

W.E. Upjohn Unemployment Trustee Corporation

**Financial Report
December 31, 2015**

W.E. Upjohn Unemployment Trustee Corporation

Contents

Report Letter	1-2
Financial Statements	
Balance Sheet	3
Statement of Activities and Changes in Net Assets	4
Statement of Cash Flows	5
Notes to Financial Statements	6-12

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, 2015 and 2014 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, 2015 and 2014 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 22, 2016 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 22, 2016

W.E. Upjohn Unemployment Trustee Corporation

Balance Sheet

	December 31, 2015	December 31, 2014
Assets		
Cash (Note 2)	\$ 892,526	\$ 549,249
Receivables (Note 3)	1,520,793	1,777,568
Investments (Note 4)	174,975,769	185,988,879
Property and equipment - Net (Note 5)	4,921,895	5,297,576
Other assets	448,618	404,248
Total assets	<u>\$ 182,759,601</u>	<u>\$ 194,017,520</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 45,783	\$ 35,084
Advances payable	75,350	274,891
Accrued expenses	1,054,401	1,291,388
Total liabilities	1,175,534	1,601,363
Net Assets - Unrestricted	181,584,067	192,416,157
Total liabilities and net assets	<u>\$ 182,759,601</u>	<u>\$ 194,017,520</u>

W.E. Upjohn Unemployment Trustee Corporation

Statement of Activities and Changes in Net Assets

	Year Ended	
	December 31, 2015	December 31, 2014
Revenue and Support		
Investment (loss) income (Note 4)	\$ (5,163,292)	\$ 11,353,799
Contract revenue	12,981,434	11,211,080
Other	171,065	149,995
Total revenue and support	7,989,207	22,714,874
Expenses		
Research and special studies:		
In-house	2,400,611	2,489,586
Publications	446,821	394,016
Library and archives room	443,558	429,726
External grants	160,776	201,876
General research and community service	2,066,251	1,657,048
Total research and special studies	5,518,017	5,172,252
Employment and training assistance programs	11,271,382	9,906,615
Management and general	2,031,898	2,047,818
Total expenses	18,821,297	17,126,685
(Decrease) Increase in Net Assets	(10,832,090)	5,588,189
Net Assets - Beginning of year	192,416,157	186,827,968
Net Assets - End of year	\$ 181,584,067	\$ 192,416,157

W.E. Upjohn Unemployment Trustee Corporation

Statement of Cash Flows

	Year Ended	
	December 31, 2015	December 31, 2014
Cash Flows from Operating Activities		
(Decrease) increase in net assets	\$ (10,832,090)	\$ 5,588,189
Adjustments to reconcile (decrease) increase in net assets to net cash from operating activities:		
Depreciation	412,959	388,574
Change in realized and unrealized depreciation (appreciation) in fair value of investments	11,393,735	(6,056,579)
Changes in operating assets and liabilities which provided (used) cash:		
Receivables	256,775	(935,254)
Accounts payable	10,699	(126,403)
Advances payable	(199,541)	54,244
Accrued expenses	(236,987)	614,555
Other assets	(44,370)	4,646
Net cash provided by (used in) operating activities	761,180	(468,028)
Cash Flows from Investing Activities		
Purchase of property and equipment	(37,278)	(53,624)
Purchases of investments	(10,572,495)	(14,998,007)
Proceeds from sales and maturities of investments	10,191,870	15,150,385
Net cash (used in) provided by investing activities	(417,903)	98,754
Net Increase (Decrease) in Cash	343,277	(369,274)
Cash - Beginning of year	549,249	918,523
Cash - End of year	<u>\$ 892,526</u>	<u>\$ 549,249</u>

W.E. Upjohn Unemployment Trustee Corporation

Notes to Financial Statements December 31, 2015 and 2014

Note I - 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 \$1,450,300 and \$1,455,191 in 2015 and 2014, respectively. The costs incurred to generate this revenue totaled \$1,678,757 and \$1,842,037 in 2015 and 2014, 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, 2015 and 2014

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). In addition, the Corporation qualifies as a publicly supported organization as described in Section 170b(1)(A)(vi) and has been classified under Section 509(a)(1) as an organization that is not a private foundation. Therefore, the Corporation is exempt from income tax but is subject to federal and state income tax on any unrelated business taxable income. For 2015 and 2014, the Corporation did not have any unrelated business taxable income. Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Corporation and recognize a tax liability if the Corporation has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Corporation and has concluded that as of December 31, 2015 and 2014, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Corporation is no longer subject to examinations by authorities for years before January 1, 2012.

W.E. Upjohn Unemployment Trustee Corporation

Notes to Financial Statements December 31, 2015 and 2014

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

Upcoming Accounting Change - Revenue Recognition - 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 or the potential effects of the new standard on the financial statements, if any.

