W.E. Upjohn Unemployment Trustee Corporation

Financial Report
December 31, 2017

Contents

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Independent Auditor's Report

To the Board of Trustees
W.E. Upjohn Unemployment Trustee Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of W.E. Upjohn Unemployment Trustee Corporation (the "Corporation"), which comprise the balance sheet as of December 31, 2017 and 2016 and the related statements of activities and 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.

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 position of W.E. Upjohn Unemployment Trustee Corporation as of December 31, 2017 and 2016 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Trustees
W.E. Upjohn Unemployment Trustee Corporation

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2018 on our consideration of W.E. Upjohn Unemployment Trustee Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering W.E. Upjohn Unemployment Trustee Corporation's internal control over financial reporting and compliance.

Plante & Moran, PLLC

April 24, 2018

Balance Sheet

December 31, 2017 and 2016

	2017	2016
Assets		
Cash (Note 3)	$ 1,165,359	$ 939,272
Investments (Note 5)	211,286,559	185,597,178
Receivables (Note 4)	1,332,149	1,370,904
Other assets	552,401	514,716
Property and equipment - Net (Note 6)	4,385,713	4,652,817
Total assets	**$ 218,722,181**	**$ 193,074,887**
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 84,605	$ 173,678
Advances payable	834,613	102,716
Accrued expenses	914,041	915,779
Total liabilities	1,833,259	1,192,173
Net Assets - Unrestricted	216,888,922	191,882,714
Total liabilities and net assets	**$ 218,722,181**	**$ 193,074,887**

See notes to financial statements.

W.E. Upjohn Unemployment Trustee Corporation

Statement of Activities and Changes in Net Assets

Years Ended December 31, 2017 and 2016

	2017	2016
Changes in Unrestricted Net Assets		
Revenue and support:		
Contract revenue	$ 12,166,637	$ 12,335,659
Investment income (Note 5)	31,833,272	16,723,799
Other	137,286	144,806
Total revenue and support	44,137,195	29,204,264
Expenses:		
Research and special studies:		
In-house	1,946,644	1,996,361
Publications	442,638	428,174
Library and archives room	413,795	462,448
External grants	114,800	148,148
General research and community service	2,595,951	2,445,178
Total research and special studies	5,513,828	5,480,309
Employment and training assistance programs	11,404,013	11,204,241
Management and general	2,213,146	2,221,067
Total expenses	19,130,987	18,905,617
Increase in Net Assets	25,006,208	10,298,647
Net Assets - Beginning of year	191,882,714	181,584,067
Net Assets - End of year	**$ 216,888,922**	**$ 191,882,714**

Statement of Cash Flows

Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Increase in net assets	$ 25,006,208	$ 10,298,647
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation	343,988	400,070
Change in realized and unrealized appreciation in fair value of investments	(25,262,277)	(11,126,459)
Changes in operating assets and liabilities which provided (used) cash:		
Receivables	38,755	149,889
Accounts payable	(89,073)	127,895
Advances payable	731,897	27,366
Accrued expenses	(1,738)	(138,622)
Other assets	(37,685)	(66,098)
Net cash provided by (used in) operating activities	730,075	(327,312)
Cash Flows from Investing Activities		
Purchase of property and equipment	(76,884)	(130,992)
Purchases of investments	(20,117,571)	(33,555,616)
Proceeds from sales and maturities of investments	19,690,467	34,060,666
Net cash (used in) provided by investing activities	(503,988)	374,058
Net Increase in Cash	226,087	46,746
Cash - Beginning of year	939,272	892,526
Cash - End of year	**$ 1,165,359**	**$ 939,272**

See notes to financial statements.

Note 1 - Nature of Organization

W.E. Upjohn Unemployment Trustee Corporation (the "Corporation") was established in 1932 under a trust agreement that authorizes the Corporation to conduct research on a wide variety of employment issues using the assets and revenue from the assets given to the Corporation at its creation.

Note 2 - Significant Accounting Policies

Classification of Net Assets

Net assets of the Corporation are classified as unrestricted due to the nature of the Corporation.

Contract Revenue Recognition

The Corporation enters into contracts with certain governmental and private agencies. Contract revenue is primarily derived from employment and training assistance program grants that are annually renewable. Contract revenue also includes grants and contracts, which support the Corporation's research on employment issues. Revenue under these contracts is recognized when earned. The activities of the Corporation relating to certain contracts are subject to review or audit by the responsible governmental agency to determine compliance with award documents and may be subject to possible adjustment based on negotiations with the funding agencies.

Revenue derived from the research grants and contracts totaled $729,026 and $1,072,436 in 2017 and 2016, respectively. The costs incurred to generate this revenue totaled $1,268,273 and $1,297,375 in 2017 and 2016, respectively.

Receivables represent reimbursements for costs incurred under federal, state, and private contracts and are considered fully collectible.

Investments

Investments in debt and equity securities are recorded at fair value based on quoted market prices. 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 the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the balance sheet.

Property and Equipment

Property and equipment are recorded at cost when purchased or at fair value at the date of donation and are being depreciated on a straight-line basis over their estimated useful lives. Costs of assets sold or retired and the related amounts of accumulated depreciation are eliminated from the accounts in the year of sale or retirement. Any resulting gain or loss is reflected in the statement of activities and changes in net assets. Cost of maintenance and repairs are charged to expense when incurred.

