



## **Financial Statements**

# **Unitarian Universalist Common Endowment Fund LLC**

**June 30, 2018 and 2017**



# UNITARIAN UNIVERSALIST COMMON ENDOWMENT FUND LLC

## *Financial Statements*

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## *Independent Auditors' Report*

The Board of Trustees  
Unitarian Universalist Common Endowment Fund LLC  
Boston, Massachusetts

We have audited the accompanying financial statements of the Unitarian Universalist Common Endowment Fund LLC ("UUCEF"), which comprise the statements of net assets, including the schedules of investments, as of June 30, 2018 and 2017, and the related statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of UUCEF as of June 30, 2018 and 2017, and the operations, changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Maye Hoffman McCann P.C.*

November 19, 2018  
Boston, Massachusetts

# UNITARIAN UNIVERSALIST COMMON ENDOWMENT FUND LLC

## Statements of Net Assets

June 30,

(in thousands)

	<b>2018</b>	<b>2017</b>
Assets:		
Investments, at fair value (Cost \$159,174 in 2018 and \$158,710 in 2017)	\$ 189,135	\$ 180,961
Cash and cash equivalents	1,381	1,629
Other current assets	33	32
Software implementation costs, net of accumulated amortization of \$90 and \$64, respectively	13	39
	<b>190,562</b>	<b>182,661</b>
<b>Total assets</b>	<b>190,562</b>	<b>182,661</b>
Liabilities:		
Accrued expenses and other liabilities	408	243
	<b>190,154</b>	<b>182,418</b>
<b>Net assets</b>	<b>\$ 190,154</b>	<b>\$ 182,418</b>

(in units and dollars)

Shares of beneficial interest outstanding	<u>21,560,160.0964</u>	<u>22,472,092.7015</u>
Net asset value per share	<u>\$ 8.8197</u>	<u>\$ 8.1175</u>

**UNITARIAN UNIVERSALIST COMMON ENDOWMENT FUND LLC**

**Schedule of Investments**

*June 30, 2018*

*(in thousands)*

<i>Description</i>	<i>Security Type</i>	<i>Initial Investment Date</i>	<i>Cost Basis</i>	<i>Fair Value</i>	<i>% of Net Assets</i>
Domestic Equity					
	Traded Equities	Various	\$ 37,886	\$ 51,984	27%
	Pooled Fund	4/1/2016	6,835	8,459	4%
			<u>44,721</u>	<u>60,443</u>	
International Equity					
	Traded Equities	5/1/2010	11,827	15,093	8%
	Mutual Fund	4/1/2013	12,436	16,190	9%
	Pooled Fund	Various	18,425	22,867	12%
			<u>42,688</u>	<u>54,150</u>	
Fixed Income					
	Traded Fixed Income	11/1/2014	13,651	13,445	7%
	Pooled Fund	Various	26,677	27,844	15%
			<u>40,328</u>	<u>41,289</u>	
Opportunistic					
	Northern European Focused Fund	4/1/2015	5,500	6,308	3%
	Hedge Fund of Funds	8/1/2009	805	780	0%
	Global Asset Allocation Mutual Fund	1/1/2008	19,365	19,278	10%
			<u>25,670</u>	<u>26,366</u>	
Private Markets					
	UK Sterling Pooled Real Estate Fund	8/1/2015	610	993	1%
	Private Investment Fund	6/1/2014	1,470	1,628	1%
	Opportunistic Expansion	Various	2,000	2,579	1%
			<u>4,080</u>	<u>5,200</u>	
Other					
	Loans and Depository Agreements	Various	1,687	1,687	1%
<b>Total Investments</b>			<u>\$ 159,174</u>	<u>\$ 189,135</u>	99%

