

**Unitarian Universalist Association
Annual Report of the Treasurer
To the 2019 General Assembly in Spokane, Washington**

**Submitted by
Tim Brennan, Treasurer & Chief Financial Officer**

Financial Condition of the Association

The Unitarian Universalist Foundation ended fiscal year 2018 in solid financial condition. Under Susan Frederick-Gray's leadership, the UUA has refocused on mission and energized its fundraising efforts. The membership of the Association's congregations has shown a small increase in the annual certification process, and congregational support of the Annual Program Fund has stabilized. At this writing, the UUA is tracking towards a slight loss for the 2019 fiscal year. Here are a few highlights:

- The audited financial statements of the UUA, which follow this report, were accepted by the UUA board of trustees at their April meeting after thorough vetting by the Audit Committee. The Association's auditors, Mayer Hoffman McCann P.C., issued a "clean opinion." That is, they certified that the statements, which were prepared by the UUA staff, fairly present the financial condition of the Association in all material respects.
- In fiscal 2018, the auditors conducted an audit of the Unitarian Universalist Common Endowment Fund, LLC, which is organized as a separate legal entity. Because the entity is controlled by the UUA's board of trustees, it is treated as a subsidiary and consolidated into the UUA financial statements. A stand-alone report has also been issued primarily for the benefit of congregations investing in the fund.
- Likewise, the financial statements of the UUA Health Plan, which is organized as a separate trust (officially the UUA Employee Benefits Trust), were audited by RSM, who issued a clean opinion. They follow this report.
- The income statement of the UUA for fiscal year 2018 shows a surplus for the year from operations of \$1.6 million, primarily representing donations held for future periods. There were also significant non-operating gains, primarily due to financial market returns that resulted in an overall gain of \$11.6 million.
- The third quarter forecast presented to the board of trustees at their April meeting showed a small deficit of \$178,000 for fiscal year 2019. The UUA staff is making its best effort to reduce or eliminate that deficit by year-end.
- In October of 2016 the UUA Board of Trustees made an historic commitment to provide \$5.3 million in funding for Black Lives of Unitarian Universalism. In addition, the UUA has provided \$225,000 per year in operating support during the fundraising period. The UUA launched a major fundraising campaign during fiscal year 2017 which is expected to be wound up by the end of this fiscal year with some pledge payments still to come.

The UUA has committed \$1 million of its own assets to this effort. We plan to fulfill this commitment by the end of the year and transfer the assets to BLUU, which has established itself as an independent legal entity.

Operating Budgets

The budget for the fiscal year starting on July 1, 2019 was approved by the Board of Trustees at their April meeting. The summary operating budget for fiscal year 2020 can be found at the end of this report.

UU Common Endowment Fund

The UU Common Endowment Fund holds the Association's endowment (including restricted, board restricted and unrestricted funds), trusts invested on behalf of others (principally congregations), and funds invested by congregations and other UU organizations. The UUCEF is structured as a unitized common fund, which means it operates like a mutual fund, with investing organizations (including the UUA) purchasing units and sharing proportionally in the income, gains, losses, and expenses of the fund. More information about the UU Common Endowment Fund is available on the [UUCEF website](#).

- As of March 31, 2019 the UUCEF held assets valued at \$193 million. Just over \$88 million is the Association's endowment, both restricted and unrestricted, \$16 million is held in trust for the benefit of congregations, and the balance represents investments from congregations and other related organizations of \$89 million. Individuals may not invest in the UUCEF.
- For the 12 months ending March 31, 2019, the Fund achieved a gross return of 4.2% compared to a weighted average benchmark of 1.9%, ranking in the top quartile of similarly sized endowments. Net of all fees and expenses the fund returned 3.0%. Over the last 12 months, the markets have become much more volatile, with rapid swings up and down. The investment committee has adjusted the asset mix to position the portfolio for continued volatility.

Under the oversight of the Investment Committee, the UUCEF pursues a goal of achieving long-term real returns (after inflation) sufficient to allow regular distributions while maintaining the purchasing power of the corpus within a moderate risk tolerance. It pursues this goal through diversification – diversification among asset classes (large cap equities, small cap equities, fixed income, global tactical asset allocation funds, private capital and hedge funds), geography (U.S., developed international, emerging markets), and managers. The UUCEF uses 21 money management firms, each with its own specialty.

UUCEF Annualized Return
Periods ending 3/31/19

	1 Year	3 Years	5 Years	10 Years
Gross return	4.2%	9.5%	5.5%	10.0%
Weighted average benchmark	1.9%	7.7%	5.1%	8.9%
Percentile rank compared to like-sized endowments (as of 3/31/18) <i>1 = highest 1% 100 = lowest 1%</i>	20	14	52	38
Net return	3.0%	8.2%	4.4%	8.9%

The Association encourages member congregations, regions and affiliates to invest endowment funds in the UUCEF along with the UUA’s endowment. Investing with the UUA offers the advantage of investment and administrative stability, broad diversification, professional investment guidance, and the oversight of the Association’s Investment Committee.

Socially Responsible Investing

The Investment Committee and the Socially Responsible Investing Committee (SRIC) have worked together to strengthen the UUCEF’s socially responsible investing (SRI) practices. More recently they have begun integrating their work more intentionally. The three principle SRI strategies are: security and manager selection, shareholder advocacy, and community investments.

- [Investment and manager selection](#): The UUCEF portfolio holdings include both individual securities and pooled funds (mutual funds and private co-mingled funds). Individual security holdings (also called separate accounts) are primarily US equities, or individual stocks. The UUA instructs its managers to avoid companies that are poor performers on environmental, social, and governance issues. When selecting managers for pooled funds, the Investment Committee incorporates values criteria into the selection process. Approximately 83.5% of the UUCEF's assets are with managers who use SRI and/or ESG strategies.
- [Shareholder advocacy](#): The UUA is an active shareholder, witnessing for social justice through its ownership position in companies. Over the last year, encouraged by the 2014 Business Resolution on Fossil Fuel Divestment, our engagement efforts have focused on climate

change, and particularly on companies in the fossil fuel industry. In addition, we have continued our work on disclosure of political and lobbying spending and human rights. During the 2018-19 season, the UUA filed or co-filed resolutions at 7 companies. To ensure the accountability of companies with which we have come to agreements in past shareholder seasons, the UUA has had ongoing dialogues with 5 companies. Additionally, the UUA has been part of investor teams engaging three companies on climate change through the Climate Action 100+, a global coalition of investors with \$33 trillion in assets under management addressing climate change.

- Community investments: The UUA allocates 1% of the Common Endowment to community investments. These include community loan funds, affordable housing, micro-finance, and credit unions. Approximately 16 of these investments are matching investments whereby a congregation makes a community investment of up to \$10,000 and the UUA matches it. See:

<http://www.uua.org/finance/investment/sri/communitydevelopment/60928.shtml>

Holdeen Trusts

As of March 31, 2019, the Holdeen Trusts were valued at \$33 million, down \$1 million from the previous year. Under the terms of the Holdeen and certain other trusts, the Association has a right to receive and to use the income earned on the trust assets for designated purposes, but the principal itself will never be available to the Association nor does the UUA control how these funds are invested. The Holdeen Trusts are used primarily to support the Association's international work including the [Holdeen India Program](#).

Retirement Plan

The [UU Organizations Retirement Plan](#) has 4,162 participating individuals with investments of \$347 million as of December 31, 2018 compared to 3,944 participants with \$362 million one year previous. This includes active participants, retirees and survivors, and individuals who are no longer employed by a UU organization but have kept their funds in the Plan. The average plan participant balance is \$83,487, and the median balance is \$27,047.

The Plan is overseen by a [Retirement Plan Committee](#) appointed by the Board of Trustees. The committee is advised by [Fiduciary Investment Advisors](#), a leading investment consulting firm.

Farewell

This will be my last Treasurer's report to the General Assembly. On June 30th I will step down from my position as Treasurer and Chief Financial Officer of the Association. It has been a blessing to serve the Association in this role for the last 13 years. I can honestly say that I have never been bored. I believe that we have made many improvements to our systems over my tenure. And I am particularly proud of the shareholder advocacy work of the UUA, holding

corporations accountable for their impacts on people and the planet. I'm not quite ready for the rocking chair yet. I plan to continue working in the responsible investing field as a consultant to other faith- and values-based investors. It has been an amazing privilege to hold this office. I am very grateful.

	C	D	E	F	G	H
2	Unitarian Universalist Association	FY18	FY19	FY20	Percent	FY21
3	Budget Overview	Results	2Q19 Fcst	Budget	Inc/(Def)	Budget
4	Current Operations				E to F	
5						
6	\$ in Thousands					
7	Income:					
8	Income for General Support					
9	Annual Program Fund	6,474	6,436	6,600	2.6%	6,600
10	Annual Program Fund - Regional	1,600	1,624	1,624	0.0%	1,624
11	Unrestricted Gifts	1,141	1,199	1,492	24.4%	1,492
12	Leadership Annual Giving	296	400	600	50.0%	600
13	Bequest Income	303	200	300	50.0%	300
14	Administrative Fees	2,275	2,277	2,368	4.0%	2,393
15	Investment Income	2,769	2,870	2,697	-6.0%	2,576
16	Publications Income	1,131	1,230	1,275	3.7%	1,275
17	Net Lease Income	979	1,002	1,128	12.6%	1,107
18	Other Current Fund Income	465	534	563	5.4%	563
19	Total Income for General Support	17,433	17,772	18,647	4.9%	18,530
20						
21	Income for Designated Purposes					
22	Campaign Income	1,067	1,131	1,209	6.8%	1,214
23	UUCSR Veatch Grants	2,493	2,537	2,408	-5.1%	2,381
24	Grants and Scholarships	884	877	864	-1.5%	856
25	Ministerial Aid Funds	512	449	444	-1.1%	439
26	Holdeen and International Trusts	1,490	1,764	1,642	-6.9%	1,646
27	Income for Other Purposes	3,151	2,393	2,061	-13.9%	2,061
28	Total Inc for Designated Purposes	9,596	9,151	8,628	-5.7%	8,598
29	Total Income	27,030	26,923	27,275	1.3%	27,128
30						
31	Expenses:					
32	Board & Volunteer Leadership	541	728	634	-12.9%	633
33						
34	Programs:					
35	Program and Strategy Office	10	0	0	0.0%	0
36	Organizing Strategy	1,193	612	631	3.2%	642
37	International Programs	1,593	1,860	1,644	-11.6%	1,650
38	Congregational Life	4,719	5,175	5,206	0.6%	5,235
39	Ministries and Faith Development	5,025	5,254	5,398	2.7%	5,408
40	UU Funding Program	1,350	1,413	1,401	-0.9%	1,401
41	Crisis Relief & Misc. Programs	1,184	346	96	-72.3%	96
42	Communications	2,679	2,848	2,880	1.1%	2,905
43						
44	Total Programs	17,752	17,508	17,256	-1.4%	17,337
45						
46	Administration	1,694	2,009	1,882	-6.3%	1,905
47	Contingency/Salary Increase	0	150	520	246.7%	667
48						
49	Infrastructure					
50	Stewardship and Development	2,185	2,269	2,310	1.8%	2,364
51	Information Technology Services	1,521	1,619	1,591	-1.7%	1,626
52	Internal Services	3,002	3,696	3,758	1.7%	3,613
53	Total Infrastructure	6,708	7,584	7,659	1.0%	7,604
54						
55	Total Expenses	26,695	27,979	27,951	-0.1%	28,146
56						
57	Depreciation Spending	0	550	550		550
58	Church Staff Finances Reserve	0	200	126		126
59						
60	Current Section Excess/(Deficit)	335	(305)	0		(342)
61						

	D	E	F	G	H	I
1	Unitarian Universalist Association	FY18	FY19	FY20	Percent	FY21
2	Forecast Summary	Results	2Q19 Fcst	Budget	Inc/(Def)	Budget
3	Current Operations Expenses				F to G	
4						
5	\$ in Thousands					
6	Income:					
7	Income for UUA General Support					
8	Annual Program Fund	6,474	6,436	6,600	2.6%	6,600
9	Annual Program Fund – Regional	1,600	1,624	1,624	0.0%	1,624
10	Unrestricted Gifts	1,141	1,199	1,492	24.4%	1,492
11	Leadership Annual Giving	296	400	600	50.0%	600
12	Bequest Income	303	200	300	50.0%	300
13	Administrative Fees	2,275	2,277	2,368	4.0%	2,393
14	Endowment Income	2,769	2,870	2,697	-6.0%	2,576
15	Publications Income	1,131	1,230	1,275	3.7%	1,275
16	Net Lease Income	979	1,002	1,128	12.6%	1,107
17	Other Current Income	465	534	563	5.4%	563
18		17,434	17,772	18,646	4.9%	18,529
19	Income for Designated Purposes					
20	Campaign Income	1,067	1,131	1,209	6.8%	1,214
21	Veatch Grants	2,493	2,537	2,408	-5.1%	2,381
22	Grants and Scholarships	884	877	864	-1.5%	856
23	Ministerial Aid Funds	512	449	444	-1.1%	439
24	Holdeen & International Trusts	1,490	1,764	1,642	-6.9%	1,646
25	Income for Other Purposes	3,151	2,393	2,061	-13.9%	2,061
26		9,596	9,151	8,627	-5.7%	8,598
27	Total Income	27,030	26,923	27,273	1.3%	27,127
28						
29	Board & Volunteer Leadership					
30	Board of Trustees	250	412	366	-11.2%	365
31	Board Committees	290	314	268	-14.7%	268
39	Total Board & Volunteer Leadership	541	728	634	-12.9%	633
40						
41	Programs:					
42	Program Strategy Office (former Growth Strategies)	10	0	0	0.0%	0
43						
44	Organizing Strategy	1,193	612	631	3.2%	642
45						
46	International Office	235	287	221	-23.1%	223
47	Holdeen International Partners	155	155	150	-3.0%	150
48	Holdeen India Program	928	1,150	1,020	-11.3%	1,022
49	UU-UNO	275	268	253	-5.5%	255
50	Total International	1,593	1,860	1,644	-11.6%	1,650
51						
52	Congregational Life					
53	Congregational Life	1,388	1,399	1,475	5.5%	1,480
54	Southern Region	897	1,118	1,194	6.8%	1,206
55	New England Region	852	1,010	983	-2.7%	981
56	Central East Region	1,560	1,613	1,520	-5.8%	1,535
57	Office of Congregational Stewardship Services	22	35	33	-6.3%	33
58	Total Congregational Life	4,719	5,175	5,206	0.6%	5,235
59						
60	Ministries and Faith Development					
61	Resource Development Director	214	99	34	-65.2%	34
62	Resource Development Office	548	524	472	-10.0%	465
63	Youth and Young Adult Ministries	643	600	666	11.0%	668
64	Director of Ministries and Faith Development	416	605	652	7.8%	659
65	Multicultural Programs	0	296	348	17.8%	351
66	Director of Ministerial Credentialing	195	172	132	-23.2%	134
67	Director of Transitions	318	305	319	4.4%	321
68	Office of Church Staff Finances	671	725	819	12.9%	826
69	Office of UUA Health Plan	216	221	224	1.3%	227
70	Director of Professional Development	212	218	212	-2.4%	215
71	Worship Arts	50	68	57	-16.2%	58

