

Financial Advisor's Report to the 2015 UUA General Assembly

Portland, Oregon
June 26, 2015



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

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Larry Ladd, UUA Financial Advisor

Thank you for the honor of electing me to serve as the UUA Financial Advisor for what is now my third (but non-consecutive) term in that role. It was an honor to serve our Association from 1997 to 2005 and to again serve a third term from 2013 to 2016. While I enjoy the work immensely, I fully expect that a new Financial Advisor will be elected at next year's General Assembly.

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 first 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 meetings 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.

Activities

Financial Advisor plays a role in the recruitment and screening of highly qualified individuals to serve on the various business committees of the Association. I have treated that task as a priority, recruiting new candidates and screening candidates, particularly for the Investment Committee, Retirement Plan Committee, Audit Committee, and Employee Benefits Trust (which administers the Health Plan).

Between them, these committees provide oversight of a half a billion dollars in Unitarian Universalist assets, as delegated to perform that work by the Board of Trustees, which has direct fiduciary responsibility for those assets. The Board of Trustees is responsible for appointing the members of these committees, and while that record is mixed it is generally strong.

The Board has reduced 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 has prepared a helpful risk assessment and the Audit Committee has begun a review of each individual high risk on a regular schedule.

After two years (FY2013 and FY2014) of unexpected \$1 million budget deficits because of reliance on large gifts that didn’t appear, the proposed FY2015 budget (and the recently approved FY2016 budget) no longer rely on such gifts.

In considering the FY2016 budget, as I did in considering the FY2015 budget, I have raised the question of whether the budget should be balanced by using unrestricted bequest income, a traditional practice followed by this and prior administrations. Generally, not-for-profit organizations of the size and wealth of the UUA do not rely on bequest income but instead place that income into the endowment. I consider it an ethical risk to take money intended as a “legacy” and use it to pay current bills. I also believe that congregations and individual current giving should be the revenue source for current services.

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 6.6%. 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 FY2014 fiscal year. These statements, and other financial information, can be found on the UUA website at <https://www.uua.org/uuafinances/25499.shtml>

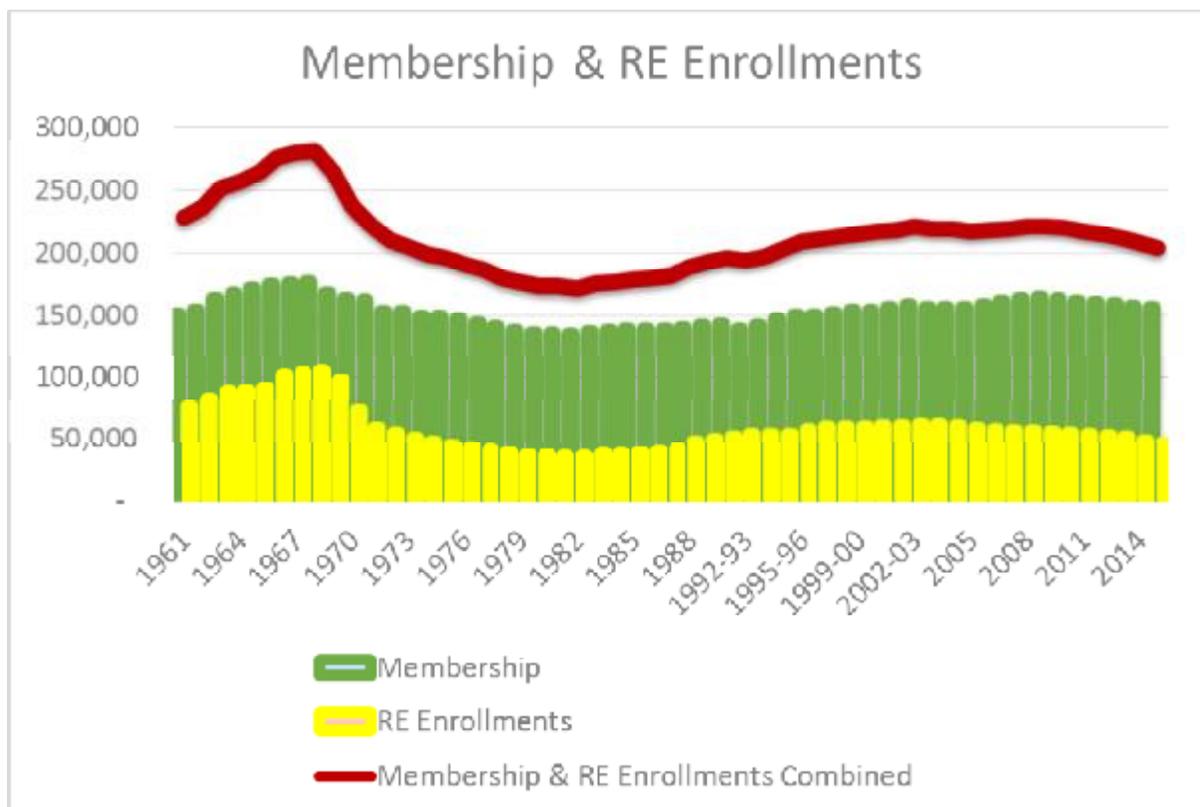
The approved FY2015 budget and the proposed FY2016 budget of the Association are directly linked to the administration’s strategy and the Associations ends.

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.

Growth: Urgency and Hope

Our adult membership has been declining for six years and our religious education enrollments have been declining for eight years. But the total numbers, at least for membership, mask 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 six years when we have experience a slow, steady, and slight annual decline).



But averages hide the important growth that is occurring. For instance,

- **459 congregations (slightly less than half) have grown over the last ten years (30 grew by over 100%; 59 grew by over 50%)**
- **435 congregations have grown over the last three years (19 grew by over 50%)**
- **Of the 41 congregations with over 550 members in 2015, 28 have grown over the last ten years**
- **3 of the regions have grown in membership over the last ten years: Southern Region (13%), MidAmerica Region (1.8%) & Pacific Western Region (0.6%)**
- **The Southern Region has grown RE enrollment over last ten years (24%)**

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.