

**2022
REPORT**

&

**ANNUAL
MEETING**



ALLIANCE

Unemployment Services For Michigan Nonprofits

Notice of Annual Meeting

To: Member Agencies

From: Kimberly Westmoreland, Secretary

The annual meeting of the 501 Alliance will be held at the University Club of Michigan State University on Thursday, May 11, 2023. The University Club is located at 3435 Forest Road, Lansing, Michigan 48910. All members are invited and encouraged to attend. RSVP required at 501alliance.org.

The remainder of this document provides the information that will be reviewed during the meeting and the agenda for the day is as follows.

11:45 AM	Check-in
12:00 PM	Lunch & Member Speaker
12:50 PM	Business Matters <ul style="list-style-type: none">• Opening comments & approval of 2022 Annual Meeting Minutes (Section 1)<ul style="list-style-type: none">○ Larry Poupard, President• Annual Audit Report (Section 2)<ul style="list-style-type: none">○ Marisa Ahrens, Yeo & Yeo• Nominating Committee Report (Section 3)<ul style="list-style-type: none">○ Anne Evans, Committee Chairperson• Operations Report on Previous Year's Activity (Section 4)<ul style="list-style-type: none">○ Bill Gesaman, Executive Director• Guest Speaker<ul style="list-style-type: none">○ Dr. Lee Meadows• Harry & Shirley Klein Legal Scholarship Committee Report<ul style="list-style-type: none">○ Mark Teicher, Committee Chairperson• Executive Comments & Other Business<ul style="list-style-type: none">○ Larry Poupard, President
2:45 PM	Adjourn

SECTION 1

2022 Annual Meeting Minutes

2022 Annual Meeting Minutes

Thursday, May 12, 2022

University Club of Michigan State University

Presiding: Larry Poupard, President

President Poupard called the meeting to order

Upon motion duly made by Director Evans and seconded by Director Montigny, the members in attendance voted unanimously to approve the minutes of the 2021 annual meeting as written.

President Poupard recognized Equifax employees in attendance as well as special guests, Maggie Belcher and UIA Director Julia Dale. President Poupard then recognized 501 Alliance's 50th Anniversary, its history, as well as board members who have volunteered extensively over time. The new 501 Alliance logo was also revealed.

Next, Brian Dixon of Yeo & Yeo presented the independently audited financial report prepared for year-end December 31, 2021. A copy of this report was also previously made available to the members of the group through 501 Alliance's website and is located in the printed Annual Meeting packet.

He first explained an audit is an opinion on the financial statements of an organization for a period of time and 501 Alliance received the cleanest opinion possible that their financial statements provide a fair and accurate representation of their financial position as of December 31, 2021.

Brian then gave an overview of the Statement of Financial Position. Investment assets and member fee receivables went up from 2020. The increase in member fee receivables correlated with other measurements so it was not concerning. Total net assets increased about \$4.6 million. Member fees were up about 25% as rates were increased from 2020 due to not knowing what would happen in 2021 with claim liability.

501 Alliance used approximately \$900k in 2021 of pre-paid claims. Management expenses from claims were still up compared to what is in the contract with Equifax due to excess claim fees. There was a phenomenal increase in net assets over the past 10 years, while revenue and expenses have gone down.

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Looking at the Statement of Activities, 2011 was the high point for member fees, \$10.8 million. Low point was last year, \$2.3 million. 2009 was highpoint in claims, approximately \$11 million, which has steadily decreased since then.

Director Shinkonis asked about the low point in 2010 and where were we at prior to that. Director Montigny added that we are collecting so much less in contributions now than in 2010. He added our goal each year when setting rates is to stay in business while not price gouging our members. Director O'Leary shared that we never had the level of reserves we do now back around the financial crisis. Around 2011 there was a cut in duration of eligible weeks for workers. Therefore, our exposure was reduced, increasing our reserves. The Rate Committee has been conservative since then.