	D	E	F	G	H	I
1	Unitarian Universalist Association	FY18	FY19	FY20	Percent	FY21
2	Forecast Summary	Results	2Q19 Fcst	Budget	Inc/(Def)	Budget
3	Current Operations Expenses				F to G	
72	Scholarships and Ministerial Ed Grants	329	311	309	-0.9%	311
73	Continuing Education	124	79	138	75.8%	138
74	Aid Funds	577	512	507	-1.0%	502
75	Panel on Theological Education	511	519	508	-2.0%	499
76	Total Ministries and Faith Development	5,025	5,254	5,398	2.7%	5,408
77						
78	UU Funding Program	1,350	1,413	1,401	-0.9%	1,401
79	Crisis Relief & Misc. Programs	1,184	346	96	-72.3%	96
80						
81	Communications					
82	IPW Office	419	532	558	4.9%	564
83	Periodicals Office	915	910	955	4.9%	962
84	Publications Administration	574	574	521	-9.2%	526
85	UUA Bookstore	771	831	846	1.8%	852
86	Total Communications	2,679	2,848	2,880	1.1%	2,905
87						
88	Total Programs	17,752	17,508	17,256	-1.4%	17,337
89						
90	Administration					
91	Office of the President	502	511	518	1.2%	523
92	Office of the Executive Vice President	715	1,051	977	-7.0%	988
93	Contingency Expense	0	0	370	100.0%	367
94	Salary Increase	0	150	150	0.0%	300
95	Human Resources	478	446	387	-13.3%	394
96	Total Administration	1,694	2,158	2,402	11.3%	2,572
97						
98	Infrastructure:					
99	Stewardship and Development					
100	Vice President, Development	552	618	665	7.6%	693
101	APF Campaign	373	473	475	0.4%	480
102	Friends Campaign	317	350	342	-2.3%	357
103	Charitable Gift and Estate Planning	331	313	279	-10.8%	282
104	Comprehensive Campaign	613	515	548	6.5%	551
105	Total Stewardship and Development	2,185	2,269	2,310	1.8%	2,364
106						
107	Information Technology Services	1,521	1,619	1,591	-1.7%	1,626
108						
109	Internal Services:					
110	Finance					
111	Treasurer and Vice President of Finance	407	407	415	2.0%	385
112	Financial Services	769	736	761	3.4%	770
113	Total Finance	1,177	1,143	1,176	2.9%	1,155
114						
115	Facilities					
116	24 Farnworth Street	1,826	2,554	2,581	1.1%	2,458
117	Total Operations Services	1,826	2,554	2,581	1.1%	2,458
118						
119	Total Internal Services	3,002	3,697	3,757	1.6%	3,613
120						
121	Total Infrastructure	6,708	7,585	7,657	1.0%	7,603
122	Total Expenses	26,695	27,978	27,949	-0.1%	28,145
123						
124	Depreciation Spending	0	550	550		550
125	Church Staff Finances Reserve	0	200	126		126
126						
127	Current Section Excess/(Deficit)	335	(305)	0		(342)
128						



**Consolidated Financial Statements
and Supplemental Schedules**

**Unitarian Universalist Association
and Subsidiary**

June 30, 2018 and 2017



UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Consolidated Financial Statements and Supplemental Schedules

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Independent Auditors' Report

The Board of Trustees
Unitarian Universalist Association and Subsidiary
Boston, Massachusetts

We have audited the accompanying consolidated financial statements of the Unitarian Universalist Association and Subsidiary (the "Association"), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Unitarian Universalist Association as of June 30, 2018 and 2017, and the consolidated 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.

Other Matters

Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplemental information included in Schedules I through III is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Mayer Hoffmann McCann P.C.

November 19, 2018
Boston, Massachusetts

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Consolidated Statements of Financial Position

(in thousands)

	<i>June 30,</i>	
	2018	2017
Assets		
Cash and cash equivalents	\$ 12,688	\$ 11,864
Accounts receivable, net	2,182	1,685
Pledges receivable, net	598	981
Agency receivable	3,056	496
Inventories, net	1,330	1,382
Other assets	1,265	1,167
Investments	90,419	87,894
Investment funds managed for others	100,156	94,754
Funds held in trust by others	46,248	44,854
Funds held in support of split-interest agreements	9,426	9,419
Loans to member congregations, net	3,989	4,391
Property and equipment, net	34,482	35,340
	<hr/>	<hr/>
Total assets	\$ 305,839	\$ 294,227
	<hr/> <hr/>	<hr/> <hr/>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 5,010	\$ 5,824
Agency liability	3,056	496
Annuity liabilities	1,981	2,001
Bank debt	7,495	8,388
Obligations under split-interest agreements	5,615	5,491
Accumulated postretirement benefit obligation	1,696	1,761
	<hr/>	<hr/>
Total liabilities	24,853	23,961
	<hr/>	<hr/>
Minority interest in UUCEF	100,156	94,754
	<hr/>	<hr/>
Net assets:		
Unrestricted	57,951	57,430
Temporarily restricted	63,508	59,732
Permanently restricted	59,371	58,350
	<hr/>	<hr/>
Total net assets	180,830	175,512
	<hr/>	<hr/>
Total liabilities and net assets	\$ 305,839	\$ 294,227
	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes to consolidated financial statements.

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Consolidated Statement of Activities

*For the Year Ended June 30, 2018
(with comparative totals for 2017)*

(in thousands)

	2018			Total	2017
	Unrestricted	Temporarily Restricted	Permanently Restricted		Total
Support and revenue:					
Fundraising and gifts and bequests	\$ 13,288	\$ 2,922	\$ 573	\$ 16,783	\$ 16,874
Net sales from publishing activities	8,312	-	-	8,312	8,118
Sales and administrative services	2,041	-	-	2,041	2,618
Investment return authorized for operations	4,510	-	-	4,510	4,638
Distributions from Holdeen Trusts	1,109	179	-	1,288	1,307
Other investment income	209	-	-	209	277
Rental income	1,648	-	-	1,648	1,631
Other income	5,493	-	-	5,493	5,155
Net assets released from restriction	2,241	(2,241)	-	-	-
Total support and revenue	<u>38,851</u>	<u>860</u>	<u>573</u>	<u>40,284</u>	<u>40,618</u>
Expenditures:					
Programs	29,018	-	-	29,018	29,266
General and administration	6,826	-	-	6,826	6,880
Stewardship and development	2,186	-	-	2,186	2,019
Rental expense	669	-	-	669	667
Total expenditures	<u>38,699</u>	<u>-</u>	<u>-</u>	<u>38,699</u>	<u>38,832</u>
Changes in net assets from operations	<u>152</u>	<u>860</u>	<u>573</u>	<u>1,585</u>	<u>1,786</u>
Nonoperating income (expense):					
Investment return, net of amounts authorized for operations	8,169	2,027	-	10,196	17,407
Increase (decrease) in value of funds held in support of split-interest agreements and trusts	(20)	889	448	1,317	2,876
Postretirement benefit plan expense	-	-	-	-	103
Investment return authorized for debt financing	873	-	-	873	842
Bequest income - Board restricted	-	-	-	-	90
Gain on sale of real estate	-	-	-	-	814
Unfunded depreciation	(741)	-	-	(741)	(716)
Change in net assets from nonoperating activities	<u>8,281</u>	<u>2,916</u>	<u>448</u>	<u>11,645</u>	<u>21,416</u>
Minority interest in investment earnings of UUCEF	<u>(7,912)</u>	<u>-</u>	<u>-</u>	<u>(7,912)</u>	<u>(11,813)</u>
Change in net assets	521	3,776	1,021	5,318	11,389
Net assets, beginning of year	<u>57,430</u>	<u>59,732</u>	<u>58,350</u>	<u>175,512</u>	<u>164,123</u>
Net assets, end of year	\$ <u>57,951</u>	\$ <u>63,508</u>	\$ <u>59,371</u>	\$ <u>180,830</u>	\$ <u>175,512</u>

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Consolidated Statement of Activities

For the Year Ended June 30, 2017

(in thousands)

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Support and revenue:				
Fundraising and gifts and bequests	\$ 13,752	\$ 3,079	\$ 43	\$ 16,874
Net sales from publishing activities	8,118	-	-	8,118
Sales and administrative services	2,618	-	-	2,618
Investment return authorized for operations	4,638	-	-	4,638
Distributions from Holdeen Trusts	1,089	218	-	1,307
Other investment income	277	-	-	277
Rental income	1,631	-	-	1,631
Other income	5,155	-	-	5,155
Net assets released from restriction	1,521	(1,521)	-	-
Total support and revenue	<u>38,799</u>	<u>1,776</u>	<u>43</u>	<u>40,618</u>
Expenditures:				
Programs	29,266	-	-	29,266
General and administration	6,880	-	-	6,880
Stewardship and development	2,019	-	-	2,019
Rental expense	667	-	-	667
Total expenditures	<u>38,832</u>	<u>-</u>	<u>-</u>	<u>38,832</u>
Changes in net assets from operations	<u>(33)</u>	<u>1,776</u>	<u>43</u>	<u>1,786</u>
Nonoperating income (expense):				
Investment return, net of amounts authorized for operations	14,033	3,374	-	17,407
Increase in value of funds held in support of split-interest agreements and trusts	148	2,127	601	2,876
Postretirement benefit plan expense	103	-	-	103
Investment return - debt financing	842	-	-	842
Bequest income - Board restricted	90	-	-	90
Gain on sale of real estate	814	-	-	814
Other releases and changes in net assets	86	(86)	-	-
Unfunded depreciation	(716)	-	-	(716)
Change in net assets from nonoperating activities	<u>15,400</u>	<u>5,415</u>	<u>601</u>	<u>21,416</u>
Minority interest in investment earnings of UUCEF	<u>(11,813)</u>	<u>-</u>	<u>-</u>	<u>(11,813)</u>
Change in net assets	3,554	7,191	644	11,389
Net assets, beginning of year	<u>53,876</u>	<u>52,541</u>	<u>57,706</u>	<u>164,123</u>
Net assets, end of year	\$ <u>57,430</u>	\$ <u>59,732</u>	\$ <u>58,350</u>	\$ <u>175,512</u>

See accompanying notes to consolidated financial statements.

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Consolidated Statements of Cash Flows

(in thousands)

	<i>For the Years Ended June 30,</i>	
	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 5,318	\$ 11,389
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	1,350	1,330
Change in allowance for uncollectible loans to member congregations	(20)	-
Gain from sale of real estate	-	(814)
Net realized and unrealized gains on investments	(7,426)	(10,962)
Contributions restricted for long-term investment	(573)	(43)
Net change in value of funds held in support of split-interest agreements and trusts	(1,317)	(2,876)
Minority interest in investment earnings of UUCEF	(7,912)	(11,813)
Changes in assets and liabilities:		
Accounts receivable, net	(497)	899
Pledges receivable, net	383	(399)
Agency receivable	(2,560)	(496)
Inventories, net	52	(88)
Other assets	(98)	415
Accounts payable and accrued expenses	(814)	(463)
Agency liability	2,560	496
Accumulated postretirement benefit obligation	(65)	(176)
	<u>(11,619)</u>	<u>(13,601)</u>
Net cash used in operating activities	(11,619)	(13,601)
Cash flows from investing activities:		
Cost of purchases of investments	(5,648)	(15,394)
Proceeds from sales of investments	20,991	37,911
Purchases of property and equipment	(494)	(644)
Proceeds from sales of real estate, net of expenses	2	814
Repayments on loans to member congregations	422	912
	<u>15,273</u>	<u>23,599</u>
Net cash provided by investing activities	15,273	23,599
Cash flows from financing activities:		
Repayment of bank debt	(893)	(1,922)
Capital contributions by minority partners in UUCEF	5,899	5,932
Capital withdrawals by minority partners in UUCEF	(8,409)	(11,741)
Contributions restricted for long-term investment	573	43
	<u>(2,830)</u>	<u>(7,688)</u>
Net cash used in financing activities	(2,830)	(7,688)
Change in cash and cash equivalents	824	2,310
Cash and cash equivalents as of beginning of year	<u>11,864</u>	<u>9,554</u>
Cash and cash equivalents as of end of year	\$ <u>12,688</u>	\$ <u>11,864</u>

See accompanying notes to consolidated financial statements.

