MONITORING REPORT – 2.2.2

Submitted to Boardpaq on September 30, 2016.

2.2.2.

Policy: The president shall not fail to operate in accordance with the current Board policy regarding loans to congregations, as documented in "Appendix 2.A: Congregational Properties and Loan Commission (CPLC) Loan Program".

Operational Definition: We interpret this to mean the President's budget will project breakeven or a surplus. The annual audited financial statement will show breakeven or an operating surplus, or, if the President believes a loss was unavoidable, he will provide a complete explanation. The Congregational Loan Policy limits congregational loans to $900,000 and guarantees 50% of the loan amount but no more than $450,000. Such loans should be made prudently, so as to protect the assets of the Association

Rationale: The budget is the best reflection of the President's operating plan for the year, thus demonstrating the Administration's efforts to avoid an operating deficit. In the case of the Congregational Properties and Loan Fund, the budget includes few programmatic expenses. Income is predominantly from debt service on congregational loans, and expenses are predominantly interest on the Association's line of credit. Assuming that most of the loan portfolio remains current, the budget is largely self - balancing. Thus, avoiding an operating deficit is primarily a function of rigorous due diligence, close monitoring of loans, and oversight.

Supporting Evidence: Under the President's direction, a financial plan for fiscal year 2017 was prepared reflecting a breakeven bottom line. Unaudited financial statements for FY 2016 showed a loss for the year of $42,000 and one loan guarantee for $450,000.

The Administration follows the following procedures to minimize the risk of defaults in the loan and guarantee program. Each congregation wishing a loan or guarantee submits a detailed application to the Administrator for Congregational Life Staff Group. The application includes financial statements, financial projections, and a strategic plan. Under the Administration's policy, debt service may be no more than 25% of total projected revenue in any future fiscal year. Further, the congregation must conduct a capital campaign that yields pledges equal to or greater than three times the annual pledges in the most recent year. After the application is reviewed and approved by the Assistant Controller, it goes to the Treasurer & CFO for final review. After his approval, the loan is referred to the Association's real estate counsel who, working with the congregation's lawyer, prepares the loan documentation. All loans are structured as mortgages secured by the underlying property. The Assistant Controller and the UUA Treasurer meet regularly to review the financial statements and the status of all loans. They pay particular attention to any delinquent loans and often assist in restructuring troubled loans. The UUA maintains an allowance for uncollectible loans of approximately $340,000 that is reviewed each year.

As of June 30, 2016, there were 23 outstanding loans with an unpaid balance of $5.6 million. One congregation is noncurrent in its payments and is receiving special scrutiny from the staff. There were no loan defaults in FY2016.

I therefore report compliance.