,486,849
CPLC	7,208,309	7,267,922	7,303,334	7,281,208
Endowment	<u>98,496,663</u>	<u>103,882,985</u>	<u>105,794,047</u>	<u>94,376,905</u>
Total	164,511,750	171,509,615	175,203,358	162,761,537

Annual & Cumulative Results - Beacon Press



Beacon Press

Beacon Press ended by FY2001 with a \$363,000 loss. That loss is significantly worse than the budgeted loss of \$141,000 for that year and worse than the loss predicted by Beacon Press at mid-year.

Beacon Press has now experienced deficits in six of the last seven years, and will run a deficit in FY2002 as well. Early in the next fiscal year, Beacon will have consumed the accumulated profits, largely derived from the sale of the hymnal in FY 1993. At that point, the UUA will have to directly subsidize the Press from funds otherwise available for other purposes.

This graph shows the actual operating results for Beacon Press since FY1991 (the bars) and the cumulative results for the same period (the line). By this measure, Beacon Press began running a cumulative deficit in FY2001.

As your Financial Advisor, I have been raising concerns about Beacon Press since assuming office in 1993. Those concerns are at several levels:

First, the financial volatility of Beacon Press places our association at risk, particularly because the UUA does not PLAN to accommodate that volatility.

Second, there is a large cost to maintaining Beacon Press that it represented not only in its operating loss but more fundamentally in the time and attention Beacon requires of our leadership. This “opportunity cost,” in my opinion, is the most serious cost of Beacon for the association. Our human and financial resources would be more productively allocated toward more direct growth and public witness strategies and through communication through more modern technologies such as the internet.

Church Staff Compensation

The ongoing program to improve church staff compensation continues to progress since the General Assembly established the program and recommended clear guidelines in 1995.

In 1996, the compensation consultant program was established to provide information and support to congregations who wanted to improve compensation. The compensation consultants program is strong, and the individual consultants have demonstrated expertise, commitment and peer support.

Surveys of congregations in 1997 and 2000 indicated that we are making significant progress. In 1997, 40% of congregations reported paying at the minimum level for ministers, educators, music directors, or business administrators. In 2000, over 66% were at the minimum, and many had expanded fringe benefits paid by the congregation.

This year, we are ready to implement another part of the 1995 GA vote: the Fair Compensation Congregation program, intended to formally recognize congregations for their progress.

There are two categories of recognition:

- **Fair Compensation Congregation, Practicing:** “has attained the basic salary recommendations and benefits guidelines suggested for a group of their size and location” or
- **Fair Compensation Congregation, Committed:** “has developed a plan for attaining the salary and benefit recommendations within a five year period”

For more information:
<http://www.uua.org/industry/ocsf/>

Fair Compensation Congregations will be recognized at the 2002 General Assembly.

Conclusion

In conclusion, on the positive side of the ledger:

- Our adult membership continues to grow;
- Fund raising through the Annual Program Fund and the capital campaign is very strong;
- The Investment Committee is reassessing its investment strategy while implementing new positive and negative socially responsible screens.

On the negative side of the ledger:

- Beacon Press' financial losses grow increasingly more severe;
- The UUA experienced an operating loss for the first time in six years, including unsatisfactory investment performance;
- Religious education enrollments are declining.

On balance, this report is brings more disappointing new than previous ones. I remain, however, quite optimistic about the future of our community of faith.

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

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.

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 Ministerial Scholarship 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.