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 1 - The Association's Background and History

The Unitarian Universalist Association (the "Association") was formed in 1961, when the American Unitarian Association and the Universalist Church of America merged to form one entity with the purpose of creating an association of congregations in support of liberal religion. The Association is governed by a board of trustees elected by the delegates of the General Assembly. An elected president, a board-appointed treasurer, a board appointed executive vice president and nine other staff group directors form the leadership council, which manages the day-to-day business of the Association.

The consolidated financial statements include the results of the activities of the Unitarian Universalist Common Endowment Fund LLC "UUCEF" which is organized as a supporting organization to the Association under Section 501(c)(7) of the Internal Revenue Code. UUCEF serves as an endowment investment solution for the Association and member congregations. UUCEF provides access to professional investment management, administration and reporting. All investors share proportionately in the underlying money-management, operational and custody costs. UUCEF investors retain full ownership of their invested assets with access to their funds as outlined in the UUCEF subscription agreement. This entity was established on October 11, 2012 and funded on January 1, 2016 via the legal transfer of monies previously accounted for as a component of the Association's operations. The Association's Board of Trustees appoints the investment committee who oversees UUCEF and its related investments.

The Association is the largest owner and acts as the record keeper for UUCEF. The Association had a 47.3% and 48.1% ownership interest in UUCEF in 2018 and 2017, respectively. The interests owned by others are presented as minority interest in the consolidated financial statements.

The primary purposes of the Association are to serve the needs of its member congregations, organize new congregations, extend and strengthen Unitarian Universalist institutions, and implement its principles. These financial statements only include the activity of the Association and UUCEF, but not of its member congregations. The activities and assets of the Association are comprised of six business segments: Current Operations, General Assembly, Group Insurance Plans, Beacon Press, Congregational Properties and Loan Fund "CPLF", and UUCEF as outlined above. The Current Operations section manages the general operations of the Association including fundraising and program activities. Group Insurance Plans "GIP" operate group insurance plans for member congregations. General Assembly is the annual gathering of Association congregational delegates organized to conduct the business of the Association. Beacon Press is the Association's trade publishing group. CPLF provides loans and loan guarantees to member congregations.

Note 2 - Summary of Significant Accounting Policies

Basis of Consolidated Financial Statement Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. All intercompany accounts and transactions have been eliminated in consolidation. Minority interest is presented below liabilities on the consolidated statements of financial position.

The accompanying consolidated financial statements are presented on the accrual basis of accounting and have been prepared to focus on the Association and UUCEF as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions.

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Basis of Consolidated Financial Statement Presentation (Continued)

Unrestricted net assets – represent those assets that the Association may use at its discretion.

Temporarily restricted net assets – result from contributions subject to donor-imposed use or time related restrictions. Temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions in the period in which the donor-imposed stipulation is met or that the stipulated time restrictions have passed. Net appreciation (depreciation) of permanently restricted long-term investments is recognized within the temporarily restricted net asset category until such monies are available for expenditure under the Association's spending policy and a qualifying expenditure is incurred unless otherwise directed by the underlying arrangements with the donor in accordance with law. Charitable lead trusts, in which a donor establishes and funds a trust with distributions to be made to the Association over a specified period no matter what duration, are categorized as temporarily restricted net assets.

Permanently restricted net assets – result from contributions which stipulate that the resources be maintained permanently by the Association. Generally, the donors of these assets permit the Association to use or expend part or all of the returns derived from the donated assets for general or specific purposes.

Fundraising support, gifts and bequests are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed time and/or purpose restrictions. If time and/or purpose restrictions are associated with support, these resources are accounted for as temporarily or permanently restricted support as applicable. If a restriction on a gift is fulfilled in the same time period in which the contribution is received, the contribution is reported as an unrestricted contribution. Expenses are reported as decreases in unrestricted net assets.

Amounts reported as nonoperating in the consolidated statements of activities include investment return net of amounts authorized for operations and other miscellaneous nonrecurring events or activities such as contributions of long-lived assets, contributions of cash or other assets that must be used to acquire long-lived assets, large one time donations, changes in value of certain split-interest agreements and trusts, postretirement benefit plan expense, gain on sale of real estate, unfunded depreciation, and other releases and changes in net assets.

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. Significant estimates included in the financial statements relate to the allowance for doubtful accounts and pledges receivable, reserve for finished goods inventory, fair value of certain investments as well as funds held in support by others and split-interest agreements, allowance for doubtful loans, capitalization of property and equipment and useful lives of such depreciable assets, accumulated postretirement benefit obligation, the allocation of common expenses over program functions, and releases from restrictions through satisfaction of donor restrictions.

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

The Association 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 that are not Federally insured. The Association maintains its cash balances at several financial institutions, which, at times, may exceed federally insured limits. The Association monitors its exposure associated with cash and cash equivalents and has not experienced any losses in such accounts.

Accounts Receivable

Accounts receivable are carried at their net realizable value. Management estimates the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible and recoveries of previously written off receivables are recorded as revenue when received. The reserve was \$52 and \$47 at June 30, 2018 and 2017, respectively.

Contributions and Pledges Receivable

Unconditional promises to give are recorded at fair value when initially pledged. Initial recording for pledges expected to be collected in one year or more is arrived at by using the present value of a risk adjusted rate to account for the inherent risk associated with expected future cash flows. The initially recorded fair value is considered a Level 2 fair value approach. Amortization of the discount is included in gift and contribution revenue. Unconditional promises to give are periodically reviewed to estimate an allowance for doubtful collections. Management estimates the allowance by review of historical experience and a specific review of collection trends that differ from plans on individual accounts. Conditional promises to give are not included as support until the conditions are substantially met.

Inventory

Inventory consists of finished goods and outside prepublication costs. Finished goods inventories, consisting primarily of books, are stated at the lower of weighted average cost or market. Outside prepublication costs related to preparing a manuscript for printing are capitalized into finished goods at the time of first printing of the book. The Association reserves against finished goods based on a systematic approach as the inventories age. The reserve was \$17 and \$18 at June 30, 2018 and 2017, respectively.

Investments

Investments are reported at fair value. Fair value is determined as per the fair value policies described later in this section. Interest, dividends and net gains or losses on investments are reported as increases or decreases in permanently restricted net assets if the terms of the original gift require that they be applied to the principal of a permanent endowment fund; as increases or decreases in temporarily restricted net assets if the terms of the gift and/or relevant state law impose restrictions on the current use of the income or net gains and losses; and as increases or decreases in unrestricted net assets in all other cases.

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Fair Value Measurements

The Association 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 the Association's investment accounts and funds held in trust and in support of split-interest agreements. Nonrecurring fair value measures include initial accounting for pledges receivable and obligations under split-interest agreements. These 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, the Association 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 are met. Fair value standards also require the Association 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 as follows:

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.

Funds Held in Trust by Others

The Association accounts for its beneficial interests in trusts as support upon notice of it being a beneficiary of such trusts. Support is recorded at the fair value of the underlying assets of the trust given the irrevocable right to receive income/benefits from the trust assets even though the Association will never receive the principal of these trusts. The fair value of the trust assets are recorded using a Level 3 fair value approach. Changes in the fair value of the trusts are reported as increases or decreases in the related net asset category. These trusts have various purpose restrictions.

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Funds Held in Trust by Others (Continued)

A major portion of funds held in trust by others are charitable lead trusts established by Jonathan Holdeen (the Holdeen Trusts) in which the Association has an irrevocable right to the trust income for periods of 500 or 1,000 years after which the assets revert to the Commonwealth of Pennsylvania. Under the terms of the Holdeen Trusts' instruments, the income is to be used primarily for support of the Holdeen India Program and other charities designated by the Association's Board of Trustees. Given the long-term nature of this arrangement, the beneficial interest was determined to be equal to the fair value of the assets for reporting purposes.

Split-Interest Agreements

Split-interest agreements include contributions received which require payment of an annuity to a specified beneficiary and contributions received which require payment of income earned on the investment of such contribution to a specified beneficiary over their life. Assets and obligations to beneficiaries are recorded at fair value when initially arranged and are separately managed apart from other investments of the Association. Subsequent changes in fair value of funds held in support of split-interest agreements are reported as a change in fair value of funds held in support of split-interest agreements in the period of change of value of the underlying assets. Obligations are based on the present value of the annual distribution specified in the agreements and the estimated life expectancy of the beneficiaries. Subsequent changes in the recorded amount of obligations are impacted by changes in life expectancy; however, the present value discount rate remains the same over the life of the instrument. The initially recorded fair value of the donated investments are determined based on the underlying nature of the investments received which have generally represented Level 1 measurements while the initial measurement of the related obligations are Level 2 measurements.

Loans to Member Congregations

The Association has receivables related to loans to member congregations. Interest income is recorded when received. Loans receivable are written off when deemed uncollectible. Recoveries of loans receivable previously written off are recorded as a reduction of bad debt expense. Loans receivable are considered past due if any portion of the balance due is outstanding for more than 30 days. Interest on past due amounts are recorded when received.

Property and Equipment

Land, buildings, improvements, furniture and fixtures, and equipment are stated at cost at the date of acquisition or improvement at fair market value at the date of donation in the case of gifts. Fair value of donated property and equipment is effectively recorded using a Level 3 market approach when applicable. Minor renovations and repairs are charged to operations and maintenance as incurred. Depreciation of property and equipment is computed on the straight-line basis over the expected lives of the respective assets.

With respect to its primary operating facility, the Association allocates costs to its activities based on operating expenses, estimated long-term funding for reserves for repair and replacement and debt service. Any excess costs of operating the facility is considered nonoperating. Such amounts represent unfunded depreciation which management has determined does not require funding given its long-term expected costs of operating this property.

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Agency Receivable and Liability

Amounts received or expected to be received from Donors that must be disbursed to a specific beneficiary are recorded as liabilities until paid by the Association.

Revenue Recognition and Royalty Advances from Publishing Activities

Revenue is recorded upon shipment, net of estimated returns. Sales to one customer and two customers represented approximately 28% and 55%, respectively, of total revenue of Beacon Press for the years ended June 30, 2018 and 2017. Of the total amount of receivables from Beacon Press of \$917 and \$897 at June 30, 2018 and 2017, respectively, amounts due from one customer represented approximately 96% and 93% at June 30, 2018 and 2017, respectively.

Royalty advances are negotiated on a contract-by-contract basis and are recorded as other assets when paid. As sales occur, royalty advances are reduced. Write-offs of advances are recorded when it appears that advances are not expected to be recovered from future sales. The Association reserves against unrealizable advances based on a systematic approach as the related publications age. The reserve was \$2,240 and \$2,145 at June 30, 2018 and 2017, respectively, against royalty advances of \$3,049 and \$3,041 at June 30, 2018 and 2017, respectively, included in other assets.

Outstanding Legacies

From time to time, the Association is named as a beneficiary under various wills and trust agreements, the total realizable amounts of which are not immediately determinable. Such bequests are recorded only when there is an irrevocable right to the bequest and the value of the proceeds are determinable.

Income Taxes

The Association is a tax-exempt church organization as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and is generally exempt from income taxes pursuant to Section 501(a) of the Code. UUCEF is classified under the Code as a public charity Type I supporting organization under Section 509(a)(3).

Uncertain Tax Positions

The Association and UUCEF account 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. The Association and UUCEF have a number of tax positions, none of which result in an uncertainty requiring recognition. The Association and UUCEF are not currently under examination by any taxing jurisdiction. As a tax-exempt church related organization and supporting organization, the Association and UUCEF are exempt from filing certain non-profit filings. The Association and UUCEF do file a Form 990T.

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Functional Expense Allocation

Costs have been allocated to functional classifications based on percentage of effort, usage, square footage and other criteria. Accordingly, costs and expenses have been allocated to the benefiting function using various assumptions and estimates. Rental expense related to property leased to outside parties is not allocated given that it pertains to income received from the rental property.

Fundraising Expenditures

Fundraising costs are reported as stewardship and development expense in the consolidated statements of activities.

Group Insurance Plan

The Association procures various insurance products from third parties for the use of the Association and member congregations. Under this arrangement, the Association is centrally billed for insurance based on its needs and member congregations that elect to participate. The Association in turn invoices various participating member congregations. The Association does not assume insurance risk under these arrangements.

Note 3 - Pledges Receivable

Pledges receivable relates to amounts received as part of the campaign fundraising. The rate used to discount pledges receivable was 4% as of June 30, 2018 and 2017.