Director Evans then presented the Nominating Committee report and the slate of candidates being nominated for election to the board for three-year terms expiring in 2025. She noted all of the directors volunteer their time and each nominee is an incumbent who is willing to serve another term. The individuals being nominated to become directors on the board are as follows:

Incumbents:

Veneese Chandler Family Outreach Center, Inc.	Incumbent
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Jan Mack Community Living Concepts, Inc.	Incumbent
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Harry Pianko Peckham	Incumbent
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Bridgette Zappacosta Pioneer Resources	Incumbent
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Upon motion duly made by Director Evans and seconded by Director Montigny, the members in attendance voted unanimously to elect the slate of candidates to the Board of Directors for terms expiring in 2025. Director Evans then shared there is

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University Club of Michigan State University

one open seat on the board. If anyone is interested, they can apply on the 501 Alliance website.

Next, Bill Gesaman, the Administrator for 501 Alliance, presented the operations report for 2021. He acknowledged that 2021 was still not back to 2018-2019 levels for claims but it is trending that way in 2022-23. Bill indicated the group ended the year with 339 members, which was an increase of three from 2020. The number of member agency employees was 21,762, which is an average of four quarters. Membership actually increased each quarter in 2021, rising by about 600. The gross payrolls increased from 2020, wage inflation could be a factor. The taxable payrolls also increased as it typically correlates to gross payroll. Also, the taxable wage base increased from \$9k in 2020 to \$9.5k in 2021.

Contributions from members went up due to rate increases for 2021. Since claim expenses were not as extreme as was projected, the Rate Committee was able to lower rates for almost all members in 2022.

Bill shared details on expenses. Administration covers many things including: Taylor office, Directors & Officers Liability Insurance, staff handling day to day operations and planning, meeting expenses, and claim processing. The contract allows for the groups normal level of claims but charges excess claim fees beyond that. 2020 saw 14k claims and 2021 saw over 5k in claims, which is still around double the normal volume. Marketing saw an increase as the group embarked on a brand re-fresh and website initiative with MCCI.

Claims processed were down to around 5k from 14k in 2020. Still above normal but getting closer to 2019 levels. Percentage of protested claims were up from 2020 as there were a lot of lack of work claims in 2020, which were not protestable.

Bill then introduced the guest speaker, Julia Dale, Director of the Michigan Unemployment Agency. Director Dale shared that Daryl Hunter is the head of the Tax and Employer Services Division. His group helps set-up reimbursing accounts, maintains member accounts, and issues refunds. They recently have filled key decision making roles and flattened staff structure at the UIA. Director Dale shared they hired a new administrator over the customer service division. The UIA hired a

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permanent IT Director, previously was an interim role and also hired a new Chief of Staff starting later in May 2022. Since the beginning of the pandemic, the UIA paid out nearly \$40 billion in benefits to claimants who filed 5.7 million claims. The UIA is looking to improve through human centered design. They are planning an upgrade from MiWAM, launching MIUIA. Unemployment was down to 4.4% in March. The UIA's goal is to respond in 48 hours to inquiries.

Director O'Leary asked Director Dale about any lessons or staffing experience from previous crisis and if rising fed rates cause unemployment. Director Dale responded that consistent leadership in the UIA is needed and that Michigan has had 10 leaders in as many years. Knowing how to operate in state government and having consistency for staff is key.

Next, Mark Teicher presented the Harry and Shirley Klein Legal Scholarship Committee report. The 501 Alliance and Human Services for Workers Compensation boards established this scholarship in honor of Harry Klein and the work he did for nonprofits and in establishing legislation for a group reimbursing plan. The scholarship was funded by contributions from both boards. The scholarship was posted at different law schools in Michigan and candidates are required to submit essays indicating how their backgrounds and experiences are similar to those of Harry Klein. Mark Teicher announced that Maggie Belcher was the \$2,500 scholarship winner. Maggie read her winning essay to the members in attendance. Mark Teicher thanked the scholarship committee and the judges who have participated in the awarding of the scholarship in the past. Director Dale and Mark presented the check to Maggie.

President Poupard made some closing comments recognizing many people who played a role in the success of the 501 Alliance.

As there was no additional business, the meeting was adjourned.

Respectfully submitted,

Larry Poupard, President

Kim Westmoreland, Secretary

SECTION 2

Annual Audit Report

The 501 Alliance
Financial Statements
December 31, 2022 and 2021



YEO & YEO

**BUSINESS SUCCESS
PARTNERS**

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Independent Auditors' Report

Management and Board of Directors
The 501 Alliance
Taylor, Michigan

Opinion

We have audited the accompanying financial statements of The 501 Alliance (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The 501 Alliance as of December 31, 2022, and 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The 501 Alliance and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The 501 Alliance's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 501 Alliance's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The 501 Alliance's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Yeo & Yeo, P.C.

