

Financial Statements

Unitarian Universalist Common Endowment Fund LLC

June 30, 2016



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") and the underlying activities associated with these funds previously held and managed by the Unitarian Universalist Association from July 1, 2015 through December 31, 2015, which comprise the statement of net assets and the schedule of investments as of June 30, 2016, and the related statements of operations, changes in net assets and cash flows for year ended June 30, 2016, 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 audit. We conducted our audit 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.



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of UUCEF as previously described as of June 30, 2016, and the operations, changes in net assets and cash flows for the year ended June 30, 2016 in accordance with accounting principles generally accepted in the United States of America.

Maye Hoffman McCann P.C.

November 30, 2016
Boston, Massachusetts

UNITARIAN UNIVERSALIST COMMON ENDOWMENT FUND LLC

Statement of Net Assets

June 30, 2016

(in thousands)

Assets:

Investments, at fair value (cost \$153,357)	\$	158,948
Cash and cash equivalents		11,556
Other current assets		31
Software implementation costs, net of accumulated amortization of \$39		<u>64</u>

Total assets 170,599

Liabilities:

Accrued expenses and other liabilities		<u>208</u>
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Net assets \$ **170,391**

Shares of beneficial interest outstanding 23,817,905.6216

Net asset value per share \$ 7.1337

UNITARIAN UNIVERSALIST COMMON ENDOWMENT FUND LLC

Schedule of Investments

June 30, 2016

(in thousands)

<i>Description</i>	<i>Security Type</i>	<i>Initial Investment Date</i>	<i>Fair Value</i>
Domestic Equity	Traded Equities	Various	\$ 44,074
	Pooled Fund	4/1/2016	3,276
			<u>47,350</u>
International Equity	Traded Equities	5/1/2010	11,801
	Mutual Fund	4/1/2013	11,700
	Pooled Fund	Various	14,202
			<u>37,703</u>
Fixed Income	Traded Fixed Income	11/1/2014	8,798
	Pooled Fund	Various	30,873
			<u>39,671</u>
Hedge Fund	Northern European Focused Fund	4/1/2015	4,524
	Fund of Funds	8/1/2009	7,178
			<u>11,702</u>
Private Markets	UK Sterling Pooled Real Estate Fund	8/1/2015	1,567
	Private Investment Fund	6/1/2014	1,532
			<u>3,099</u>
Other	Global Asset Allocation Mutual Fund	1/1/2008	17,806
	Loans and Depository Agreements	Various	1,617
			<u>19,423</u>
Total Investments			\$ <u>158,948</u>

UNITARIAN UNIVERSALIST COMMON ENDOWMENT FUND LLC

Statement of Operations

For the Year Ended June 30, 2016

(in thousands)

Investment income	\$ <u>1,600</u>
Expenses:	
Investment manager fees	992
Consultant and other expenses	489
UUA administrative fees	344
Audit fees	<u>38</u>
Total expenses	<u>1,863</u>
Net investment loss	<u>(263)</u>
Realized and unrealized gain (loss) from investments:	
Net realized gain from investments sold	520
Net change in unrealized investment losses	<u>(9,173)</u>
Net realized and unrealized loss from investments	<u>(8,653)</u>
Net decrease in net assets funds from operations	<u>\$ (8,916)</u>

UNITARIAN UNIVERSALIST COMMON ENDOWMENT FUND LLC

Statement of Changes in Net Assets

For the Year Ended June 30, 2016

(in thousands)

Net assets July 1, 2015	\$ <u>185,794</u>
Change in net assets from operations:	
Net investment income	(263)
Net realized gains	520
Net change in unrealized depreciation	<u>(9,173)</u>
Change in net assets from operations	(8,916)
Change in net assets from fund share transactions	<u>(6,487)</u>
Total change in net assets	<u>(15,403)</u>
Net assets June 30, 2016	\$ <u><u>170,391</u></u>

UNITARIAN UNIVERSALIST COMMON ENDOWMENT FUND LLC

Statement of Cash Flows

For the Year Ended June 30, 2016

(in thousands)