Pledges receivable consisted of the following as of June 30:

	2018	2017
Amounts due in:		
Less than one year	\$ 146	\$ 563
Two to five years	496	481
	<u>642</u>	<u>1,044</u>
Less allowance for uncollectible pledges and present value discount	<u>(44)</u>	<u>(63)</u>
Pledges receivable, net	\$ <u>598</u>	\$ <u>981</u>

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 4 - Investments

Investments are recorded in the consolidated statements of financial position as follows at June 30:

	2018	2017
Investments (UUA)	\$ 90,419	\$ 87,894
Investment funds managed for others (member congregations)	<u>100,156</u>	<u>94,754</u>
Total	<u>\$ 190,575</u>	<u>\$ 182,648</u>

Total investment return from working capital investments, long-term investments and restricted cash net of amounts managed for others consisted of the following for the years ended June 30:

	2018	2017
Investment income	\$ 1,321	\$ 1,179
Net realized gain on investments	3,903	2,896
Net change in unrealized gain on investments	3,523	8,066
Less investment expenses	<u>(871)</u>	<u>(790)</u>
Total return on investments	<u>\$ 7,876</u>	<u>\$ 11,351</u>

Following is a reconciliation of total investment return to amounts reported in the consolidated statements of activities for the years ended June 30:

	2018	2017
Investment return authorized for operations	\$ 4,510	\$ 4,638
Investment return, net of amounts authorized for operations - nonoperating - unrestricted	8,169	14,033
Investment return - nonoperating - temporarily restricted	2,027	3,374
Investment return authorized for debt financing	<u>873</u>	<u>842</u>
Total endowment investment return	<u>15,579</u>	<u>22,887</u>
Other investment return - operating activities	209	277
Minority interest in investment in UUCEF	<u>(7,912)</u>	<u>(11,813)</u>
Total return on investments	<u>\$ 7,876</u>	<u>\$ 11,351</u>

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 5 - Fair Values of Financial Instruments

The following tables present financial assets at June 30, 2018 that the Association measures fair value on a recurring basis, by level, within the fair value hierarchy:

Investments				
2018				
	Level 1	Level 2	Investments Measured at NAV	Total
UUCEF investments				
Domestic equity	\$ 51,984	\$ 8,459	\$ -	\$ 60,443
International equity	15,093	39,058	-	54,151
Fixed income	13,445	18,376	9,468	41,289
Opportunistic	19,278	-	7,087	26,365
Private markets	-	-	5,200	5,200
Other	-	1,687	-	1,687
Total UUCEF investments	99,800	67,580	21,755	189,135
Short-term investments				
Cash and equivalents	1,440	-	-	1,440
Total investments	\$ 101,240	\$ 67,580	\$ 21,755	\$ 190,575
Funds Held by Others and Split-interest Agreements				
2018				
	Level 1	Level 2	Level 3	Total
Funds held by others:				
Holdeen Trusts	\$ -	\$ -	\$ 34,396	\$ 34,396
Other trusts	-	-	11,852	11,852
	-	-	46,248	46,248
Split-interest agreements:				
Charitable gift annuity	6,686	-	-	6,686
Charitable remainder trust	-	-	710	710
Pooled income funds	2,030	-	-	2,030
	8,716	-	710	9,426
Total funds held by others and split-interest agreements	\$ 8,716	\$ -	\$ 46,958	\$ 55,674

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 5 - Fair Values of Financial Instruments (Continued)

The following tables present financial assets at June 30, 2017 that the Association measures at fair value on a recurring basis, by level, within the fair value hierarchy:

Investments				
2017				
	Level 1	Level 2	Investments Measured at NAV	Total
UUCEF investments				
Domestic equity	\$ 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
	<hr/>	<hr/>	<hr/>	<hr/>
Total UUCEF investments	97,742	63,545	19,674	180,961
Short-term investments				
Cash and equivalents	1,687	-	-	1,687
	<hr/>	<hr/>	<hr/>	<hr/>
Total investments	\$ 99,429	\$ 63,545	\$ 19,674	\$ 182,648

Funds Held by Others and Split-interest Agreements				
2017				
	Level 1	Level 2	Level 3	Total
Funds held by others:				
Holdeen Trusts	\$ -	\$ -	\$ 33,450	\$ 33,450
Other trusts	-	-	11,404	11,404
	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	44,854	44,854
Split-interest agreements:				
Charitable gift annuity	6,542	-	-	6,542
Charitable remainder trust	-	-	743	743
Pooled income funds	2,134	-	-	2,134
	<hr/>	<hr/>	<hr/>	<hr/>
	8,676	-	743	9,419
Total funds held by others and split-interest agreements	\$ 8,676	\$ -	\$ 45,597	\$ 54,273

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 5 - Fair Values of Financial Instruments (Continued)

<i>Level 3 Roll Forward</i>				
<i>2018</i>				
	<i>Holdeen</i>	<i>Other</i>	<i>Charitable</i>	
	<i>Trusts</i>	<i>Trusts</i>	<i>Remainder</i>	<i>Total</i>
			<i>Trust</i>	
Beginning balance	\$ 33,450	\$ 11,404	\$ 743	\$ 45,597
Distributions	(1,581)	(436)	-	(2,017)
Sales/fees	681	524	-	1,205
Unrealized gain (loss)	1,846	360	(33)	2,173
Ending balance	\$ <u>34,396</u>	\$ <u>11,852</u>	\$ <u>710</u>	\$ <u>46,958</u>

<i>Level 3 Roll Forward</i>				
<i>2017</i>				
	<i>Holdeen</i>	<i>Other</i>	<i>Charitable</i>	
	<i>Trusts</i>	<i>Trusts</i>	<i>Remainder</i>	<i>Total</i>
			<i>Trust</i>	
Beginning balance	\$ 31,271	\$ 10,803	\$ 713	\$ 42,787
Distributions	(1,593)	(454)	-	(2,047)
Sales/fees	709	472	-	1,181
Unrealized gain	3,063	583	30	3,676
Ending balance	\$ <u>33,450</u>	\$ <u>11,404</u>	\$ <u>743</u>	\$ <u>45,597</u>

All trusts are invested in a diversified portfolio of stocks, bonds and mutual funds both domestic and international.

Investments have the following redemption notice periods:

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

Unfunded commitments to the investment vehicles amounted to \$5,995 at June 30, 2018. 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.

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 6 - Loans to Member Congregations

Loans to member congregations for capital purposes, primarily for buildings, are as follows at June 30:

	2018	2017
Mortgage loans to member congregations at interest rates from 0% to 5.16% due through 2034	\$ 4,309	\$ 4,731
Less allowance for uncollectible loans	<u>(320)</u>	<u>(340)</u>
Net loans to member congregations	\$ <u>3,989</u>	\$ <u>4,391</u>

Loans to member congregations are written for revolving terms ranging from 1 to 7 years, with the total amortization period ranging from 15 to 25 years. Expected payments for the mortgaged loans to member congregations, reflecting the full amortization period, are as follows for the years ending June 30:

2019	\$ 1,280
2020	255
2021	1,283
2022	1,067
2023	301
Thereafter	<u>123</u>
Total	\$ <u>4,309</u>

Only a small portion of the loans are non-interest bearing, and accordingly, management determined that applying a present value to such loans would not result in a material difference in reported amounts.

Less than 5% of loans are in default or past due at June 30, 2018 and 2017.

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 7 - Property and Equipment

Property and equipment was composed of the following as of June 30:

	<i>Estimated Useful Lives</i>		2018		2017
Land, buildings and improvements	20-40 yrs	\$	36,766	\$	36,269
Computer equipment	4-7 yrs		1,815		1,638
Office furniture and fixtures	7 yrs		2,140		2,123
Construction in progress	-		-		199
			40,721		40,229
Less accumulated depreciation			(6,239)		(4,889)
Property and equipment, net		\$	34,482	\$	35,340

As more fully described in Note 8, the land, building and improvements serve as collateral under a term note agreement.

Allocation of Depreciation Between Operating and Nonoperating

Consistent with the Association's policy, during fiscal year 2015, the Association performed a facilities condition assessment as part of the building purchase and determined that over a 9 year period \$496 represented the annual replacement funding needed. During 2017, the Association performed another facilities condition assessment and determined that over an 11 year period \$435 represents the annual replacement funding needed. The excess depreciation of \$741 in 2018 and of \$716 in 2017 is considered unfunded and included in nonoperating expense on the consolidated statements of activities.

Sale of Real Estate

In June 2017, the Association received a final \$840 contingency payment related to the 2014 sale of the 25 Beacon Street property, of which \$814 was reported as a gain on sale net of brokerage fees of \$26.

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 8 - Bank Debt

The Association has the following bank debt at June 30:

	2018	2017
Member lending credit line	\$ 713	\$ 734
Mortgage note payable	<u>6,782</u>	<u>7,654</u>
Total bank debt	<u>\$ 7,495</u>	<u>\$ 8,388</u>

Member Lending Credit Line

The member lending credit line is a revolving line of credit with an aggregate borrowing limit of \$4,000. The line contains certain financial covenants and expires on December 31, 2018, at which time it will be reviewed for renewal. The term expiration and renewal apply to the unused balance of the credit line. Draws outstanding at term expiration date will remain outstanding and payable in accordance with current agreement terms. This line of credit is used to provide mortgage loan financing to member congregations according to the existing lending standards used by the Association (See Note 6). Draws on the line of credit bear interest at 3.99% and mature at various dates through February 25, 2020.

Mortgage Note Payable

The Association has a mortgage note payable which is due in monthly installments of \$95 including principal and interest at a fixed rate of 3.60% with a final due date of April 1, 2022. The agreement contains certain financial and nonfinancial covenants and is collateralized by the Association's headquarters.

Line of Credit

The Association has a \$500 line of credit available with a bank of which no amounts were outstanding at June 30, 2018 and 2017. The line of credit bears interest at the bank's base lending rate with a floor of 3.99% during the draw period as defined by the agreement. The actual rate was 3.99% at June 30, 2018 and 2017. The line is collateralized by cash deposits. The line contains certain financial covenants and expires on December 31, 2018 at which time it will be reviewed for renewal.

Interest expense for the years ended June 30, 2018 and 2017 was \$296 and \$368, respectively. Cash paid for interest was \$292 and \$373 for the years ended June 30, 2018 and 2017, respectively.

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 8 - Bank Debt (Continued)

Expected payments for the bank debt are as follows for the years ending June 30:

2019	\$	1,550
2020		1,003
2021		972
2022		<u>3,970</u>
Total	\$	<u>7,495</u>

Note 9 - Net Assets and Endowment Matters

Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following as of June 30:

	2018	2017
Accumulated unspent gains:		
General operating	\$ 5,346	\$ 4,809
Scholarships for ministerial students	7,830	7,200
Ministerial aid	6,679	6,417
Other programs	<u>2,756</u>	<u>2,590</u>
Total accumulated unspent gains	<u>22,611</u>	<u>21,016</u>
Purpose restrictions:		
Split-interest agreements	1,206	1,283
Building loan fund	<u>201</u>	<u>201</u>
Total purpose restrictions	<u>1,407</u>	<u>1,484</u>
Time and purpose restrictions:		
Funds held in trust by others - Holdeen Trusts	34,396	33,450
Amounts restricted by donors for programs and (or) time restrictions	<u>5,094</u>	<u>3,782</u>
Total time and purpose restrictions	<u>39,490</u>	<u>37,232</u>
Total temporarily restricted net assets	\$ <u>63,508</u>	\$ <u>59,732</u>

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 9 - Net Assets and Endowment Matters (Continued)

Temporarily Restricted Net Assets (Continued)

Net assets released from temporarily restricted net assets were as follows for the years ended June 30:

	2018	2017
Ministerial programs	\$ <u>2,241</u>	\$ <u>1,521</u>

From time to time on further review of donor restrictions, management may make net asset reclasses based on donor intent.

Permanently Restricted Net Assets

Permanently restricted net assets consisted of the following as of June 30:

	2018	2017
Endowment funds:		
General operating	\$ 27,391	\$ 27,210
Scholarships for ministerial students	11,676	11,648
Other programs	2,609	2,245
Ministerial aid	<u>1,377</u>	<u>1,377</u>
Total endowment funds	43,053	42,480
Building loan fund	4,412	4,412
Funds held in trust by others for restricted purposes	11,851	11,403
Wilton Peace Prize Fund	<u>55</u>	<u>55</u>
Total permanently restricted net assets	\$ <u>59,371</u>	\$ <u>58,350</u>

Endowment

The Association's endowment consists of a number of individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 9 - Net Assets and Endowment Matters (Continued)

Endowment (Continued)

A significant portion of the endowment funds are held via trust that contains special provisions which provides for a member of management to be the trustee under the trust. The trust allows for investment return generated from the permanently restricted portion of the trusts to be considered unrestricted given the discretion provided to the trustee to utilize such funds as needed. Notwithstanding this flexibility, management has determined it would be prudent to label it as unrestricted within that category of stewardship that it believes is merited by these funds.

In addition, the trust contains provisions that if the Association declares bankruptcy, terminates or liquidates its existence or ceases to operate as a charitable or educational organization, that such funds would no longer be available to the Association.

Interpretation of Relevant Law

The Board of Trustees of the Association has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), Chapter 180A of the general laws of the Commonwealth of Massachusetts, as requiring the preservation of the historic dollar value of the original gifts to donor-restricted endowment funds absent explicit donor stipulations to the contrary. The Association classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, if any. Collectively, these amounts are referred to as the historic dollar value of the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Association and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Association
- (7) The investment policies of the Association

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 9 - Net Assets and Endowment Matters (Continued)

Changes in endowment net assets and those functioning as endowment net assets for the fiscal year ended June 30, 2018 are as follows:

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Endowment net assets, beginning of year	\$ <u>24,168</u>	\$ <u>21,016</u>	\$ <u>42,480</u>	\$ <u>87,664</u>
Investment return:				
Investment income (net of expenses)	29	31	-	60
Net appreciation (realized and unrealized)	<u>3,632</u>	<u>3,794</u>	<u>-</u>	<u>7,426</u>
Total investment return	3,661	3,825	-	7,486
Contributions	590	-	573	1,163
Investment return authorized for operations (a)	<u>(4,085)</u>	<u>(2,230)</u>	<u>-</u>	<u>(6,315)</u>
Endowment net assets, end of year	\$ <u>24,334</u>	\$ <u>22,611</u>	\$ <u>43,053</u>	\$ <u>89,998</u>

Endowment net asset composition by type of fund consists of the following at June 30, 2018:

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Donor-imposed endowment funds	\$ 7,551	\$ 22,611	\$ 43,053	\$ 73,215
Unrestricted quasi endowment funds	<u>16,783</u>	<u>-</u>	<u>-</u>	<u>16,783</u>
Total endowed net assets	\$ <u>24,334</u>	\$ <u>22,611</u>	\$ <u>43,053</u>	\$ <u>89,998</u>

(a) Investment return authorized for operations includes \$432K of unspent temporarily restricted income and a \$500K contribution to BLUU endowment fund.