Saginaw, MI
April 14, 2023

The 501 Alliance
Statement of Financial Position
December 31, 2022 and 2021

	2022	2021
Assets		
Current assets		
Cash	\$ 727,560	\$ 436,330
Investments	35,144,443	39,919,072
Member fees receivable	174,390	274,641
Prepaid claims	-	1,152,733
	\$ 36,046,393	\$ 41,782,776
Liabilities and net assets		
Current liabilities		
Claims payable	\$ 337,668	\$ 4
Accounts payable	23,393	4,785
Due to member agencies	7,908	-
	368,969	4,789
Net assets		
Without donor restrictions		
Undesignated	35,677,424	41,777,987
	\$ 36,046,393	\$ 41,782,776

See Accompanying Notes to the Financial Statements

The 501 Alliance
Statement of Activities
Years Ended December 31, 2022 and 2021

	2022	2021
Revenue and gains (losses)		
Member fees, net of refunds	\$ 1,826,978	\$ 2,879,032
Investment income (loss)	<u>(5,998,539)</u>	<u>3,208,500</u>
Total revenue and gains (losses)	<u>(4,171,561)</u>	<u>6,087,532</u>
Expenses		
Program services	1,660,291	1,239,481
Management and general	<u>268,711</u>	<u>209,759</u>
Total expenses	<u>1,929,002</u>	<u>1,449,240</u>
Change in net assets	(6,100,563)	4,638,292
Net assets - beginning of year	<u>41,777,987</u>	<u>37,139,695</u>
Net assets - end of year	<u>\$ 35,677,424</u>	<u>\$ 41,777,987</u>

See Accompanying Notes to the Financial Statements

The 501 Alliance
Statement of Functional Expenses
Year Ended December 31, 2022

	Program Services	Management and General	Total
Claims	\$ 1,314,946	\$ -	\$ 1,314,946
Accounting Fees	-	7,740	7,740
Audit Services	-	12,100	12,100
Marketing	-	117,396	117,396
Management Fees	345,345	122,919	468,264
Bank Fees	-	6,309	6,309
Miscellaneous	-	2,247	2,247
	\$ 1,660,291	\$ 268,711	\$ 1,929,002

See Accompanying Notes to the Financial Statements

The 501 Alliance
Statement of Functional Expenses
Year Ended December 31, 2021

	Program Services	Management and General	Total
Claims	\$ 863,629	\$ -	\$ 863,629
Accounting Fees	-	8,385	8,385
Audit Services	-	11,650	11,650
Marketing	-	44,104	44,104
Management Fees	375,214	139,365	514,579
Bank Fees	-	4,915	4,915
Miscellaneous	-	1,340	1,340
Bad debt	638	-	638
	<u>\$ 1,239,481</u>	<u>\$ 209,759</u>	<u>\$ 1,449,240</u>

See Accompanying Notes to the Financial Statements

The 501 Alliance
Statement of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities		
Change in net assets	\$ (6,100,563)	\$ 4,638,292
Items not requiring cash		
Net realized and unrealized (gain) loss on investments	7,261,720	(1,343,521)
Bad debts	-	638
Changes in operating assets and liabilities		
Member fee receivable	100,251	(63,579)
Prepaid claims	1,152,733	862,725
Claims payable	337,664	4
Accounts payable	18,608	-
Due to member agencies	7,908	-
Net cash provided by operating activities	2,778,321	4,094,559
Cash flows from investing activities		
Purchase of investments	(5,048,048)	(6,370,959)
Proceeds from sales or maturities of investments	2,560,957	2,374,613
Net cash used by investing activities	(2,487,091)	(3,996,346)
Net change in cash	291,230	98,213
Cash - beginning of year	436,330	338,117
Cash - end of year	\$ 727,560	\$ 436,330

See Accompanying Notes to the Financial Statements

The 501 Alliance
Notes to the Financial Statements
December 31, 2022 and 2021

Note 1 - Significant Accounting Policies

Organization

The 501 Alliance (the "Organization") is an agency that consists of member nonprofit organizations throughout Michigan that are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. These organizations, as members of The 501 Alliance, pay a variable fee as a percentage of taxable payroll (defined as that amount that would be otherwise taxable for state unemployment compensation tax purposes). The 501 Alliance reimburses the State of Michigan for unemployment compensation claims paid by the State to separated employees of The 501 Alliance's member agencies. The 501 Alliance was formed in 1972.

