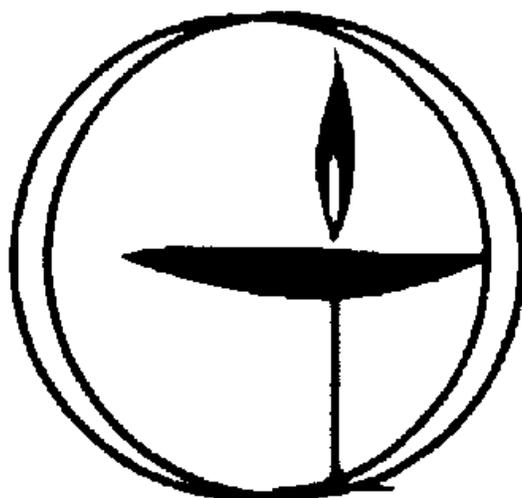


Financial Advisor's Report to the 2000 UUA General Assembly

Nashville, Tennessee

June 25, 2000



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 2000 General Assembly

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Larry Ladd, UUA Financial Advisor

It is my pleasure to submit to you my third 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

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.

Growth in numbers:

Membership has increased to 154,459:

1.3% higher than 1998
8.1% higher than 1990
10.9% higher than 1985

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).

Religious education enrollment increased to 61,165:

0.4% higher than 1998
27.0% higher than 1990
56.8% higher than 1985

Combined adult membership and RE enrollment increased to 215, 624:

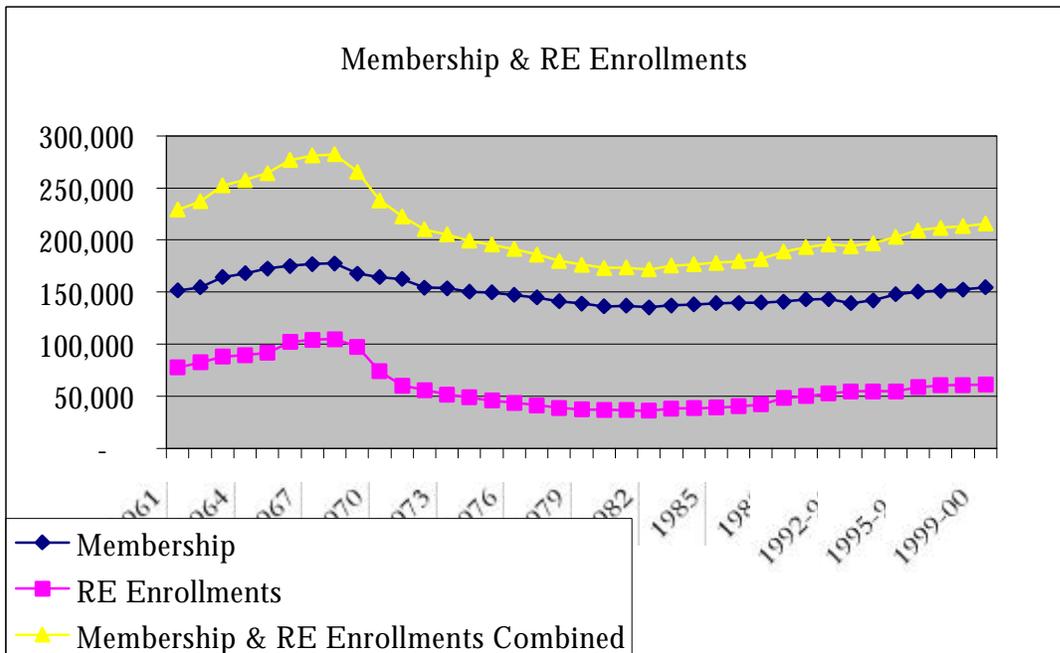
1.1% higher than 1998
11.7% higher than 1990
21.0% higher than 1985

The growth in religious education enrollments generally exceeds the growth in membership:

	-----Since-----		
	<u>1998</u>	<u>1990</u>	<u>1985</u>
Members:	1.3%	8.1%	10.9%
RE Enrollments:	0.4%	27.0%	56.8%

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.

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.