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 9 - Net Assets and Endowment Matters (Continued)

Changes in endowment net assets and those functioning as endowment net assets for the fiscal year ended June 30, 2017 are as follows:

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Endowment net assets, beginning of year	\$ <u>22,011</u>	\$ <u>17,194</u>	\$ <u>42,436</u>	\$ <u>81,641</u>
Investment return:				
Investment income (net of expenses)	(28)	(28)	-	(56)
Net appreciation (realized and unrealized)	<u>5,430</u>	<u>5,532</u>	<u>-</u>	<u>10,962</u>
Total investment return	5,402	5,504	-	10,906
Contributions	19	711	44	774
Adjust for Underwater Funds	86	(86)	-	-
Investment return authorized for operations	<u>(3,350)</u>	<u>(2,307)</u>	<u>-</u>	<u>(5,657)</u>
Endowment net assets, end of year	\$ <u>24,168</u>	\$ <u>21,016</u>	\$ <u>42,480</u>	\$ <u>87,664</u>

Endowment net asset composition by type of fund consists of the following at June 30, 2017:

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Donor-imposed endowment funds	\$ 6,720	\$ 21,016	\$ 42,480	\$ 70,216
Unrestricted quasi endowment funds	<u>17,448</u>	<u>-</u>	<u>-</u>	<u>17,448</u>
Total endowed net assets	\$ <u>24,168</u>	\$ <u>21,016</u>	\$ <u>42,480</u>	\$ <u>87,664</u>

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 9 - Net Assets and Endowment Matters (Continued)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Association to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no funds with deficiencies as of June 30, 2018 and 2017.

Return Objectives and Risk Parameters

The Association has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Association must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that match or exceed a custom benchmark weighted by asset class while assuming a moderate level of investment risk. The Association expects its endowment funds, over time, to provide an average rate of return of approximately 6.2% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Association relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Association targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Association's spending policy determines the amount made available for expenditure from the Association's endowment in a fiscal year using a calculation based on a weighted average of the prior year's spending adjusted for inflation (weighted at 70%), and 5.0% of the trailing four-quarter average market value of the endowment as of the previous December (weighted at 30%). However, the spending rate must be at least 4% and not more than 6% of the trailing four-quarter average market value of the endowment as of the previous December. Spending from new gifts will be calculated at the effective spending policy rate as approved by the Board of Trustees.

Authorized spending can be adjusted annually based on Board of Trustees determination for specific purpose.

In establishing this policy, the Association considered the long-term expected return on its endowment. Accordingly, over the long term, the Association expected the current spending policy to allow its endowment to maintain its value adjusted for inflation. This was consistent with the Association's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts.

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 10 - Leases and Other Commitments

Leases as Lessor

A portion of the Association's headquarters facility is leased to unrelated entities under operating lease agreements that expire at various times through 2020. Such leases provide for various escalations for operating and real estate taxes. Rental income was \$1,648 and \$1,631 for the years ended June 30, 2018 and 2017, respectively.

Future rental income under these non-cancelable leases is as follows for the years ending June 30:

2019	\$	1,487
2020		<u>138</u>
Total	\$	<u><u>1,625</u></u>

Leases as Lessee

The Association leases certain office equipment under operating lease agreements. Future minimum rental payments required under operating leases are as follows as of June 30:

2019	\$	75
2020		42
2021		37
2022		10
2023		<u>1</u>
Total	\$	<u><u>165</u></u>

Rent expense was \$88 and \$103 for the years ended June 30, 2018 and 2017, respectively.

Guarantees

The Association guarantees certain loans extended by various lending institutions to member congregations. The outstanding guarantees were \$579 on loans totaling \$1,158 for June 30, 2018 and 2017. The loan guarantees were extended to the member congregations through the Association's loan guarantee program. The Association's policy is to guarantee 50% of the outstanding loan principal up to a maximum guarantee of \$450. The Association determined the value of these guarantees was not significant given its experience.

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 10 - Leases and Other Commitments (Continued)

Insurance

The Association operates a self-funded medical health insurance program for Association employees and the employees of congregations and affiliates. The Association is administrator and sponsor of the plan. The Trustees of the plan determine premiums to be charged and use a service organization to process benefit payments. In the event that assets accumulated in the trust are insufficient to cover the expected benefit payments, the Association has provided the plan with a guarantee to satisfy any unfunded obligations of the trust. As of June 30, 2018 and 2017, the plan was sufficiently funded to cover all actuarially determined obligations. The Association maintains stop loss insurance coverage that will pay claims for an individual once a \$500 calendar year threshold is reached, up to an unlimited lifetime maximum. The Association has determined the value of this guarantee to not be a significant obligation given the funded status of the plan.

Employment Related Agreements

The Association has employment contracts with key employees, which extend over multiple fiscal years that contain provisions for payments when they retire.

Legal

The Association is subject to various claims and legal proceedings that may arise in the ordinary course of its business activities. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the financial condition of the Association.

Other Commitments

The Association acts as agent for certain donors that wish to donate funds to the Association for distribution to an outside organization. Occasionally, these funds are held at the Association pending final distribution determination by the donor and are accounted for in cash and accounts payable. Agency funds held at the Association as of June 30, 2018 and 2017 were \$8 and \$16, respectively.

During 2017, the Board approved a long-term \$5,300 funding commitment to Black Lives UU (BLUU). This commitment is guaranteed by the common endowment fund. The Association provided \$300 of funding against this commitment during 2017. The Association entered into an agreement with BLUU in January 2018 whereby the Association will donate a minimum of \$225 per calendar year to BLUU for transitional operating funds through the earlier of fulfillment of the \$5,300 commitment or December 31, 2021.

Effective May 8, 2017, the Association entered into an agreement with a third-party to implement a customized Hosting Application for Bibliographic, Production and Digital Asset Management. The total license and implementation costs amounted to \$126. At June 30, 2018, \$77 was incurred and the remaining \$49 was paid in first quarter of fiscal 2019. The Association will also pay an annual maintenance cost of approximately \$44 to the third-party after the launch date. The launch date was August 6, 2018. The agreement expires on May 8, 2023 and automatically renews for one additional year unless terminated by one of the parties.

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 11 - Agency Agreement

The Association, along with five other related organizations, has entered into an agreement with the Unitarian Universalist Congregation at Shelter Rock (UUCSR) whereby the UUCSR will make \$4,500 in grants available as a match equal to the greater of \$1 or 10% of the gift pledge amount (maximum of \$10) for every new legacy gift pledge received from January 1, 2017 to June 30, 2020 to any UU member organization. Matching grants will be paid out from July 1, 2019 to June 30, 2020. Matching grants of \$151 and \$3,056 payable to the UUA and related organizations, respectively, were accrued at June 30, 2018 and \$16 and \$496 payable to the UUA and related organizations, respectively, were accrued at June 30, 2017. In addition, the UUCSR has granted \$500 to the Association for program development.

Note 12 - Benefit Plans

The Association has a qualified defined contribution retirement plan covering all employees who have satisfied initial age and hour requirements. The Association makes a pension contribution of 11% of employee salary (plus housing allowance for ministers) for all employees who participate in the plan upon completing one year of employment. Employees may make additional voluntary contributions to the plan up to the established IRS limits. Contributions to the plan are fully vested immediately. Retirement plan costs were \$1,087 and \$1,088 for the years ended June 30, 2018 and 2017, respectively.

The Association provides a healthcare retirement plan (the Plan) to certain employees retired prior to 2002, as well as to certain active employees who were over age 45 on April 1, 2002. The measurement date used to determine benefit measures for the Plan is June 30.

The following table presents the Plan's funded status at June 30:

	2018	2017
Changes in benefit obligation:		
Benefit obligation at beginning of year	\$ 1,761	\$ 1,937
Service cost	2	2
Interest cost	72	69
Actuarial loss	-	(132)
Benefits paid	<u>(139)</u>	<u>(115)</u>
Benefit obligation at end of year	<u>1,696</u>	<u>1,761</u>
Change in plan assets:		
Employer contribution	139	115
Benefits paid	<u>(139)</u>	<u>(115)</u>
Fair value of plan assets at end of year	<u>-</u>	<u>-</u>
Accumulated postretirement benefit obligation	\$ <u>1,696</u>	\$ <u>1,761</u>

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 12 - Benefit Plans (Continued)

Assumptions used to determine the benefit obligation are as follows as of June 30:

	2018	2017
Discount rate	3.25%	3.25%
Rate of increase in healthcare costs	5.70	5.70

The ultimate healthcare cost trend rate assumption of 4.70% Pre-65 and 4.50% Post-65 used to calculate the benefit obligation is expected to be reached by 2093 for Pre-65 and 2085 for Post-65. In addition, updated mortality tables were used in 2017 to measure obligations.

A one-percentage-point change in assumed healthcare cost trend rates would have the following effects as of June 30, 2018:

	One- Percentage- Point Increase	One- Percentage- Point Decrease
Effects on total service and interest cost components for 2018	\$ 57	\$ 53
Effects on year-end 2018 accumulated postretirement benefit obligation	1,822	1,543

The expected future benefit payments are as follows for the years ending June 30:

2019	\$	144
2020		143
2021		141
2022		138
2023		134
2024-2028		600
Total	\$	<u><u>1,300</u></u>

The expected benefits are based on the same assumptions used to measure the Association's benefit obligation at June 30, 2018 and 2017.

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 12 - Benefit Plans (Continued)

Net periodic postretirement benefit cost reported as expense in the consolidated statements of activities included the following components for the years ended June 30:

	2018	2017
Service cost	\$ 2	\$ 2
Interest cost	72	69
	72	69
Net periodic benefit cost	\$ 74	\$ 71
	74	71

The ultimate healthcare cost trend rate assumption of 4.50% used to calculate the net periodic postretirement benefit cost is expected to be reached by 2084.

Note 13 - Program Expenses

The Association's program expenses and costs were as follows for the years ended June 30:

	2018	2017
Costs of goods sold and publishing expenses	\$ 7,933	\$ 7,623
Ministries and faith development	6,305	6,081
Congregational life	5,610	6,762
Other programs	4,017	3,960
International programs	1,593	1,451
Communications	2,367	2,318
Multicultural growth & witness	1,193	1,071
	1,193	1,071
Total	\$ 29,018	\$ 29,266
	29,018	29,266

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements (in thousands)

Note 14 - Subsequent Events

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

Two of the Association's previously independent regional operations merged into the Association as of July 1, 2016. Final legal dissolution and transfer of assets of several districts within these two regions is expected in 2018 and 2019. At June 30, 2018, the estimated increase in net assets from the merger of these districts for fiscal 2019 and 2020 is approximately \$2,005 and \$161, respectively.

Supplemental Schedules

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Supplemental Schedule of Assets by Business Segment

June 30, 2018

(in thousands)

	Current	General Assembly	Group Insurance Plan	Beacon Press	CPLF	UUCEF	Eliminations	Total
Assets:								
Cash and cash equivalents	\$ 6,761	\$ 9	\$ 1,581	\$ 1,884	\$ 2,453	\$ -	\$ -	12,688
Accounts receivable, net	1,265	-	-	917	-	-	-	2,182
Pledges receivable, net	598	-	-	-	-	-	-	598
Agency receivable	3,056	-	-	-	-	-	-	3,056
Inventories, net	514	-	-	816	-	-	-	1,330
Other assets	282	-	-	950	-	33	-	1,265
Investment in UUCEF	88,668	-	-	1,334	-	190,516	(89,998)	190,520
Investments	55	-	-	-	-	-	-	55
Funds held in trust by others	46,248	-	-	-	-	-	-	46,248
Funds held in support of split-interest agreements	9,426	-	-	-	-	-	-	9,426
Loans to member congregations, net	-	-	-	-	3,989	-	-	3,989
Property and equipment, net	34,446	-	-	23	-	13	-	34,482
Amounts due from other business segments	39	-	-	-	-	-	(39)	-
Total assets	\$ 191,358	\$ 9	\$ 1,581	\$ 5,924	\$ 6,442	\$ 190,562	\$ (90,037)	\$ 305,839

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY

Supplemental Schedule of Liabilities and Net Assets by Business Segment

June 30, 2018

(in thousands)

