

W.E. Upjohn Unemployment Trustee Corporation

**Financial Report
December 31, 2016**

W.E. Upjohn Unemployment Trustee Corporation

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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, 2016 and 2015, 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.

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

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, 2016 and 2015, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2017 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 18, 2017

W.E. Upjohn Unemployment Trustee Corporation

Balance Sheet

	December 31, 2016	December 31, 2015
Assets		
Cash (Note 2)	\$ 939,272	\$ 892,526
Receivables (Note 3)	1,370,904	1,520,793
Investments (Note 4)	185,597,178	174,975,769
Property and equipment - Net (Note 5)	4,652,817	4,921,895
Other assets	514,716	448,618
Total assets	<u>\$ 193,074,887</u>	<u>\$ 182,759,601</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 173,678	\$ 45,783
Advances payable	102,716	75,350
Accrued expenses	915,779	1,054,401
Total liabilities	1,192,173	1,175,534
Net Assets - Unrestricted	191,882,714	181,584,067
Total liabilities and net assets	<u>\$ 193,074,887</u>	<u>\$ 182,759,601</u>

W.E. Upjohn Unemployment Trustee Corporation

Statement of Activities and Changes in Net Assets

	Year Ended	
	December 31, 2016	December 31, 2015
Revenue and Support		
Investment income (loss) (Note 4)	\$ 16,723,799	\$ (5,163,292)
Contract revenue	12,335,659	12,981,434
Other	144,806	171,065
Total revenue and support	29,204,264	7,989,207
Expenses		
Research and special studies:		
In-house	1,996,361	2,400,611
Publications	428,174	446,821
Library and archives room	462,448	443,558
External grants	148,148	160,776
General research and community service	2,445,178	2,066,251
Total research and special studies	5,480,309	5,518,017
Employment and training assistance programs	11,204,241	11,271,382
Management and general	2,221,067	2,031,898
Total expenses	18,905,617	18,821,297
Increases (Decrease) in Net Assets	10,298,647	(10,832,090)
Net Assets - Beginning of year	181,584,067	192,416,157
Net Assets - End of year	\$ 191,882,714	\$ 181,584,067

W.E. Upjohn Unemployment Trustee Corporation

Statement of Cash Flows

	Year Ended	
	December 31, 2016	December 31, 2015
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ 10,298,647	\$ (10,832,090)
Adjustments to reconcile increase (decrease) in net assets to net cash from operating activities:		
Depreciation	400,070	412,959
Change in realized and unrealized (appreciation) depreciation in fair value of investments	(11,126,459)	11,393,735
Changes in operating assets and liabilities which provided (used) cash:		
Receivables	149,889	256,775
Accounts payable	127,895	10,699
Advances payable	27,366	(199,541)
Accrued expenses	(138,622)	(236,987)
Other assets	(66,098)	(44,370)
Net cash (used in) provided by operating activities	(327,312)	761,180
Cash Flows from Investing Activities		
Purchase of property and equipment	(130,992)	(37,278)
Purchases of investments	(33,555,616)	(10,572,495)
Proceeds from sales and maturities of investments	34,060,666	10,191,870
Net cash provided by (used in) investing activities	374,058	(417,903)
Net Increase in Cash	46,746	343,277
Cash - Beginning of year	892,526	549,249
Cash - End of year	<u>\$ 939,272</u>	<u>\$ 892,526</u>

W.E. Upjohn Unemployment Trustee Corporation

Notes to Financial Statements December 31, 2016 and 2015

Note 1 - Nature of Activities and Significant Accounting Policies

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.

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 \$1,072,436 and \$1,450,300 in 2016 and 2015, respectively. The costs incurred to generate this revenue totaled \$1,297,375 and \$1,678,757 in 2016 and 2015, 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. Costs of maintenance and repairs are charged to expense when incurred.

W.E. Upjohn Unemployment Trustee Corporation

Notes to Financial Statements December 31, 2016 and 2015

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

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 accounting principles generally accepted in the United States of America 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, expenses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

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

Upcoming Accounting Change - Presentation of Financial Statements - The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, in August 2016. 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 Corporation, 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 is currently evaluating the impact this standard will have on the financial statements.

W.E. Upjohn Unemployment Trustee Corporation

Notes to Financial Statements December 31, 2016 and 2015

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Upcoming Accounting Change - Revenue Recognition - In May 2014, the FASB issued 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 main revenue stream of the Corporation is not expected to be significantly impacted by the standard, but the Corporation is further evaluating the less significant revenue streams to determine if they may be impacted by the standard.

Upcoming Accounting Changes - Lease Recognition - In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which will supercede the current lease requirements in ASC 840. The ASU requires leases 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 lease new guidance will be effective for the Corporation's year ended December 31, 2020 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The effect of applying the new lease guidance on the financial statements will result in recognition of assets and liabilities. The Corporation does not believe the standard will have a material impact on the financial statements.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including April 18, 2017, which is the date the financial statements were available to be issued.