The accompanying financial statements have been prepared on the accrual basis of accounting.

Basis of Presentation

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net assets with donor restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. There are no net assets with donor restrictions at December 31, 2022 or 2021.

Cash

Cash includes currency on hand and deposits held by financial institutions that can be added to or withdrawn without limitation, such as demand deposits. As of December 31, 2022, all of cash was insured by the FDIC.

Member Fee Receivable

The 501 Alliance's member fee receivable balances at December 31, 2022 and 2021 were comprised mainly of the fourth quarter fees from member agencies based on a percentage of their taxable payrolls. Based on management's review, an allowance of \$10,000 was deemed necessary as of December 31, 2022 and 2021.

Investments

Investments are stated at fair value. Donated investments are reflected as contributions at their fair values at date of receipt. Investment income is reported net of direct investment expenses.

Member Fees, Net of Refunds

Member fees are recognized in the applicable year that correlates to taxable payroll from member agencies. Refunds typically result from calculation errors on quarterly contribution reports and are netted against member fees in the year the error is discovered. It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

Functional Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Those expenses include management fees. These are allocated based on a time and cost study of where efforts are made.

The 501 Alliance
Notes to the Financial Statements
December 31, 2022 and 2021

Marketing

The Organization expenses marketing costs the first time the marketing occurs. Marketing expense for the years ended December 31, 2022 and 2021 was \$ 117,396 and \$ 44,104, respectively.

Income Tax Status

The 501 Alliance has been determined by the Internal Revenue Service to be a tax-exempt organization pursuant to Section 501(c)(4) of the Internal Revenue Code. The 501 Alliance annually files informational returns in the U.S. federal jurisdiction.

Risks and Uncertainties

The Organization 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 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.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events

Management has evaluated subsequent events through April 14, 2023, which is the date the financial statements were available to be issued.

Note 2 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	<u>2022</u>	<u>2021</u>
Cash	\$ 727,560	\$ 436,330
Investments	35,144,443	39,919,072
Member fees receivable	<u>174,390</u>	<u>274,641</u>
	<u>\$ 36,046,393</u>	<u>\$ 40,630,043</u>

The Organization utilizes a cash forecast for the current fiscal year that is updated and reviewed on a quarterly basis to ensure there is enough liquid money available to pay future liabilities. Money that is forecasted to be needed during the year is typically invested in a money market account or in a short-term bond fund. Any additional money that is available beyond what is projected to be required during the fiscal year is invested on a longer term basis. The Organization also has a \$13,000,000 line of credit available to meet future cash flow needs.

The 501 Alliance
Notes to the Financial Statements
December 31, 2022 and 2021

Note 3 - Investments

Investments are in available for sale securities which are recorded at fair value with net unrealized gains and losses included with realized gains and losses on the statement of activities as investment income. Fair value is determined based on quoted market prices. Investments consist of the following:

	2022 <u>Fair Value</u>	2021 <u>Fair Value</u>
Exchange Traded Products, Mutual Funds and Exchange-Traded Funds		
Alliance Bernstein Funds Cap Growth Advisor	\$ 838,389	\$ 1,177,075
Amer. Strategic Bond CL F2	991,650	-
Amer. Funds Amer. Balanced Fund	2,506,432	2,845,285
Amer. Funds Capital Income Builder A	1,711,167	1,838,376
Amer. Funds Capital World Growth & Income	1,464,283	1,766,360
Amer. Funds EuroPacific	-	581,940
Amer. Funds Fundamental Investors	996,146	1,192,854
Amer. Funds Growth Fund of America	700,718	1,009,269
Amer. Funds Income Fund of America	1,932,555	2,060,879
Amer. Funds Investment Co. of America	-	738,145
Amer. Funds New Perspective Fund	1,876,118	2,524,582
Amer. Funds New World A	1,050,050	1,343,424
Amer. Funds Washington Mutual Investors	2,160,770	2,355,871
Fidelity Investments Growth Opportunities	652,146	1,056,154
Fidelity Investments Initial Capital Appreciation	412,988	562,250
Franklin Rising Dividends A	1,165,230	1,300,054
Franklin Small Cap Growth A	684,473	981,792
Calamos Market Neutral Income	805,006	840,853
EATON Vance Short Duration Govt Income	357,876	822,516
Franklin Income Advisor	952,607	1,002,148
Lord Abbett Short Duration Income I	1,645,352	1,726,924
PGIM Total Return	2,273,942	2,488,429
PIMCO Investment Grade Corp Bond A	1,928,739	2,291,430
PIMCO Emerging Markets Bond A	397,298	474,939
PIMCO Global Bond A	310,172	327,747
PIMCO Low Duration	103,060	109,000
PIMCO Real Return	664,178	750,899
PIMCO Real Return CL 12	288,771	326,803
PIMCO Short Term A	1,183,815	1,742,831
PIMCO Short Term Invmt Instl	427,095	627,063
PIMCO Total Return	765,553	893,101
PIMCO Investment Grade Credit Bond CL I2	367,225	-
PIMCO Money Market Fund	31,125	30,775
PGIM Total Return	182,419	-
Western Asset Core Plus Bond I	1,905,349	2,129,304
Western Asset Core Plus Bond Fund Class I	178,446	-
	<u>33,911,143</u>	<u>39,919,072</u>
Certificates of Deposit		
Beal Bank Plano TX CD FDIC	242,175	-
Goldmach Sachs Bank USA New York CD	741,125	-
TIAA FSB Jacksonville FL CD FDIC	250,000	-
	<u>1,233,300</u>	<u>-</u>
Total Investments	<u>\$ 35,144,443</u>	<u>\$ 39,919,072</u>

The 501 Alliance
Notes to the Financial Statements
December 31, 2022 and 2021

Investment income consists of the following:

	<u>2022</u>	<u>2021</u>
Investment income		
Interest	\$ 255	\$ 123
Dividends	968,470	806,781
Capital gain distributions	366,739	1,139,535
Realized gain	87,485	346,825
Unrealized gain	(7,349,205)	996,696
Investment management fees	<u>(72,283)</u>	<u>(81,460)</u>
 Total investment income	 <u>\$ (5,998,539)</u>	 <u>\$ 3,208,500</u>

Note 4 – Claims Payable

The liability for claims payable consists of the following:

	<u>2022</u>	<u>2021</u>
Claims paid by the State for fourth quarter and billed to The 501 Alliance subsequent to December 31	<u>\$ 337,668</u>	<u>\$ 4</u>

The 501 Alliance estimates that there is approximately \$595,500 in potential future claims attributable to employees separated prior to December 31, 2022, for benefit weeks that may be incurred subsequent to December 31, 2022.

Note 5 - Line of Credit

The 501 Alliance has a \$13,000,000 revolving line of credit with TriState Capital Bank, secured by the investments, with interest at the one month LIBOR rate as published in The Wall Street Journal plus 2.0%. While the line of credit was available for use, there were no borrowings during the year.

Note 6 - Fair Value Measurements

The following table represents information about The 501 Alliance's assets measured at fair value on a recurring basis at December 31, 2022 and 2021, and the valuation techniques used at the Organization to determine the fair value.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Organization 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.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in the entirety are categorized based on the lowest level input that is significant to the valuation. The 501 Alliance's assessment of the significance of particular inputs to these fair value

The 501 Alliance
Notes to the Financial Statements
December 31, 2022 and 2021

measurements requires judgment and considers factors specific to each asset.

Disclosures concerning assets measured at fair value on a recurring basis are as follows:

	<u>Balance at December 31, 2022</u>	<u>Fair Value Measurements using Quoted Prices in Active Markets for Identical Assets (Level 1)</u>
Investments (Exchange-Traded Products, Mutual Funds, Exchange-Traded Funds, and Certificates of Deposit)	<u>\$ 35,144,443</u>	<u>\$ 35,144,443</u>

	<u>Balance at December 31, 2021</u>	<u>Fair Value Measurements using Quoted Prices in Active Markets for Identical Assets (Level 1)</u>
Investments (Exchange-Traded Products, Mutual Funds, Exchange-Traded Funds, and Certificates of Deposit)	<u>\$ 39,919,072</u>	<u>\$ 39,919,072</u>

Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions.