	Current	General Assembly	Group Insurance Plan	Beacon Press	CPLF	UUCEF	Eliminations	Total
Liabilities:								
Accounts payable and accrued expenses	\$ 3,100	\$ -	\$ -	\$ 1,720	\$ -	\$ 190	\$ -	\$ 5,010
Agency liability	3,056	-	-	-	-	-	-	3,056
Annuity liabilities	1,981	-	-	-	-	-	-	1,981
Bank debt	6,782	-	-	-	713	-	-	7,495
Obligations under split-interest agreements	5,615	-	-	-	-	-	-	5,615
Accumulated postretirement benefit obligation	1,696	-	-	-	-	-	-	1,696
Amounts due to (from) other business segments	(148)	-	-	39	(70)	218	(39)	-
Total liabilities	22,082	-	-	1,759	643	408	(39)	24,853
Minority interest in UUCEF	-	-	-	-	-	100,156	-	100,156
Net assets:								
Unrestricted	51,142	9	1,581	3,947	1,186	89,998	(89,912)	57,951
Temporarily restricted	63,216	-	-	177	201	-	(86)	63,508
Permanently restricted	54,918	-	-	41	4,412	-	-	59,371
Total net assets	169,276	9	1,581	4,165	5,799	89,998	(89,998)	180,830
Total liabilities and net assets	\$ 191,358	\$ 9	\$ 1,581	\$ 5,924	\$ 6,442	\$ 190,562	\$ (90,037)	\$ 305,839

UNITARIAN UNIVERSALIST ASSOCIATION AND SUBSIDIARY
Supplemental Schedule of Unrestricted Activities by Business Segment

For the Year Ended June 30, 2018

(in thousands)

	Current	General Assembly	Group Insurance Plan	Beacon Press	CPLF	UUCEF	Eliminations	Total
Operating:								
Support and revenue:								
Fundraising and gifts and bequests	\$ 13,317	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (29)	\$ 13,288
Net sales from publishing activities	956	-	-	7,356	-	-	-	8,312
Sales and administrative services	1,707	1,202	-	-	-	-	(868)	2,041
Investment return authorized for operations	4,453	-	-	-	20	-	37	4,510
Distributions from Holdeen Trusts	1,109	-	-	-	-	-	-	1,109
Other investment income	-	-	-	14	195	-	-	209
Rental income	1,648	-	-	-	-	-	-	1,648
Other income	3,353	-	1,784	506	-	-	(150)	5,493
Net assets released from restriction	2,065	-	-	176	-	-	-	2,241
Total support and revenue	28,608	1,202	1,784	8,052	215	-	(1,010)	38,851
Expenses:								
Board and volunteer leadership	541	-	-	-	-	-	-	541
Multicultural growth and witness	1,193	-	-	-	-	-	-	1,193
International	1,593	-	-	-	-	-	-	1,593
Congregational life	5,610	-	-	-	-	-	-	5,610
Ministry and faith development	5,025	-	1,778	-	-	-	(498)	6,305
UU Funding Program and Crisis Relief	2,532	-	-	-	-	-	-	2,532
Communications	2,367	-	-	-	-	-	-	2,367
Cost of goods sold and publishing expenses	312	-	-	7,772	-	-	(150)	7,934
Administration	1,694	-	-	-	-	-	-	1,694
Stewardship and development	2,186	-	-	-	-	-	-	2,186
Information technology services	1,521	-	-	-	-	-	-	1,521
Internal services	2,735	-	-	-	-	-	-	2,735
Rental expense	669	-	-	-	-	-	-	669
General assembly	-	1,484	-	-	-	-	-	1,484
Expenses associated with investment pools	-	-	-	-	229	-	(190)	39
Interest expense	267	-	-	-	29	-	-	296
Total expenses	28,245	1,484	1,778	7,772	258	-	(838)	38,699
Increase (decrease) in unrestricted net assets from operations	363	(282)	6	280	(43)	-	(172)	152
Nonoperating:								
Investment income	7,888	-	-	101	-	15,399	(15,219)	8,169
Increase in value of funds held in support of split-interest agreements and trusts	(20)	-	-	-	-	-	-	(20)
Investment return - debt financing	873	-	-	-	-	-	-	873
Unfunded depreciation	(741)	-	-	-	-	-	-	(741)
Total decrease in net assets from nonoperating activities	8,000	-	-	101	-	15,399	(15,219)	8,281
Minority interest in investment earnings of UUCEF	(7,912)	-	-	-	-	-	-	(7,912)
Increase (decrease) in unrestricted net assets	\$ 451	\$ (282)	\$ 6	\$ 381	\$ (43)	\$ 15,399	\$ (15,391)	\$ 521



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)

	2018	2017
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
	190,562	182,661
Liabilities:		
Accrued expenses and other liabilities	408	243
	190,154	182,418
Net assets	\$ 190,154	\$ 182,418

(in units and dollars)

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

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%
Total Investments			<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%
Total Investments			<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)

	2018	2017
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>
Net investment gain (loss)	<u>124</u>	<u>(116)</u>
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>
Net realized and unrealized gains from investments	<u>15,274</u>	<u>22,835</u>
Net increase in net assets from operations	\$ <u><u>15,398</u></u>	\$ <u><u>22,719</u></u>

UNITARIAN UNIVERSALIST COMMON ENDOWMENT FUND LLC

Statements of Changes in Net Assets

For the Years Ended June 30, 2018 and 2017

(in thousands)

Net assets July 1, 2016	\$ <u>170,391</u>
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>
Net assets June 30, 2017	<u>182,418</u>
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>
Net assets June 30, 2018	\$ <u><u>190,154</u></u>

UNITARIAN UNIVERSALIST COMMON ENDOWMENT FUND LLC

Statements of Cash Flows

For the Years Ended June 30,

(in thousands)

	2018	2017
Cash flows from operating activities:		
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
	7,414	765
Net cash provided by operating activities	7,414	765
Cash flows from financing activities:		
Capital contributions	6,472	6,174
Capital withdrawals	(14,134)	(16,866)
	(7,662)	(10,692)
Net cash used in financing activities	(7,662)	(10,692)
Net change in cash and cash equivalents	(248)	(9,927)
Cash and cash equivalents as of beginning of period	1,629	11,556
Cash and cash equivalents as of end of period	\$ 1,381	\$ 1,629

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:

	Investments			
	2018			
	Level 1	Level 2	Investments Measured at NAV	Total
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
Total investments	\$ 99,800	\$ 67,579	\$ 21,756	\$ 189,135

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>
Total	\$ <u>189,135</u>

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
Total investments	\$ 97,742	\$ 63,545	\$ 19,674	\$ 180,961

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:

Net asset value at July 1, 2016		\$ 7.1337
Net investment loss		(0.0048)
Net realized and unrealized gain		<u>0.9886</u>
Net asset value at June 30, 2017		8.1175
Net investment income		0.0058
Net realized and unrealized gain		<u>0.6964</u>
Net asset value at June 30, 2018		\$ <u>8.8197</u>
	2018	2017
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:

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

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.

Unitarian Universalist Organizations Health Plan

Financial Report
June 30, 2018

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RSM US LLP

Independent Auditor's Report

To the Plan Participants and Benefits Trust Trustees of
Unitarian Universalist Organizations Health Plan

Report on the Financial Statements

We have audited the accompanying financial statements of the Unitarian Universalist Organizations Health Plan (the Plan), which comprise the statements of net assets available for plan benefits and plan benefit obligations as of June 30, 2018 and 2017, the related statements of changes in net assets available for plan benefits and changes in plan benefit obligations 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.

Auditor's 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 auditor's 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 status of the Plan as of June 30, 2018 and 2017, and the changes in its financial status for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter—Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules, schedule of assets (held at end of year) as of June 30, 2018 and schedule of reportable transactions for the year ended June 30, 2018 are presented for the purpose of additional analysis and are not a required part of the financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. Such information is the responsibility of the Plan's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

RSM US LLP

Boston, Massachusetts
January 25, 2019

Unitarian Universalist Organizations Health Plan

Statements of Net Assets Available for Plan Benefits
June 30, 2018 and 2017

	2018	2017
Assets		
Investments, at fair value:		
Corporate bonds	\$ 2,480,625	\$ 1,176,503
Exchange traded funds	1,116,315	401,996
Equity securities	1,075,614	1,050,345
Money market fund	140,910	665,231
Certificates of deposit	596,013	631,160
Governmental agency securities	274,991	430,328
Total investments	5,684,468	4,355,563
Receivables:		
Interest income	27,378	15,056
Contributions from subscribing employers	27,346	58,838
Contributions from participants	11,720	25,217
	66,444	99,111
Other assets:		
Cash	1,607,614	1,652,793
Prepaid claim deposit	185,500	185,500
	1,793,114	1,838,293
Total assets	7,544,026	6,292,967
Liabilities		
Prepaid contributions	38,120	41,585
Accounts payable and accrued expenses	121,709	291,214
Due to group insurance plan	2,589	5,634
Total liabilities	162,418	338,433
Net assets available for plan benefits	\$ 7,381,608	\$ 5,954,534

See notes to financial statements.

Unitarian Universalist Organizations Health Plan

Statements of Changes in Net Assets Available for Plan Benefits Years Ended June 30, 2018 and 2017

	2018	2017
Investment income:		
Interest income and dividends	\$ 144,912	\$ 65,743
Net (depreciation) appreciation in fair value of investments	(12,963)	68,634
	<u>131,949</u>	<u>134,377</u>
Contributions:		
Contributions from subscribing employers	7,966,769	7,673,417
Contributions from participants	3,414,329	3,288,607
	<u>11,381,098</u>	<u>10,962,024</u>
Plan prescription rebates	<u>116,462</u>	<u>51,059</u>
	<u>11,629,509</u>	<u>11,147,460</u>
Deductions from net assets attributed to:		
Benefits paid to or on behalf of participants and beneficiaries	8,962,025	7,833,288
Premiums paid to insurance carrier for excess loss coverage	283,140	236,575
External plan administration fees	458,987	468,135
Administrative expenses	399,877	403,150
Professional fees	98,406	89,375
Total deductions	<u>10,202,435</u>	<u>9,030,523</u>
Net increase	1,427,074	2,116,937
Net assets available for plan benefits:		
Beginning of year	<u>5,954,534</u>	<u>3,837,597</u>
End of year	<u><u>\$ 7,381,608</u></u>	<u><u>\$ 5,954,534</u></u>

See notes to financial statements.

Unitarian Universalist Organizations Health Plan

Statements of Plan Benefit Obligations

June 30, 2018 and 2017

	2018	2017
Amounts currently payable:		
Claims payable and claims incurred but not reported	\$ 873,000	\$ 569,000
Total obligations other than postretirement benefit obligations	873,000	569,000
Total plan benefit obligations	\$ 873,000	\$ 569,000

See notes to financial statements.

Unitarian Universalist Organizations Health Plan

**Statements of Changes in Plan Benefit Obligations
Years Ended June 30, 2018 and 2017**

	2018	2017
Amounts currently payable:		
Balance at beginning of year	\$ 569,000	\$ 631,000
Claims incurred	9,266,025	7,771,288
Claims paid	(8,962,025)	(7,833,288)
Balance at end of year	873,000	569,000
Total plan benefit obligations, at end of year	\$ 873,000	\$ 569,000

See notes to financial statements.

Unitarian Universalist Organizations Health Plan

Notes to Financial Statements

Note 1. Description of Plan

The following description of Unitarian Universalist Organizations Health Plan (the "Plan") provides only general information. Participants should refer to the Unitarian Universalist Organizations Health Plan Document (the "Plan Document") for a more complete description of the Plan's provisions.

General: The Plan is a multiple employer voluntary health and welfare benefit plan established by the Unitarian Universalist Association Employee Benefits Trust (the "Trust" or the "Plan Sponsor"), with an effective date of January 1, 2007, for the exclusive benefit of, and to provide health benefits to, eligible employees and eligible retirees (and their eligible dependents) of subscribing employers and subscribing individuals. The Benefits Trust Trustees serve as the trustees of the Plan and have been appointed by the trustees of the Unitarian Universalist Association ("UUA"). The Plan provides health insurance benefits, including pharmacy coverage under non-Medicare Supplement policies, for all covered employees and eligible retirees of UUA congregations and related organizations, (the "Company") as well as their covered dependents. It is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended. The Plan Sponsor manages the Plan and is an independent not-for-profit corporation which is exempt from income taxes under section 501(c)(9) of the Internal Revenue Code.

Plan administration: Administration of the Plan is performed by employees of the UUA, the costs of which are absorbed by the Plan based on an estimate of time incurred.

The Plan is self-insured with respect to medical claims with the exception of certain "excess loss" insurance policies that cover certain large claims at both aggregate and individual participant levels.

Highmark, Inc. ("Highmark") is the claims administrator of the Plan for medical benefits. As an outsourced contract administrator of the Plan, Highmark has discretionary authority over payment of medical claims submitted by participants. Furthermore, Consolidated Omnibus Budget Reconciliation Act ("COBRA") administration is performed by HM Benefits Administrators, an affiliate of Highmark.

CDS Administrators, Inc. ("CDS") collects the premiums of the Plan.

Milliman, Inc. (the "Actuary") is engaged as a technical advisor on matters related to the operation, actuarial valuation and funding requirements of the Plan.

Eastern Bank and its affiliate, Eastern Wealth Management, Inc. serves the Plan as custodian of Plan investments and investment manager, respectively.

Benefits: The Plan provides health insurance benefits to participants pursuant to an insurance contract with Highmark. The Plan offers four levels of preferred provider coverage and a Medicare supplement plan. The Plan's health benefits (including information about the benefits available, required deductibles, co-payments, maximums, limits, and exclusions, as applicable) are summarized in the applicable coverage booklets.

Eligibility: A subscribing employer is defined as a UUA Congregation (or other entity that is a related organization of the UUA) that has subscribed to the Plan.

An eligible employee is defined as someone working at least 750 hours per year for a subscribing employer who also satisfies the specific eligibility requirements established by the subscribing employer in the respective employer subscription agreement.