Functional Allocation of Expenses

The costs of providing the program and support services have been reported on a functional basis in the statement of activities and changes in net assets. Indirect costs have been allocated between the various programs and support services based on estimates, as determined by management. Although the methods of allocation used are considered reasonable, other methods could be used that would produce a different amount.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Significant Accounting Policies (Continued)

Federal Income Taxes

The Corporation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC).

Upcoming Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Corporation's year ending December 31, 2019. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Corporation has not yet determined which application method it will use. The main revenue stream of the Corporation is not expected to be significantly impacted by the standard. The impact on the second main revenue stream has yet to be determined by the FASB.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Corporation's year ending December 31, 2020 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The new lease standard is not expected to have a significant effect on the Corporation’s financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Organization, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Corporation’s year ending December 31, 2018 and thereafter and must be applied on a retrospective basis. The Corporation expects the impact on the financial statements to include adding liquidity disclosures and adding a statement of functional expenses.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including April 24, 2018, which is the date the financial statements were available to be issued.

Note 3 - Concentration of Credit Risk

The Corporation's bank deposits occasionally exceed federal depository insurance limitations. The uninsured cash balances totaled approximately $893,000 and $551,000 at December 31, 2017 and 2016, respectively. Management believes that it is impractical to insure all bank deposits. Management evaluates each financial institution with which it deposits funds and assesses the risk level of each financial institution. Only the institutions with an acceptable estimated risk level are used as depositories.

Note 4 - Receivables

Receivables at December 31, 2017 and 2016 consist of the following:

	2017	2016
Contracts	$ 1,251,792	$ 1,231,830
Publications and other	80,357	139,074
Total	$ 1,332,149	$ 1,370,904

As of December 31, 2017 and 2016, no allowance has been recorded.

Note 5 - Investments

Investments are maintained in custodial accounts directed by professional investment managers. Investments at December 31, 2017 and 2016 consist of the following, with separate identification of investments representing 5 percent or more of total assets:

	2017	2016
Mutual funds:		
DFA U.S. Large Cap Value Fund	$ 36,929,967	$ 34,157,879
Vanguard Institutional Index Fund	27,915,688	24,954,203
Western Assets Bond Fund	25,087,629	21,976,839
Loomis Sayles Bond Fund	13,232,488	12,311,768
Vanguard Mid Cap Index Fund	21,263,295	19,228,149
DFA International Core Equity Fund	14,458,794	6,602,929
DFA U.S. Small Cap Value Fund	10,772,727	11,050,429
DFA International Small Cap	11,062,625	9,561,000
Vanguard Small Cap Index Fund	10,883,581	10,072,458
Artisan International	15,752,345	12,002,527
DFA Real Estate Securities Fund	9,834,978	9,303,504
Other	10,161,680	12,685,067
Money market accounts	3,930,762	1,690,426
Total	$ 211,286,559	$ 185,597,178

Investment activity is reflected below:

	2017	2016
Dividends and interest	$ 6,824,173	$ 5,832,471
Appreciation in fair value	25,262,277	11,126,459
Investment advisory fees	(253,178)	(235,131)
Investment income	$ 31,833,272	$ 16,723,799

Note 6 - Property and Equipment

Property and equipment are summarized as follows:

	2017	2016	Depreciable Life - Years
Land	$ 569,776	$ 569,776	-
Land improvements	28,466	28,466	10-15
Buildings	8,334,779	8,266,856	25-30
Machinery and equipment	1,697,256	1,688,296	3-15
Total cost	10,630,277	10,553,394	
Accumulated depreciation	6,244,564	5,900,577	
Net property and equipment	$ 4,385,713	$ 4,652,817	

Depreciation and amortization expense was $343,988 for 2017 and $400,070 for 2016.

Note 7 - Commitments

Trustees of the Corporation had approved external research grants with accumulated obligations amounting to $54,357 and $62,868 at December 31, 2017 and 2016, respectively. The grants are subject to the satisfaction of certain conditions before payment and will not be reflected in the financial statements until these conditions are met in accordance with the provisions of the grants.

Note 8 - Pension Plan

The Corporation sponsors a defined contribution pension plan covering substantially all of its employees. Contributions are determined as 12 percent of each covered employee's salary and amounted to $607,560 and $606,745 in 2017 and 2016, respectively.

Note 9 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Corporation’s assets measured at fair value on a recurring basis at December 31, 2017 and 2016 and the valuation techniques used by the Corporation to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Corporation has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management’s own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Corporation’s assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Note 9 - Fair Value Measurements (Continued)

The Corporation's policy is to recognize transfers in and transfers out of Level 1, 2, and 3 fair value classifications as of the actual date of the event of change in circumstances that caused the transfer. No such transfers were made in 2017 or 2016.

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2017			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2017
Cash equivalents - Money market accounts	$ 3,930,762	$ -	$ -	$ 3,930,762
Equity - Mutual funds:				
Domestic	127,761,916	-	-	127,761,916
International	41,273,764	-	-	41,273,764
Fixed income - Mutual funds	38,320,117	-	-	38,320,117
Total assets	$ 211,286,559	$ -	$ -	$ 211,286,559

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2016			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2016
Cash equivalents - Money market accounts	$ 1,690,426	$ -	$ -	$ 1,690,426
Equity - Mutual funds:				
Domestic	116,496,090	-	-	116,496,090
International	33,122,055	-	-	33,122,055
Fixed income - Mutual funds	34,288,607	-	-	34,288,607
Total assets	$ 185,597,178	$ -	$ -	$ 185,597,178