**UNITARIAN UNIVERSALIST COMMON ENDOWMENT FUND LLC**

**Schedule of Investments**

*June 30, 2017*

*(in thousands)*

<i>Description</i>	<i>Security Type</i>	<i>Initial Investment Date</i>	<i>Cost Basis</i>	<i>Fair Value</i>	<i>% of Net Assets</i>
Domestic Equity					
	Traded Equities	Various	\$ 39,406	\$ 50,566	28%
	Pooled Fund	4/1/2016	6,715	7,561	4%
			<u>46,121</u>	<u>58,127</u>	
International Equity					
	Traded Equities	5/1/2010	11,224	14,095	8%
	Mutual Fund	4/1/2013	12,436	14,782	8%
	Pooled Fund	Various	18,425	21,373	12%
			<u>42,085</u>	<u>50,250</u>	
Fixed Income					
	Traded Fixed Income	11/1/2014	13,309	13,471	7%
	Pooled Fund	Various	26,703	27,727	15%
			<u>40,012</u>	<u>41,198</u>	
Opportunistic					
	Northern European Focused Fund	4/1/2015	5,500	6,120	3%
	Hedge Fund of Funds	8/1/2009	805	802	0%
	Global Asset Allocation Mutual Fund	1/1/2008	19,887	19,610	11%
			<u>26,192</u>	<u>26,532</u>	
Private Markets					
	UK Sterling Pooled Real Estate Fund	8/1/2015	1,277	1,425	1%
	Private Investment Fund	6/1/2014	1,451	1,857	1%
			<u>2,728</u>	<u>3,282</u>	
Other					
	Loans and Depository Agreements	Various	<u>1,572</u>	<u>1,572</u>	1%
<b>Total Investments</b>			<u>\$ 158,710</u>	<u>\$ 180,961</u>	99%

# UNITARIAN UNIVERSALIST COMMON ENDOWMENT FUND LLC

## *Statements of Operations*

*For the Years Ended June 30,*

*(in thousands)*

	<b>2018</b>	<b>2017</b>
Investment income	\$ <u>2,311</u>	\$ <u>1,880</u>
Expenses:		
Investment manager fees	1,287	1,163
Consultant and other expenses	489	446
UUA administrative fees	374	348
Audit fees	<u>37</u>	<u>39</u>
Total expenses	<u>2,187</u>	<u>1,996</u>
<b>Net investment gain (loss)</b>	<b><u>124</u></b>	<b><u>(116)</u></b>
Realized and unrealized gains from investments:		
Net realized gain from investments sold	7,564	6,032
Net change in unrealized investment gains	<u>7,710</u>	<u>16,803</u>
<b>Net realized and unrealized gains from investments</b>	<b><u>15,274</u></b>	<b><u>22,835</u></b>
<b>Net increase in net assets from operations</b>	<b>\$ <u><u>15,398</u></u></b>	<b>\$ <u><u>22,719</u></u></b>



# UNITARIAN UNIVERSALIST COMMON ENDOWMENT FUND LLC

## *Statements of Changes in Net Assets*

*For the Years Ended June 30, 2018 and 2017*

*(in thousands)*

<b>Net assets July 1, 2016</b>	<b>\$ <u>170,391</u></b>
Change in net assets from operations:	
Net investment loss	(116)
Net realized gains	6,032
Net change in unrealized appreciation	<u>16,803</u>
Change in net investment return	22,719
Change in net assets from fund share transactions	<u>(10,692)</u>
Total change in net assets	<u>12,027</u>
<b>Net assets June 30, 2017</b>	<b><u>182,418</u></b>
Change in net assets from operations:	
Net investment gains	124
Net realized gains	7,564
Net change in unrealized depreciation	<u>7,710</u>
Change in net investment return	15,398
Change in net assets from fund share transactions	<u>(7,662)</u>
Total change in net assets	<u>7,736</u>
<b>Net assets June 30, 2018</b>	<b>\$ <u><u>190,154</u></u></b>