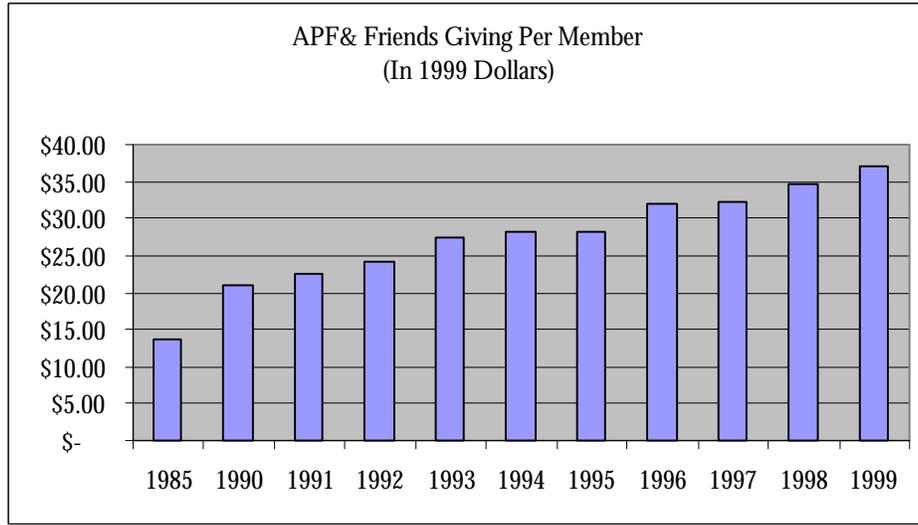


We grew substantially in the Sixties, declined in the Seventies, and have been making slow, steady progress since 1982.

Growth in Generosity

Reflecting the end of the capital campaign, our total fundraising declined for the second year in a row. In FY99 total fundraising was \$7.7 million, compared to \$7.9 million in FY98 and the record high \$9.8 million, in nominal dollars, in FY97.

The generosity of Unitarian Universalists is growing at an astonishing rate. Since 1985, APF revenue has increased by 100% in real terms and Friends revenue has increased by 62% in real terms. That’s not just because of membership growth. **Our “giving per member” (APF & Friends combined) has increased by 72% in real terms since 1985.** This figure is symbolic of extraordinary levels of stewardship and commitment by our congregations and their members, and is, to me, the best news contained in the Financial Monitor.



Growth in Numbers

In the third attachment to this report are some statistics going back to 1961, taken from successive UUA directories. This data is suspect for a variety of reasons, but it is the best that we have. Some interesting observations from these data:

- The number of congregations has remained relatively constant, at around 1000, since 1961.
- Adult membership has been increasing in slow incremental amounts since our low ebb of 135,487 in 1982. Our current membership of 154,459 is larger than at merger (151,557) although smaller than our peak in 1968 (177,431).
- Religious education enrollments generally continue to increase, although they are well below the levels reached in the 1960s.
- Congregational expenditures have risen every year, in nominal dollars, since 1961, including during the long period of membership declines from 1968 through 1982. In 1998 dollars, congregational expenditures have increased in all but one of the last ten years.

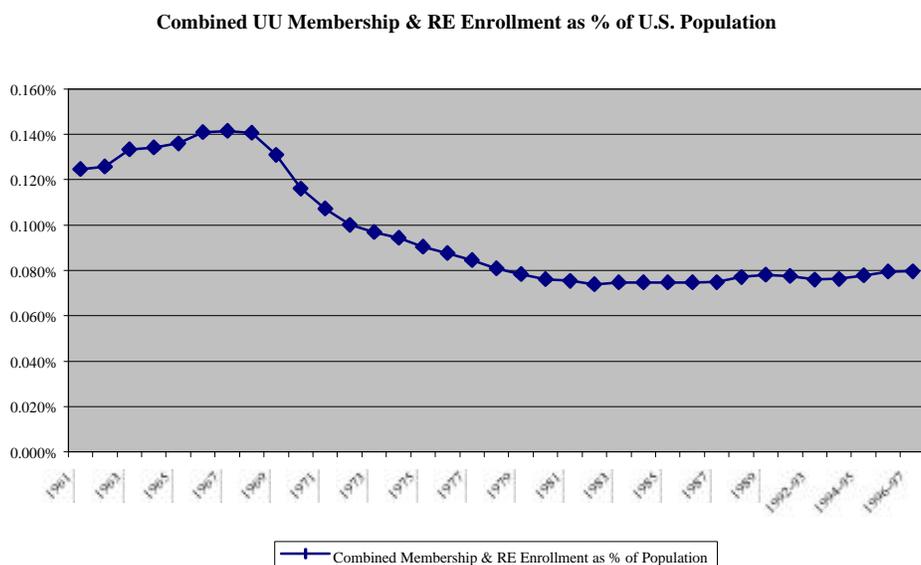
We Can Do Better!

In my previous report, I said that “We need to spend more time asking why people join us and how we can continue to nurture our movement and foster its growth.....As a movement, we aren’t spending enough time asking these questions.”