Unitarian Universalist Organizations Health Plan

Notes to Financial Statements

Note 1. Description of Plan (Continued)

An eligible retiree is defined as someone meeting one of two criteria: (i) the retiree is under age 65 and has retired from a subscribing employer after performing services as a minister; or (ii) is age 65 or older, is enrolled in Medicare Parts A and B, is retired from a subscribing employer after performing services in any capacity and has worked at least 750 hours per calendar year for a subscribing employer in five of the ten calendar years preceding the year of retirement.

Eligible dependents allowed to participate in the Plan include the following: (i) a spouse under a legally valid marriage; (ii) an unmarried natural, step or adopted child that is under 26 or of any age if the child or children are physically or mentally incapable of caring for themselves due to certain disabilities; and (iii) a domestic partner (as defined in the plan document).

A subscribing individual includes an individual who is either (i) a self-employed Unitarian Universalist community minister or (ii) a Unitarian Universalist minister working in a ministerial capacity for an UUA Congregation (or other entity that is an affiliated member of the UUA) that does not offer a health insurance plan, each of whom has subscribed to the Plan.

Eligible employees, eligible retirees, eligible dependents, or subscribing individuals are hereinafter referred to as “covered persons” or “participants.”

Funding policy: The cost of all benefits is shared by the subscribing employers and participants. The subscribing employers make regular contributions in the amount required to fund benefits, insurance premiums and expenses of the Plan. Participants contribute specified amounts based upon coverage as determined by the subscribing employers. Participant contribution amounts for various benefits are the same for active and retired participants. Subscribing individuals must pay 100% of the cost of coverage, which varies based upon which coverage is elected.

Excess loss (“stop-loss”) coverage insurance policies: Since inception, the Plan has purchased stop-loss insurance coverage from HM Life Insurance Company (“HM LIC”), a division of Highmark, to cover health care benefits that exceed certain claim expense levels. The policies cover the respective calendar years and the policy terms have been modified each year in an effort to control Plan expenses. The stop-loss coverage works in the following manner: the Plan is responsible for paying qualified claim expenses and would get reimbursed by HM LIC for health care claim expenses that exceed the per participant deductible level. Reimbursement is limited to the per participant maximum coverage benefit, which is measured over the participants lifetime. The following table summarizes coverage levels for each calendar year that is reported in the financial statements.

	Deductible Per Participant	Maximum Benefit Coverage Per Participant	Maximum Benefit Coverage For the Plan
Calendar year 2016	500,000	Unlimited	Unlimited
Calendar year 2017	500,000	Unlimited	Unlimited
Calendar year 2018	500,000	Unlimited	Unlimited

The Plan did not experience claim losses at a per participant level or at the Plan level in excess of the respective deductibles during the Plan years ended June 30, 2018 and 2017.

Unitarian Universalist Organizations Health Plan

Notes to Financial Statements

Note 1. Description of Plan (Continued)

Administrative expenses: The Plan absorbs all administrative expenses of the Plan, such as services provided by employees of the UUA to the Plan and rent. Audit fees, consulting fees and legal fees incurred are also paid by the plan and are classified as professional fees on the statements of changes in net assets available for plan benefits. Expenses paid directly by the Plan also include those related to third-party claims administration, premiums collection, actuarial services, investment management services, and COBRA coverage under the Plan and are classified as external plan administration fees on the statements of changes in net assets available for plan benefits.

Note 2. Summary of Significant Accounting Policies

Basis of accounting: The financial statements of the Plan are prepared under the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Use of estimates: The preparation of the financial statements in conformity with U.S. GAAP requires the Plan's management to make estimates and assumptions that affect the reported amounts of assets, liabilities, benefit obligations and changes therein and disclosure of contingent assets and liabilities. Actual results may differ from those estimates.

Plan benefit obligations and actuarial assumptions: The Medicare Prescription Drug Improvement and Modernization Act of 2003 ("the Act") provides for drug benefits for participants age 65 and over under the Medicare Part D program. For plan sponsors who continue to provide prescription drug programs for eligible former employees age 65 and over which are actuarially equivalent to the Medicare Part D program, there are subsidies available that are contained in the Act in the form of direct tax-exempt payments. As of June 30, 2018, the Plan does not offer a prescription drug program for eligible former employees age 65 and over. Accordingly, the change in benefit obligations does not reflect any amount associated with the Medicare subsidy.

Cash: The Plan maintains certain amounts in bank deposit accounts which, at times, may exceed federally insured limits, but does not believe it is exposed to any significant credit risk.

Receivables: Receivables at June 30, 2018 and 2017 in the amount of \$39,066 and \$84,055, respectively, represent amounts due from subscribing employer congregations and subscribing individuals for contributions to the Plan. Receivables at June 30, 2018 and 2017 in the amount of \$27,378 and \$15,056, respectively, represent accrued interest income on investment balances.

Prepaid claim deposit: The prepaid claim deposit is an escrow account which the Plan is contractually required to keep at Highmark. In the event that the Plan terminates, the prepaid claim deposit would be used to cover claims which are outstanding as of the termination date and is adjusted by Highmark based on the prior year's claims experience.

Valuation of investments and income recognition: The Plan's investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net (depreciation) appreciation includes the Plan's gains and losses on investments bought and sold as well as held during the year.

Prepaid contributions: Prepaid contributions are contributions which have been made by subscribing employers or subscribing individuals for coverage to be provided in the future. In the event that a subscribing employer or subscribing individual was to terminate coverage, the Plan would be required to reimburse the participants or subscribing employers.

Unitarian Universalist Organizations Health Plan

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Due to group insurance plan: The Plan collects non-trust funds on behalf of other plans that the participants are enrolled in and these amounts are remitted to those plans monthly.

Payment of benefits: Claims payments are recorded when paid by Highmark. Amounts due to Highmark that have yet to be reimbursed by the Plan are included in accounts payable and accrued expenses in the accompanying statements of net assets available for plan benefits.

Claims payable and claims incurred but not reported: Plan obligations at June 30, 2018 and 2017 for claims payable and claims incurred by active participants but not reported at that date are based on an estimate, prepared by the Actuary, which is based on historical payment lags experienced by the Plan including factors of average days claims are outstanding and average dollars of such claims. The Plan had \$873,000 and \$569,000 of estimated claims payable and claims incurred but not reported for all active participants at June 30, 2018 and 2017, respectively.

Income taxes: Accounting principles generally accepted in the United States of America require plan management to evaluate tax positions taken by the Plan. The Plan Sponsor evaluated the Plan's tax positions and concluded that the Plan had maintained its tax exempt status and had taken no uncertain tax positions that require recognition or disclosure in the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements. With few exceptions, the Plan is no longer subject to income tax examinations by the U.S. federal, state, or local tax authorities for plan years before June 30, 2015.

Note 3. Fair Value Measurements

Fair Value Measurements and Disclosures, issued by the FASB, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Unitarian Universalist Organizations Health Plan

Notes to Financial Statements

Note 3. Fair Value Measurements (Continued)

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Plan's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. The Plan uses prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2 or from Level 2 to Level 3.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2018 and 2017.

Money market fund: The money market fund is valued at the quoted net asset value (NAV) of shares held by the Plan. This security is categorized in Level 1 of the fair value hierarchy as it is reported daily.

Equity securities and exchange traded funds: The fair value of equity securities and exchange traded funds is the market value based on quoted market prices reported on the active market on which the individual securities are traded. These securities are categorized in Level 1 of the fair value hierarchy as they have observable inputs

Certificates of deposit: Certificates of deposit are priced using pricing models which consists of a combination of inputs from observable market information including broker quotes, recent trades, supply information, benchmark yields (treasury curves) and security specific historical information, returns, and yields. These securities are categorized in Level 2 of the fair value hierarchy as they have observable inputs but are not actively quoted.

Government agency securities and corporate bonds: Government agency securities and corporate bonds are valued using bond pricing models consisting of observable market inputs including broker quotes, recent trades, and specific historical information on returns and yields. These securities are categorized in Level 2 of the fair value hierarchy.

The following tables set forth by level, within the fair value hierarchy, the Plan's assets at fair value as of June 30, 2018 and 2017.

Assets at fair value at June 30, 2018:

	Balance as of June 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Corporate bonds	\$ 2,480,625	\$ -	\$ 2,480,625	\$ -
Exchange traded funds	1,116,315	1,116,315	-	-
Equity securities	1,075,614	1,075,614	-	-
Certificates of deposit	596,013	-	596,013	-
Governmental agency securities	274,991	-	274,991	-
Money market fund	140,910	140,910	-	-
Total investments at fair value	\$ 5,684,468	\$ 2,332,839	\$ 3,351,629	\$ -

Unitarian Universalist Organizations Health Plan

Notes to Financial Statements

Note 3. Fair Value Measurements (Continued)

Assets at fair value at June 30, 2017:

	Balance as of June 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Corporate bonds	\$ 1,176,503	\$ -	\$ 1,176,503	\$ -
Equity securities	1,050,345	1,050,345	-	-
Money market fund	665,231	665,231	-	-
Certificates of deposit	631,160	-	631,160	-
Government agency securities	430,328	-	430,328	-
Exchange traded funds	401,996	401,996	-	-
Total investments at fair value	\$ 4,355,563	\$ 2,117,572	\$ 2,237,991	\$ -

Note 4. Tax Status

The Trust is intended to be organized and operated as an employee welfare benefit plan described in Section 3(1) of the Employee Retirement Income Security Act of 1974, as amended (ERISA). The Trust is a voluntary employees' beneficiary association as described in Internal Revenue Service Code (IRC) Section 501(c)(9). The Plan Sponsor has obtained a favorable tax determination letter, dated March 12, 2009, from the Internal Revenue Service stating that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code.

Although the Plan has been amended subsequent to March 12, 2009, the Plan Sponsor believes that the Plan is currently designed and being operated in compliance with applicable requirements of the Code.

Note 5. Party-In-Interest Transactions

Plan administration is performed by the employees of the UUA and the Plan is charged at cost for the services provided to the Plan. Such expenditures are reviewed and approved annually by the Benefits Trust Trustees. Plan administration expenses charged by the UUA to the Plan totaled \$399,877 and \$403,150 for the years ended June 30, 2018 and 2017, respectively. Investments of the Plan include a money market fund managed by Eastern Bank, the custodian of the Plan. Contributions for the group insurance plan are collected by CDS and held by the Plan until remitted to the other plans on a monthly basis. These transactions qualify as party-in-interest transactions as that term is defined in Section 3(14) of ERISA.

Note 6. Plan Termination

Although the Plan Sponsor and Benefits Trust Trustees contemplate the continuation of the Plan in the form presented, the Plan Sponsor has the right under the Plan to terminate the Plan or modify the benefits provided at any time subject to provisions of ERISA.

In the event the Plan terminates, the net assets of the Plan shall be used in accordance with the Plan for the benefit of the covered persons to the extent the Plan will permit.

Unitarian Universalist Organizations Health Plan

Notes to Financial Statements

Note 7. Plan Benefit Obligations and Changes in Plan Benefit Obligations

The Plan Sponsor, with the advice from the Plan's Actuary, determined that postretirement benefit obligations, if any, related to the Plan were the responsibility of subscribing employers and not of the Plan and therefore no postretirement benefit obligation existed at June 30, 2018 and 2017.

Note 8. Reconciliation of Financial Statements to Form 5500

The following is a reconciliation of net assets available for plan benefits per the accompanying financial statements to the Form 5500 as of June 30, 2018 and 2017:

	2018	2017
Net assets available for plan benefits per the financial statements	\$ 7,381,608	\$ 5,954,534
Less claims payable and claims incurred but not reported	(873,000)	(569,000)
Net assets available for plan benefits per Form 5500	<u>\$ 6,508,608</u>	<u>\$ 5,385,534</u>

The following is a reconciliation of the net increase per the financial statements to the net decrease per the Form 5500 for the plan years ended June 30, 2018 and 2017:

	2018	2017
Net increase per the financial statements	\$ 1,427,074	\$ 2,116,937
Claims payable and claims incurred but not reported in current year	(873,000)	(569,000)
Claims payable and claims incurred but not reported in prior year	569,000	631,000
Net increase per Form 5500	<u>\$ 1,123,074</u>	<u>\$ 2,178,937</u>

Note 9. Risks and Uncertainties

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near term and that such changes could materially affect amounts reported in the statements of net assets available for plan benefits.

Note 10. Subsequent Events

The Company has evaluated subsequent events through January 25, 2019, the date which the financial statements were available to be issued. There were no additional matters requiring accrual or disclosure in the financial statements.