# UNITARIAN UNIVERSALIST COMMON ENDOWMENT FUND LLC

## *Statements of Cash Flows*

*For the Years Ended June 30,*

*(in thousands)*

	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 15,398	\$ 22,719
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net change in realized and unrealized gains from investments	(15,274)	(22,835)
Amortization	26	25
Purchase of investments	(13,891)	(37,089)
Proceeds from sales and maturities of investments	20,991	37,911
Changes in assets and liabilities:		
Other current assets	(1)	(1)
Accrued expenses and other liabilities	165	35
	<b>7,414</b>	<b>765</b>
<b>Net cash provided by operating activities</b>	<b>7,414</b>	<b>765</b>
<b>Cash flows from financing activities:</b>		
Capital contributions	6,472	6,174
Capital withdrawals	(14,134)	(16,866)
	<b>(7,662)</b>	<b>(10,692)</b>
<b>Net cash used in financing activities</b>	<b>(7,662)</b>	<b>(10,692)</b>
<b>Net change in cash and cash equivalents</b>	<b>(248)</b>	<b>(9,927)</b>
Cash and cash equivalents as of beginning of period	1,629	11,556
<b>Cash and cash equivalents as of end of period</b>	<b>\$ 1,381</b>	<b>\$ 1,629</b>

# UNITARIAN UNIVERSALIST COMMON ENDOWMENT FUND LLC

## *Notes to Financial Statements (in thousands)*

### **Note 1 - Business and Organization**

The Unitarian Universalist Common Endowment Fund LLC (“UUCEF”) is a Massachusetts limited liability company formed pursuant to a Limited Liability Operating Agreement (“Agreement”) dated October 11, 2012. The purpose of the entity is to provide a centralized investment vehicle for the Unitarian Universalist Association (the “Association”), its member congregations, and certain other qualified entities. The Association provides oversight and management of UUCEF and its investments. The Association had long managed such an investment vehicle; however, for business reasons, the Association determined that it would be prudent to house such activities within its own entity dedicated to such efforts. Activities commenced on January 1, 2016 with the transfer of assets and related ownership interests as of that date.

UUCEF provides an opportunity for member congregations to invest their funds utilizing professional investment management, administration and reporting capabilities. The funds are operated much like a mutual fund with the investments of UUCEF and member congregations being co-mingled such that each participant will share in the returns on the funds in pro-rata relationship to their units of ownership. New units are issued when new monies are to be invested, while redemptions reduce units outstanding. The net asset value per unit is adjusted monthly based on underlying changes in the fair value of investments.

The investments of UUCEF are deployed under the general direction of an Investment Committee appointed by the Association’s Board of Trustees. The Investment Committee has contracted with an outside consultant to assist in the selection and oversight of professional investment management firms, an asset allocation policy and guidelines for rebalancing asset classes. The professional investment management firm, under the oversight of the Investment Committee, manages the investment portfolio.

### **Note 2 - Summary of Significant Accounting Policies**

#### ***Basis of Financial Statement Presentation***

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America. UUCEF is considered a non-profit entity that follows investment type Company accounting and reporting guidance in accordance with Financial Accounting Standards Board (“FASB”) ASC No. 946, *Financial Services – Investment Companies*. The significant accounting policies followed by UUCEF are as follows:

#### ***Cash and Cash Equivalents***

UUCEF considers highly liquid instruments with maturities of three months or less at the date of purchase to be cash equivalents. Cash equivalents held by investment managers are considered part of investments given the expectation of near term reinvestment. Cash equivalents include treasury money market and money market mutual funds which are not insured. UUCEF maintains its cash balances at several financial institutions, which, at times, may exceed federally insured limits. UUCEF monitors its exposure associated with cash and cash equivalents and has not experienced any losses in such accounts.

# UNITARIAN UNIVERSALIST COMMON ENDOWMENT FUND LLC

## *Notes to Financial Statements (in thousands)*

### **Note 2 - Summary of Significant Accounting Policies (Continued)**

#### ***Investments***

Investments are stated at fair value, as determined by quoted market prices, where available. Where quoted market prices are not available, fair value is determined either by reference to similar investments or to values established by the managers of such investments. Certain investments are not readily marketable (alternative investments) and are recorded at fair value based on UUCEF's proportionate share of the fair value of underlying investments. The fair value of investments is determined by the individual investment manager.

UUCEF estimates that this valuation method most fairly presents the amount that would have been realized had the investment been sold to a willing buyer as of the date of the financial statements. Because of the inherent uncertainty of valuations, and changes in valuations over time, the estimated values may differ from the realized values at the point of sale. The estimated amounts may differ from the values that would have been available had a ready market existed. Increases or decreases in fair value are recorded in the accompanying statements of operations.