My impatience with our self-satisfied attitude about our religious community grows with each passing year of my own deep commitment to our movement. We have a message to share but we keep it to ourselves! We have a community worth expanding but we let it stay small!

We should be proud of our growth. We should be dissatisfied with the modesty of that growth given our potential.

One way to understand the modest level of growth is to look at our “market share,” i.e. our adult and RE population as a percentage of the U.S. population:



That line should be sloping skyward!

Endowment Performance

FY99 was our third very good year in a row for the investment performance of the endowment. Pool B (the endowment that supports the UUA's operations) had a total return of 13.1%, compared to 11.1% for a universe of 498 other not-for-profit endowments. (I can't resist pointing out that, for the second year in the row, our performance exceeded that of Harvard, which was 12.2%).

	<u>1996-97</u>	<u>1997-98</u>	<u>1998-99</u>
UUA Pool B	20.6%	22.2%	13.1%
Other Endowments	20.4%	18.6%	11.1%
Harvard	25.8%	20.5%	12.2%

Comparisons with other endowments, rather than market indices or mutual funds, is the best indicator of our performance, since other endowments, like ours, must diversify to reduce volatility and often have constraints such as social responsibility guidelines.

Socially Responsible Investing

In June 1999, the Board of Trustees commissioned a Task Force on Socially Responsible Investing to review our current use of assets and prepare recommendations. The result is a report that the Board of Trustees will be considering at its June meeting.

Some of the observations of the Task Force:

- Socially responsible investing is now an established component of the investment industry, with many products available
- Socially responsible investing can be conducted without significantly compromising investment returns
- Socially responsible investing has changed from “a largely reactive to an intentionally proactive force.”

The task force's recommendations are intended to restore the position of leadership that the UUA once exercised in using its assets to advance our principles and values. We **are** active: by screening our investments to avoid defense, environmentally hazardous, and tobacco stocks, by participating in a community investment program, and by voting on proxy issues where General Assembly

resolutions give us a clear mandate to do so. The Task Force proposes that we go beyond that current level of activity.

The UUA needs to adopt a more activist approach to socially responsible investing. For instance, we must become, once again, a leader in the Interfaith Center on Corporate Responsibility, and to provide support and guidance to our congregations on this issue. To do so requires a method to institutionalize research, education, and leadership in socially responsible investing. That method is the key recommendation of the Task Force.

FY99 Operating Results

The UUA operating budget ended FY99 in balance, for the fourth year in a row. The “operating budget” (our operating revenues and expenses exclusive of Beacon Press) had a surplus of \$230,000. The results include several elements of good news. First, we kept our expenses within budget. Second, our income exceeded budget because of the high levels of generosity I discussed earlier. APF was over goal by \$150,000 and Friends by \$50,000. So we should be proud of the good judgment that went into the preparation of the FY99 budget, the commitment of the UUA administration to control that budget during the course of the year, and the willingness our membership to support the larger movement beyond expectations.

Beacon Press, however, ran a deficit of \$346,000, a figure larger than the surplus just mentioned. Although Beacon Press is not included in our operating budget, it is in reality a department of the UUA and its finances are included in our audited financial statements. So our true results from current operations, taking into account the regular budget and Beacon Press, were a deficit.

Beacon Press has become the major topic of serious discussion within the Finance Committee. The Moderator has appointed a special task force, chaired by former UUA financial advisor Bob Lavender, to examine the current situation and make recommendations.

In spite of Beacon Press, however, our overall financial outcome for the year still was positive because of the extraordinary growth of the endowment. Our net assets as an Association grew significantly in FY99.

Unrestricted Net Assets

	1998	1999	Net Change 98 to 99	
			\$	%
Current	1,732,719	1,951,529	218,810	13%
Beacon Press	1,832,422	1,514,163	(318,259)	-17%
CPLC*	2,004,371	2,037,091	32,720	2%
Endowment	<u>552,719</u>	<u>3,738,767</u>	3,186,048	576%
Total	6,122,231	9,241,550	3,119,319	51%

All Net Assets

	1998	1999	Net Change 98 to 99	
			\$	%
Current	56,842,824	58,740,311	1,897,487	3%
Beacon Press	1,963,955	1,618,397	(345,558)	-18%
CPLC	7,208,309	7,267,922	59,613	1%
Endowment	<u>98,496,663</u>	<u>103,882,985</u>	5,386,322	5%
Total	164,511,750	171,509,615	6,997,865	4%

FY00 Year to Date

A careful review of the year to date actuals, and of likely variances predicted by the administration, indicates that we are likely to end FY00 in balance.