Unitarian Universalist Organizations Health Plan

Schedule H, Line 4i - Schedule of Assets (Held at End of Year)
June 30, 2018

Employer Identification Number: 20-8079417
Plan Number: 501

(a)	(b)	(c)					(d)	(e)
		Description of Investment						
Identity of Issue, Borrower, Lessor or Similar Party	Type of Investment	Maturity Date	Rate of Interest	Collateral	Par or Maturity Value	Cost	Current Value	
Compass Bank	Certificate of Deposit	10/2/2018	2.00%	n/a	150,000	\$ 150,000	\$ 150,002	
Celtic Bank	Certificate of Deposit	12/20/2019	2.05%	n/a	100,000	100,000	99,497	
Goldman Sachs Bank	Certificate of Deposit	9/3/2020	2.35%	n/a	100,000	100,000	98,622	
Compass Bank	Certificate of Deposit	9/18/2018	1.95%	n/a	75,000	75,000	74,996	
Barclays Bank	Certificate of Deposit	8/20/2020	2.35%	n/a	75,000	75,000	74,072	
Enerbank USA	Certificate of Deposit	8/28/2020	2.25%	n/a	75,000	75,000	74,067	
Goldman Sachs Bank	Certificate of Deposit	1/28/2020	2%	n/a	25,000	25,000	24,757	
Applied Materials, Inc.	Corporate Bond	6/15/2021	4.30%	n/a	100,000	104,086	103,293	
Anheuser-Busch InBev N.V./S.A.	Corporate Bond	1/15/2022	3.75%	n/a	100,000	102,100	101,358	
Target Corporation	Corporate Bond	7/1/2024	3.50%	n/a	100,000	104,672	100,407	
Fluor Corp.	Corporate Bond	9/15/2021	3.38%	n/a	100,000	102,902	99,888	
Vodafone Group PLC	Corporate Bond	2/19/2023	2.95%	n/a	100,000	191,299	96,491	
Intel Corp.	Corporate Bond	10/1/2021	3.30%	n/a	50,000	50,983	50,484	
McDonald's Corporation	Corporate Bond	7/15/2020	3.50%	n/a	50,000	51,869	50,445	
Blackrock, Inc.	Corporate Bond	6/1/2022	3.38%	n/a	50,000	51,843	50,387	
J.M. Smucker Company (The)	Corporate Bond	10/15/2021	3.50%	n/a	50,000	51,772	50,198	
Textron Inc.	Corporate Bond	3/1/2021	3.65%	n/a	50,000	51,699	50,190	
American International Group	Corporate Bond	8/15/2020	3.38%	n/a	50,000	51,504	50,089	
UnitedHealth Group Inc.	Corporate Bond	7/15/2022	3.35%	n/a	50,000	52,261	50,071	
Laboratory Corp. of America	Corporate Bond	11/1/2018	2.50%	n/a	50,000	50,093	49,945	
Quest Diagnostic Inc.	Corporate Bond	4/1/2019	2.70%	n/a	50,000	50,463	49,931	
Citigroup, Inc.	Corporate Bond	4/8/2019	2.55%	n/a	50,000	50,374	49,915	
Ameriprise Financial, Inc.	Corporate Bond	10/15/2024	3.70%	n/a	50,000	52,307	49,898	
John Deere Capital Corp.	Corporate Bond	4/17/2019	2.25%	n/a	50,000	50,196	49,869	
Legg Mason, Inc.	Corporate Bond	7/15/2019	2.70%	n/a	50,000	50,619	49,852	
Whirlpool Corporation	Corporate Bond	3/1/2023	3.70%	n/a	50,000	51,953	49,845	
Verizon Communications Inc.	Corporate Bond	2/21/2020	2.63%	n/a	50,000	50,848	49,835	
Praxair, Inc.	Corporate Bond	9/1/2021	3.00%	n/a	50,000	51,571	49,729	
Bristol-Myers Squibb Company	Corporate Bond	11/1/2023	3.25%	n/a	50,000	51,492	49,721	
Thermo Fisher Scientific, Inc.	Corporate Bond	2/15/2022	3.30%	n/a	50,000	51,497	49,708	
Wells Fargo & Company	Corporate Bond	1/22/2021	3%	n/a	50,000	51,133	49,672	
Omnicom Group Inc.	Corporate Bond	5/1/2022	3.63%	n/a	50,000	51,935	49,635	
Celgene Corporation	Corporate Bond	8/15/2022	3.55%	n/a	50,000	52,088	49,620	
Morgan Stanley	Corporate Bond	6/16/2020	2.80%	n/a	50,000	50,181	49,597	
Metlife, Inc.	Corporate Bond	4/10/2024	3.60%	n/a	50,000	51,348	49,590	
Prudential Financial	Corporate Bond	5/15/2024	3.50%	n/a	50,000	52,105	49,572	
Allstate Corporation (The)	Corporate Bond	6/15/2023	3.15%	n/a	50,000	51,432	49,502	
United Technologies Corporation	Corporate Bond	6/1/2022	3.10%	n/a	50,000	51,361	49,392	
Ecolab, Inc.	Corporate Bond	1/12/2020	2.25%	n/a	50,000	50,000	49,375	
Comcast Corp. CI A	Corporate Bond	3/1/2024	3.60%	n/a	50,000	50,383	49,229	
Bank of America Corp.	Corporate Bond	4/19/2021	2.63%	n/a	50,000	50,295	49,119	
McDonald's Corporation	Corporate Bond	6/10/2024	3.25%	n/a	50,000	52,137	49,065	
Georgia Power Company	Corporate Bond	5/15/2022	2.85%	n/a	50,000	50,843	49,004	
General Electric Capital Corporation	Corporate Bond	9/7/2022	3.15%	n/a	50,000	51,316	48,989	
Wells Fargo & Company	Corporate Bond	3/4/2021	2.50%	n/a	50,000	50,154	48,884	
PepsiCo, Inc.	Corporate Bond	3/1/2023	2.75%	n/a	50,000	50,716	48,857	
Monsanto Company	Corporate Bond	7/15/2021	2.75%	n/a	50,000	50,967	48,758	
EMC Corporation	Corporate Bond	6/1/2020	2.65%	n/a	50,000	50,314	48,557	
Du Pont De Nemours & Co.	Corporate Bond	2/15/2023	2.80%	n/a	50,000	50,832	48,486	
Cardinal Health, Inc.	Corporate Bond	3/15/2023	3.20%	n/a	50,000	51,221	48,451	
Sysco Corp.	Corporate Bond	6/12/2022	2.60%	n/a	50,000	50,469	48,332	
United Technologies Corporation	Corporate Bond	5/4/2024	2.80%	n/a	50,000	50,109	47,390	
Calvert Small Cap Fund	Equity Security	n/a	n/a	n/a	n/a	45,045	46,795	
Apple Inc.	Equity Security	n/a	n/a	n/a	n/a	29,927	42,575	
Facebook CI A	Equity Security	n/a	n/a	n/a	n/a	30,531	42,167	
Amazon.com, Inc.	Equity Security	n/a	n/a	n/a	n/a	22,387	40,795	
Salesforce.com, Inc.	Equity Security	n/a	n/a	n/a	n/a	18,498	30,963	

Unitarian Universalist Organizations Health Plan

Schedule H, Line 4i - Schedule of Assets (Held at End of Year)
June 30, 2018

Employer Identification Number: 20-8079417
Plan Number: 501

(a)	(b)	(c)					(d)	(e)
		Description of Investment						
Identity of Issue, Borrower, Lessor or Similar Party	Type of Investment	Maturity Date	Rate of Interest	Collateral	Par or Maturity Value	Cost	Current Value	
Alphabet Inc. CI A	Equity Security	n/a	n/a	n/a	n/a	22,158	29,359	
JPMorgan Chase & Co.	Equity Security	n/a	n/a	n/a	n/a	21,711	29,072	
Bank of America Corp.	Equity Security	n/a	n/a	n/a	n/a	19,238	28,303	
Visa, Inc.	Equity Security	n/a	n/a	n/a	n/a	17,232	26,887	
Adobe Inc.	Equity Security	n/a	n/a	n/a	n/a	13,805	26,819	
SPDR Financial Index	Equity Security	n/a	n/a	n/a	n/a	24,651	26,617	
Intuit Inc.	Equity Security	n/a	n/a	n/a	n/a	21,190	26,355	
SPDR Industrial Select	Equity Security	n/a	n/a	n/a	n/a	24,507	26,288	
Verizon Communications Inc.	Equity Security	n/a	n/a	n/a	n/a	23,158	25,004	
Home Depot Inc.	Equity Security	n/a	n/a	n/a	n/a	16,725	23,607	
Becton, Dickinson and Co.	Equity Security	n/a	n/a	n/a	n/a	19,073	22,758	
UnitedHealth Group Inc.	Equity Security	n/a	n/a	n/a	n/a	21,456	22,081	
Abbott Laboratories	Equity Security	n/a	n/a	n/a	n/a	20,707	21,712	
Nike Inc. CI B	Equity Security	n/a	n/a	n/a	n/a	14,312	21,514	
Merck & Co. Inc.	Equity Security	n/a	n/a	n/a	n/a	19,052	20,456	
Johnson & Johnson	Equity Security	n/a	n/a	n/a	n/a	18,431	19,900	
Costco Wholesale Corporation	Equity Security	n/a	n/a	n/a	n/a	15,571	19,853	
Charles Schwab	Equity Security	n/a	n/a	n/a	n/a	16,840	19,265	
DowDuPont Inc.	Equity Security	n/a	n/a	n/a	n/a	18,643	18,655	
Morgan Stanley	Equity Security	n/a	n/a	n/a	n/a	14,168	18,154	
Blackrock, Inc.	Equity Security	n/a	n/a	n/a	n/a	14,225	17,965	
Danaher Corporation	Equity Security	n/a	n/a	n/a	n/a	17,920	17,960	
Broadcom Inc.	Equity Security	n/a	n/a	n/a	n/a	17,430	17,955	
Northrop Grumman	Equity Security	n/a	n/a	n/a	n/a	17,660	17,847	
Xcel Energy Inc.	Equity Security	n/a	n/a	n/a	n/a	16,277	17,724	
FedEx Corporation	Equity Security	n/a	n/a	n/a	n/a	13,434	17,711	
Sysco Corp.	Equity Security	n/a	n/a	n/a	n/a	13,385	17,550	
Monster Beverage Corp.	Equity Security	n/a	n/a	n/a	n/a	20,416	17,419	
Cognizant Technology Solutions	Equity Security	n/a	n/a	n/a	n/a	17,710	17,299	
Allstate Corporation (The)	Equity Security	n/a	n/a	n/a	n/a	14,685	17,250	
3M Co.	Equity Security	n/a	n/a	n/a	n/a	16,186	16,721	
Analog Devices	Equity Security	n/a	n/a	n/a	n/a	12,051	16,594	
AbbVie Inc.	Equity Security	n/a	n/a	n/a	n/a	20,128	16,492	
CVS Health Corporation	Equity Security	n/a	n/a	n/a	n/a	19,475	16,409	
Comcast Corp. CI A	Equity Security	n/a	n/a	n/a	n/a	17,540	16,372	
McDonald's Corporation	Equity Security	n/a	n/a	n/a	n/a	16,474	16,296	
United Technologies Corporation	Equity Security	n/a	n/a	n/a	n/a	16,231	16,254	
Caterpillar Inc.	Equity Security	n/a	n/a	n/a	n/a	15,506	15,466	
Eaton Corporation, PLC	Equity Security	n/a	n/a	n/a	n/a	16,290	15,172	
Royal Caribbean Cruises, Ltd.	Equity Security	n/a	n/a	n/a	n/a	12,500	14,504	
PNC Bank Corp.	Equity Security	n/a	n/a	n/a	n/a	15,905	13,915	
Procter & Gamble Co.	Equity Security	n/a	n/a	n/a	n/a	13,921	13,426	
PPG Industries, Inc.	Equity Security	n/a	n/a	n/a	n/a	12,723	12,344	
Nextera Energy Inc.	Equity Security	n/a	n/a	n/a	n/a	10,816	11,859	
Alphabet Inc. CI C	Equity Security	n/a	n/a	n/a	n/a	8,268	11,156	
iShares TIPS Bond ETF	Exchange Traded Fund	n/a	n/a	n/a	n/a	262,621	259,714	
Calvert Income Fund	Exchange Traded Fund	n/a	n/a	n/a	n/a	237,772	229,137	
Calvert High Yield Bond Fund	Exchange Traded Fund	n/a	n/a	n/a	n/a	216,174	207,051	
iShares Floating Rate Bond Etf	Exchange Traded Fund	n/a	n/a	n/a	n/a	199,161	199,869	
iShares Barclays 7-10 Year Treasury Bond Fund	Exchange Traded Fund	n/a	n/a	n/a	n/a	118,807	114,196	
Invesco WilderHill Clean Energy ETF	Exchange Traded Fund	n/a	n/a	n/a	n/a	29,150	28,019	
Calvert Global Water Fund	Exchange Traded Fund	n/a	n/a	n/a	n/a	28,883	27,068	
Calvert Global Energy Solutions	Exchange Traded Fund	n/a	n/a	n/a	n/a	28,815	25,666	
Invesco Solar ETF	Exchange Traded Fund	n/a	n/a	n/a	n/a	28,835	25,595	
Federal Farm Credit Bank	Governmental Agency Security	9/12/2019	2.53%	n/a	200,000	201,415	200,242	
Federal Farm Credit Bank	Governmental Agency Security	6/28/2019	2.02%	n/a	75,000	75,090	74,749	
Federated Government Obligation Tax Managed Fund	Money Market Fund	n/a	1.42%	n/a	140,910	140,910	140,910	
								<u>\$ 5,684,468</u>

Unitarian Universalist Organizations Health Plan

Schedule H, Line 4j - Schedule of Reportable Transactions
Year Ended June 30, 2018

Employer Identification Number: 20-8079417
Plan Number: 501

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Identity of Party Involved	Description of Asset (including interest rate and maturity in case of a loan)	Purchase Price	Selling Price	Expenses Incurred with Transaction	Cost of Asset	Current Value of Asset on Transaction Date	Net Gain (or loss)
<i>Category 3 - Series of transactions in the same security exceeds 5% of value</i>							
iShares	iShares iBoxx Investment Grade Corporate Bond Fund	\$ -	\$ 189,823	\$ -	\$ 189,274	\$ 189,823	\$ 549
iShares	iShares iBoxx Investment Grade Corporate Bond Fund	189,274	-	-	189,274	189,274	-