UUCEF has implemented policies and procedures to assess the reasonableness of the fair values provided and it believes that the reported fair values are reasonable.

#### ***Software Implementation Costs***

Software is stated at cost at the date of acquisition and is being amortized on a straight-line basis over 4 years.

#### ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates made in the financial statements relate to the valuation of portfolio investments and accruals. Actual results could differ from those estimates.

#### ***Investment Transactions and Investment Income, Realized and Unrealized Gains and Losses***

Investment transactions are recorded on a trade-date basis. The identified cost method is used in determining realized gains and losses. Current market value measured against historical value is used in determining unrealized gains and losses. Dividend income is recognized on the ex-dividend date, and interest income is recognized on the accrual basis. Withholding taxes on foreign dividends have been provided for in accordance with UUCEF's understanding of the applicable country's tax rules and rates.

# UNITARIAN UNIVERSALIST COMMON ENDOWMENT FUND LLC

## *Notes to Financial Statements (in thousands)*

### **Note 2 - Summary of Significant Accounting Policies (Continued)**

#### ***Fair Value Measurements***

UUCEF reports certain assets and liabilities at fair value on a recurring and nonrecurring basis depending on the underlying accounting policy for the particular item. Recurring fair value measures include UUCEF's investment. The fair value standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value. In addition, UUCEF reports certain investments using the net asset value per share as determined by investment managers under the so called "practical expedient." The practical expedient allows net asset value per share to represent fair value for reporting purposes when the criteria for using this is met. Fair value standards also require UUCEF to classify financial instruments (except for those measured using NAV) into a three-level hierarchy, based on the priority of inputs to the valuation technique.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments which are generally included in this category include listed equity and debt securities publicly traded on a stock exchange.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that changes in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in the financial statements.

#### ***Income Taxes***

UUCEF has been determined to be exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code). UUCEF is classified under the Code as a public charity Type I supporting organization under Section 509(a)(3).

# UNITARIAN UNIVERSALIST COMMON ENDOWMENT FUND LLC

## *Notes to Financial Statements (in thousands)*

### **Note 2 - Summary of Significant Accounting Policies (Continued)**

#### ***Uncertain Tax Positions***

UUCEF accounts for the effect of any uncertain tax positions based on a “more likely than not” threshold to the recognition of the tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a “cumulative probability assessment” that aggregates the estimated tax liability for all uncertain tax positions. UUCEF has a number of tax positions, none of which result in an uncertainty requiring recognition. UUCEF is not currently under examination by any taxing jurisdiction. As a tax-exempt church related organization, UUCEF is exempt from filing certain non-profit filings. UUCEF does file a Form 990T.

### **Note 3 - Fair Values of Financial Instruments**

The following tables present financial assets as of June 30, 2018 and 2017 that UUCEF measures fair value on a recurring basis, by level, within the fair value hierarchy:

	<b>Investments</b>			
	<b>2018</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Investments Measured at NAV</b>	<b>Total</b>
Domestic Securities	\$ 51,984	\$ 8,459	\$ -	\$ 60,443
International Equity	15,093	39,057	-	54,150
Fixed Income	13,445	18,376	9,468	41,289
Opportunistic	19,278	-	7,088	26,366
Private Markets	-	-	5,200	5,200
Other	-	1,687	-	1,687
<b>Total investments</b>	<b>\$ 99,800</b>	<b>\$ 67,579</b>	<b>\$ 21,756</b>	<b>\$ 189,135</b>

Investments have the following redemption notice periods at June 30, 2018:

Daily	\$ 131,081
Monthly	24,345
Bi-monthly	19,734
Quarterly	6,308
Illiquid	<u>7,667</u>
<b>Total</b>	<b>\$ <u>189,135</u></b>