Cash flows from operating activities:	
Change in net assets	\$ (8,916)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Net change in unrealized losses on investments	7,797
Amortization	26
Purchase of investments	(22,684)
Proceeds from sales and maturities of investments	31,811
Changes in assets and liabilities:	
Other current assets	6
Accounts payable and accrued expenses	(25)
	<hr/>
Net cash provided by operating activities	8,015
	<hr/>
Cash flows from financing activities:	
Capital contributions	7,543
Capital withdrawals	(14,030)
	<hr/>
Net cash used in financing activities	(6,487)
	<hr/>
Net increase in cash and cash equivalents	1,528
Cash and cash equivalents as of beginning of period	<hr/> 10,028
Cash and cash equivalents as of end of period	\$ <u><u>11,556</u></u>

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. Activities commenced on January 1, 2016 with the transfer of assets and related ownership interests as of that date. 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 of UUCEF. 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. However, activities for the full year include the period July 1, 2015 through December 31, 2015 while such funds were still legally under direct management by the Association. This was done in deference to the needs of users relative to annual information on an audited basis.

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 statement 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

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. 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)(7) 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 at June 30, 2016 that UUCEF measures fair value on a recurring basis, by level, within the fair value hierarchy:

	<i>Investments</i>			
	<i>2016</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Investments Measured at NAV</i>	<i>Total</i>
Equity securities:				
Domestic securities	\$ 44,074	\$ -	\$ 3,276	\$ 47,350
Foreign securities	11,801	-	25,902	37,703
Fixed income funds:				
Domestic funds	18,680	-	-	18,680
Foreign funds	-	-	20,991	20,991
Global asset allocation funds	17,806	-	-	17,806
Hedge fund of funds	-	-	11,702	11,702
Private opportunities	-	-	3,099	3,099
Community investments	-	1,617	-	1,617
Total investments	\$ 92,361	\$ 1,617	\$ 64,970	\$ 158,948

UNITARIAN UNIVERSALIST COMMON ENDOWMENT FUND LLC

Notes to Financial Statements (in thousands)

Note 3 - Fair Values of Financial Instruments (Continued)

Investments measured at NAV have the following redemption notice periods:

Weekly	\$ 10,242
Monthly	28,227
Bi-monthly	11,700
Quarterly	11,702
Illiquid	<u>3,099</u>
Total	<u>\$ 64,970</u>

Unfunded commitments to the investment vehicles amounted to \$3,544 at June 30, 2016. 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 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 47.9% of the units outstanding as of June 30, 2016. Association administered trusts for the benefit of affiliated congregations and qualified entities accounted for 8.3% of the units outstanding as of June 30, 2016. One member owned 2.6% and one member owned 1.7% but no other individual member owned greater than 1.3% of the units outstanding as of June 30, 2016.

The Association was paid \$344 in administrative fees to manage UUCEF.

UNITARIAN UNIVERSALIST COMMON ENDOWMENT FUND LLC

Notes to Financial Statements (in thousands)

Note 5 - Financial Highlights

Per unit operating performance (for a participating unit outstanding) for year ended June 30, 2016:

Net asset value at July 1, 2015	\$ 7.4957
Net investment loss	(0.0110)
Net realized and unrealized loss	<u>(0.3510)</u>
Net asset value at June 30, 2016	\$ <u>7.1337</u>
Total return (a)	-4.60%
Ratio of expenses to net assets	1.07%

- (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.

Rollforward of number of beneficial shares in units outstanding for the year ended June 30, 2016:

Beneficial shares in units outstanding at July 1, 2015	24,715,241
Units issued	1,094,928
Units redeemed	<u>(1,992,263)</u>
Beneficial shares in units outstanding at June 30, 2016	<u>23,817,906</u>

At June 30, 2016, UUCEF had approximately \$480,558 pending issuance of beneficial shares. Subsequent to year end, 67,364 units were issued.

Note 6 - Subsequent Events

UUCEF has evaluated subsequent events through November 30, 2016, the date the financial statements were authorized to be issued.