Upcoming Accounting Changes - Lease Recognition - In February 2016, the Financial Accounting Standards Board issued ASU No. 2016-02, *Leases*, which will supersede 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 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. Upon implementation, the Corporation's lease payment obligations will be recognized at the estimated present value along with a corresponding right-of-use asset. Lease expense recognition will be generally consistent with current practice.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including April 22, 2016, which is the date the financial statements were available to be issued.

W.E. Upjohn Unemployment Trustee Corporation

Notes to Financial Statements December 31, 2015 and 2014

Note 2 - Concentration of Credit Risk

The Corporation's bank deposits occasionally exceed federal depository insurance limitations. The uninsured cash balances totaled approximately \$420,000 and \$81,000 at December 31, 2015 and 2014, 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, 2015 and 2014 consist of the following:

	<u>2015</u>	<u>2014</u>
Contracts	\$ 1,385,687	\$ 1,660,053
Publications and other	135,106	117,515
Total	<u>\$ 1,520,793</u>	<u>\$ 1,777,568</u>

Note 4 - Investments

Investments are maintained in custodial accounts directed by professional investment managers. Investments at December 31, 2015 and 2014 consist of the following, with separate identification of investments representing 5 percent or more of total assets:

	<u>2015</u>	<u>2014</u>
Mutual funds:		
DFA U.S. Large Cap Value Fund	\$ 30,507,415	\$ 32,353,776
Vanguard Institutional Index Fund	24,101,505	25,739,798
Western Assets Bond Fund	11,544,957	11,395,488
Loomis Sayles Bond Fund	11,333,607	12,168,031
Vanguard Mid Cap Index Fund	18,560,379	20,274,408
Templeton Global Bond Fund	10,104,652	10,875,866
DFA U.S. Small Cap Value Fund	17,290,704	18,755,962
DFA International Small Cap	8,852,386	8,512,822
Artisan International Fund	13,249,567	13,748,464
DFA Real Estate Securities Fund	10,020,467	10,417,234
Other	17,276,627	19,123,564
Money market accounts	2,133,503	2,623,466
Total	<u>\$ 174,975,769</u>	<u>\$ 185,988,879</u>

W.E. Upjohn Unemployment Trustee Corporation

Notes to Financial Statements December 31, 2015 and 2014

Note 4 - Investments (Continued)

Investment activity is reflected below:

	<u>2015</u>	<u>2014</u>
Dividends and interest	\$ 6,471,389	\$ 5,538,403
(Depreciation) appreciation in fair value	(11,393,735)	6,056,579
Investment advisory fees	<u>(240,946)</u>	<u>(241,183)</u>
Investment (loss) income	<u>\$ (5,163,292)</u>	<u>\$ 11,353,799</u>

Note 5 - Property and Equipment

The cost of property and equipment is summarized as follows:

	<u>2015</u>	<u>2014</u>	Depreciable Life - Years
Land	\$ 569,776	\$ 569,776	-
Land improvements	28,466	28,466	10-15
Buildings	8,210,356	8,210,356	25-30
Machinery and equipment	<u>1,613,804</u>	<u>1,576,526</u>	3-15
Total cost	10,422,402	10,385,124	
Accumulated depreciation	<u>(5,500,507)</u>	<u>(5,087,548)</u>	
Net carrying amount	<u>\$ 4,921,895</u>	<u>\$ 5,297,576</u>	

Depreciation expense was \$412,959 for 2015 and \$388,574 for 2014.

Note 6 - Commitments

Trustees of the Corporation had approved external research grants with accumulated obligations amounting to \$77,868 and \$100,070 at December 31, 2015 and 2014, 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 \$493,082 and \$430,808 in 2015 and 2014, respectively.

W.E. Upjohn Unemployment Trustee Corporation

Notes to Financial Statements December 31, 2015 and 2014

Note 8 - Fair Value Measurements

Accounting standards require certain assets 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, 2015 and 2014 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 2015 or 2014.

W.E. Upjohn Unemployment Trustee Corporation

Notes to Financial Statements December 31, 2015 and 2014

Note 8 - Fair Value Measurements (Continued)

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>

Assets Measured at Fair Value on a Recurring Basis at December 31, 2014

	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, 2014
Cash equivalents - Money market accounts	\$ 2,623,466	\$ -	\$ -	\$ 2,623,466
Equity - Mutual funds:				
Domestic	114,887,472	-	-	114,887,472
International	34,038,555	-	-	34,038,555
Fixed-income - Mutual funds	34,439,386	-	-	34,439,386
Total assets	<u>\$ 185,988,879</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 185,988,879</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.