# UNITARIAN UNIVERSALIST COMMON ENDOWMENT FUND LLC

## *Notes to Financial Statements (in thousands)*

### **Note 3 - Fair Values of Financial Instruments (Continued)**

	<i>Investments</i>			
	<i>2017</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Investments Measured at NAV</i>	<i>Total</i>
Domestic Securities	\$ 50,566	\$ 7,561	\$ -	\$ 58,127
International Equity	14,095	36,155	-	50,250
Fixed Income	13,471	18,257	9,470	41,198
Opportunistic	19,610	-	6,922	26,532
Private Markets	-	-	3,282	3,282
Other	-	1,572	-	1,572
<b>Total investments</b>	<b>\$ 97,742</b>	<b>\$ 63,545</b>	<b>\$ 19,674</b>	<b>\$ 180,961</b>

Unfunded commitments to the investment vehicles amounted to \$5,995 and \$5,495 at June 30, 2018 and 2017, respectively. Funds allow for managers to limit normal redemptions under certain circumstances which could impact the ultimate availability of funds. In addition, funds in trust are controlled by outside organizations and thus are not redeemable.

Management has no intentions or plans to liquidate any net asset value per share practical expedient investments at other than net asset value per share.

### **Note 4 - Membership Interest and Related Party Transactions**

The beneficial interests in UUCEF for the Association, affiliated member congregations and other qualified entities is represented by units without par value. Each unit represents an equal beneficial interest in the net assets of UUCEF. The Association, as manager of UUCEF, has full power and authority to issue additional units, redeem or cause the redemption of units, or take such other action with respect to the units as provided for under the Operating Agreement.

The net increase (decrease) in net assets resulting from operations is allocated to each member on a monthly basis in proportion to the number of units held by them as of the valuation date.

The Association's endowment owned 47.3% and 48.1% of the units outstanding as of June 30, 2018 and 2017, respectively. Association administered trusts for the benefit of affiliated congregations and qualified entities accounted for 8.4% of the units outstanding as of June 30, 2018 and 2017.

The Association earned administrative fees of \$374 and \$348 to manage UUCEF during the years ended June 30, 2018 and 2017, respectively. At June 30, 2018 and 2017, the amount due to the Association was \$218 and \$29, respectively.

# UNITARIAN UNIVERSALIST COMMON ENDOWMENT FUND LLC

## *Notes to Financial Statements (in thousands)*

### **Note 5 - Financial Highlights (in per share amounts)**

Per unit operating performance (for a participating unit outstanding) for years ended June 30, 2018 and 2017:

<b>Net asset value at July 1, 2016</b>	<b>\$</b>	<b>7.1337</b>
Net investment loss		(0.0048)
Net realized and unrealized gain		<u>0.9886</u>
<b>Net asset value at June 30, 2017</b>		<b>8.1175</b>
Net investment income		0.0058
Net realized and unrealized gain		<u>0.6964</u>
<b>Net asset value at June 30, 2018</b>	<b>\$</b>	<b><u>8.8197</u></b>
	<b>2018</b>	<b>2017</b>
Total return (a)	8.70%	13.80%
Ratio of expenses to net assets	1.16%	1.14%
Ratio of net investment income	8.10%	12.45%

(a) UUCEF's rate of return is calculated by the Association's investment consultant in accordance with the Global Investment Performance Standards (GIPS) which take into account intra-period cash flows, distributions and the relative weighting of asset classes.

Financial highlights are calculated for members taken as a whole. A member's return and ratio may vary based on timing of capital transactions. The net investment income ratio does not reflect the income and expenses incurred by underlying private investment companies.

Rollforward of number of beneficial shares in units outstanding for the years ended June 30, 2018 and 2017:

<b>Beneficial shares in units outstanding at July 1, 2016</b>	<b>23,885,270</b>
Units issued	784,912
Units redeemed	(2,228,876)
Pending issuance	<u>30,787</u>
<b>Beneficial shares in units outstanding at June 30, 2017</b>	<b>22,472,093</b>
Units issued	707,751
Units redeemed	(1,657,010)
Pending issuance	<u>37,326</u>
<b>Beneficial shares in units outstanding at June 30, 2018</b>	<b><u>21,560,160</u></b>



# UNITARIAN UNIVERSALIST COMMON ENDOWMENT FUND LLC

## *Notes to Financial Statements (in thousands)*

### ***Note 6 - Subsequent Events***

UUCEF has evaluated subsequent events through November 19, 2018, the date the financial statements were authorized to be issued.