W.E. Upjohn Unemployment Trustee Corporation

Notes to Financial Statements December 31, 2016 and 2015

Note 2 - Concentration of Credit Risk

The Corporation's bank deposits occasionally exceed federal depository insurance limitations. The uninsured cash balances totaled approximately \$551,000 and \$420,000 at December 31, 2016 and 2015, 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 3 - Receivables

Receivables at December 31, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Contracts	\$ 1,231,830	\$ 1,385,687
Publications and other	139,074	135,106
Total	<u>\$ 1,370,904</u>	<u>\$ 1,520,793</u>

Note 4 - Investments

Investments are maintained in custodial accounts directed by professional investment managers. Investments at December 31, 2016 and 2015 consist of the following, with separate identification of investments representing 5 percent or more of total assets:

	<u>2016</u>	<u>2015</u>
Mutual funds:		
DFA U.S. Large Cap Value Fund	\$ 34,157,879	\$ 30,507,415
Vanguard Institutional Index Fund	24,954,203	24,101,505
Western Assets Bond Fund	21,976,839	11,544,957
Loomis Sayles Bond Fund	12,311,768	11,333,607
Vanguard Mid Cap Index Fund	19,228,149	18,560,379
Templeton Global Bond Fund	-	10,104,652
DFA U.S. Small Cap Value Fund	11,050,429	17,290,704
DFA International Small Cap	9,561,000	8,852,386
Vanguard Small Cap Index Fund	10,072,458	-
Artisan International Fund	12,002,527	13,249,567
DFA Real Estate Securities Fund	9,303,504	10,020,467
Other	19,287,996	17,276,627
Money market accounts	1,690,426	2,133,503
Total	<u>\$ 185,597,178</u>	<u>\$ 174,975,769</u>

W.E. Upjohn Unemployment Trustee Corporation

Notes to Financial Statements December 31, 2016 and 2015

Note 4 - Investments (Continued)

Investment activity is reflected below:

	<u>2016</u>	<u>2015</u>
Dividends and interest	\$ 5,832,471	\$ 6,471,389
Appreciation (depreciation) in fair value	11,126,459	(11,393,735)
Investment advisory fees	<u>(235,131)</u>	<u>(240,946)</u>
Investment income (loss)	<u>\$ 16,723,799</u>	<u>\$ (5,163,292)</u>

Note 5 - Property and Equipment

The cost of property and equipment is summarized as follows:

	<u>2016</u>	<u>2015</u>	Depreciable Life - Years
Land	\$ 569,776	\$ 569,776	-
Land improvements	28,466	28,466	10-15
Buildings	8,266,856	8,210,356	25-30
Machinery and equipment	<u>1,688,296</u>	<u>1,613,804</u>	3-15
Total cost	10,553,394	10,422,402	
Accumulated depreciation	<u>(5,900,577)</u>	<u>(5,500,507)</u>	
Net carrying amount	<u>\$ 4,652,817</u>	<u>\$ 4,921,895</u>	

Depreciation expense was \$400,070 for 2016 and \$412,959 for 2015.

Note 6 - Commitments

Trustees of the Corporation had approved external research grants with accumulated obligations amounting to \$62,868 and \$77,868 at December 31, 2016 and 2015, 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 7 - 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 \$606,745 and \$493,082 in 2016 and 2015, respectively.

W.E. Upjohn Unemployment Trustee Corporation

Notes to Financial Statements December 31, 2016 and 2015

Note 8 - 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, 2016 and 2015 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.

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 2016 or 2015.

W.E. Upjohn Unemployment Trustee Corporation

Notes to Financial Statements December 31, 2016 and 2015

Note 8 - Fair Value Measurements (Continued)

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	<u>\$ 185,597,178</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 185,597,178</u>

Assets Measured at Fair Value on a Recurring Basis at December 31, 2015

	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, 2015
Cash equivalents - Money market accounts	\$ 2,133,503	\$ -	\$ -	\$ 2,133,503
Equity - Mutual funds:				
Domestic	106,446,937	-	-	106,446,937
International	33,412,110	-	-	33,412,110
Fixed income - Mutual funds	32,983,219	-	-	32,983,219
Total assets	<u>\$ 174,975,769</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 174,975,769</u>

Note 9 - Fair Value of Financial Instruments

A summary of the methods and significant assumptions used to estimate the fair values of financial instruments is as follows:

Short-term Financial Instruments - The fair values of short-term financial instruments, including other assets, accounts receivable and payable, advances payable, and accrued liabilities approximate the carrying amounts in the accompanying financial statements due to the short maturity of such instruments.

Investments - Investments are recorded at fair value in the accompanying financial statements. Fair value is determined based on the fair value measurement principles described in Note 8.