Year 2000 Readiness

Last year, I reported that the UUA administration had a detailed plan for assuring full compliance with Y2K, i.e. having all of our hardware and software (as well as the systems of our service providers) able to handle the year 2000. The most critical issue was having a new financial system in place for FY00, since the system in use wasn't Y2K compliant.

I'm pleased to report that the Year 2000 arrived with no disruption in the UUA's financial reporting or computer operations. The new financial system was in place in time.

Our Real Estate on Beacon Hill

An integral part of the UUA's real estate plan was the conversion of 8 Mount Vernon Place into an expansion of our existing bed and breakfast operation. A combination of fundraising and debt were to cover the cost of that conversion, with the debt service costs covered by revenue generated from the additional bed and breakfast revenue. The plan included creating a handicap accessible entrance with an elevator that would permit access to the bed and breakfast lodging and meeting rooms in 7 and 8 Mount Vernon Place.

The Beacon Hill Civic Association and neighbors have objected strenuously to the bed and breakfast operation to the extent that it served individuals not affiliated with Unitarian Universalism. Indeed, we discovered this year that opening the facility to non UUs violated the zoning rules under which we were expected to operate.

Action by the City of Boston has limited the use of our three Mt. Vernon Place properties (6-7-8 Mt. Vernon Place). Those facilities can no longer be used for lodging for people unaffiliated with our Unitarian Universalist congregations, which has negative revenue implications for the operating budget.

After extensive fact gathering by the administration, in which I participated as an advisor at various stages, the Executive Committee and Finance Committee, meeting jointly on April 6-7, 2000, have recommended to the Board of Trustees the sale of 8 Mount Vernon Place. I concur in that recommendation.

The recommendation is based on a careful evaluation of the three options: (1) retaining all three properties and finding ways to make them handicapped accessible, (2) selling 8 Mount Vernon Place only, and (3) selling 6, 7 and 8 Mount Vernon Place. The first option, while assuring adequate office and meeting space

for the UUA into the future, was simply too expensive an alternative (costing from \$100K top \$250K per year depending on the optimism or pessimism of your assumptions) even in the unlikely possibility that the city would grant permits for the needed construction work. And we would continue to experience neighborhood hostility. The third option, while attractive because of the capital it would make available, is a major change that is difficult to plan and implement, and there are too many unanswered questions, such as exactly how we would provide alternative conference and meeting facilities. While we don't preclude taking the third option in the future, the second option (selling 8 Mount Vernon Place) has the advantage that it provides the capital to relieve the lost income (from not being able to rent to the public) without causing a major disruption to conference and meeting activities.

Beacon Press

Beacon Press is projected to have a projected surplus for FY00 of \$110K, after running a deficit of \$118K in FY98 and of \$346K in FY99. These deficits were a consequence of an industry that is changing quickly and unpredictably, and many of the changes have not been good for Beacon Press.

This good news (through three quarters of the fiscal year) is because sales are up and returns are down, rather than the reverse which has been, unfortunately, the pattern of recent years. The sales have exceeded the prior year and our expectations in the hard cover books, more than offsetting disappointments compared to budget in paperback front list sales.

We should not let this good news blind us to the continuing risks associated with the Press. Higher sales can also translate later this year and next into higher returns. Our results are too dependent on sales of a few stellar titles. And, most importantly, the fundamentals of the industry have not changed. So the work of the task force now studying Beacon Press is as important as ever.

Web Site

There is now a financial advisor's page on the UUA website:
<http://www.uua.org/TRUS/financial/>. This page contains a description of the

role of the Financial Advisor and other officers & committees involved in the financial affairs of the Association (including relevant by-law provisions), copies of my reports to the Board of Trustees and to the General Assembly, the Finance committee chair's report to the General Assembly, the UUA Financial Monitor and other statistics, and links to various web sites concerned with congregational business management and finance.

Conclusion

In conclusion, on the positive side of the ledger:

- Our movement continues to grow in membership, religious education enrollments, and financial generosity
- We ended FY99 in operating income in excess of operating expenditures (the fourth straight year of positive results) and are likely to end FY00 positively as well
- The investment performance of both the endowment was excellent once again in FY99
- Beacon Press is projected to end FY00 with a surplus after two years of deficits.
- The UUA survived Y2K without disruption.

On the negative side of the ledger:

- While we are growing in membership and RE enrollments, we aren't growing enough!
- We must become once again leaders in socially responsible investing!

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



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 02192. 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 is chaired the Board’s *ad hoc* task force on church staff compensation in 1998.