Note 7 - Service Agreements

Equifax Workforce Solutions provides The 501 Alliance with administrative services, claims management and supervision and the use of office space. The 501 Alliance has a multi-year agreement with Equifax Workforce Solutions. The agreement is effective January 1, 2019, for a period of five years. The 501 Alliance paid Equifax Workforce Solutions fees of \$ 468,264 and \$ 514,579 for the years ended December 31, 2022 and 2021.

The service agreement in effect for 2023 for 2,300 unemployment claims is as follows:

2023	<u>\$ 462,802</u>
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The 501 Alliance
Notes to the Financial Statements
December 31, 2022 and 2021

Note 8 - Revenue from Contracts with Customers

The following summarizes revenue by type for the year ended December 31, 2022 and 2021:

	2022	2021
Revenue from contracts with customers	\$ 1,826,978	\$ 2,879,032
Investment income (loss)	(5,998,539)	3,208,500
Total revenue	\$ (4,171,561)	\$ 6,087,532

Bad debt expense as a result of impairment loss on receivables and contract assets on contracts with customers was \$ 0 and \$ 638 for the years ended December 31, 2022 and 2021, respectively.

All revenue from contracts with customers is earned at a point in time for the year ended December 31, 2022 and 2021.

Membership revenues consists of the rate charged to each member, calculated by The 501 Alliance to pay future unemployment claims. The rate charged is variable to each member, based primarily on benefit charges and taxable wages. On a quarterly basis, each member will report their wages for that quarter and the rate for that quarter is calculated and payment is due from the member by the 25th of the following month. Because the majority of members pay timely, there is no constraint.

The following summarizes contract assets and contract liabilities as of:

	December 31, 2022	December 31, 2021	January 1, 2021
Contract assets			
Prepaid claims	\$ -	\$ 1,152,733	\$ 2,015,458
Member fees receivable	174,390	274,641	211,700
Total contract assets	\$ 174,390	\$ 1,427,374	\$ 2,227,158
Contract liabilities			
Claims payable	\$ 337,668	\$ 4	\$ -
Due to member agencies	7,908	-	-
Total contract liabilities	\$ 345,576	\$ 4	\$ -

SECTION 3

Nominating Committee Report

Nominating Committee Report

The Nominating Committee is recommending the individuals listed below to serve as directors on the Board for three-year terms expiring in 2026. All of the directors volunteer their time and provide input on topics that impact our members.

Laurie Zarzecki Emelander Literacy Center of West Michigan	Incumbent
Art Gadomski Kent County Office of the Defender	Incumbent
Gale Overstreet Ennis Center for Children	Incumbent
Lawrence Poupard Financial One Accounting	Incumbent
Mick Shinkonis GreenPath Financial Wellness	Incumbent

SECTION 4

Operations Report

2022 Operations Report

Introduction

The 501 Alliance is a nonprofit that makes it simple for Michigan nonprofits to lower unemployment costs, helping them do more to produce greater impact in the community. Unlike any other group, the 501 Alliance is solely focused on supporting 501(c)3's where our heart is, at home in Michigan. The Alliance provides convenience and control for members unemployment obligations. This report provides information on a number of metrics that are tracked each year to provide members with an overall picture on the operations of the group.

Summary Information

The following is a comparative schedule of pertinent operating highlights for the years ending December 31, 2020, 2021 and 2022. The number of member agency employees is calculated using an average based on each quarter of the year. Using an average helps account for seasonal employment by members.

Membership

	2020	2021	2022
Member Agencies	336	339	338
Number of Member Agency Employees	21,861	21,762	22,099*
Gross Payrolls	\$872,275,834	\$922,649,028	\$990,148,702*
Taxable Payrolls	\$228,730,170	\$244,777,294	\$240,775,917*
Taxable Wage Base	\$9,000	\$9,500	\$9,500

*Estimated

Support & Revenue

	2020	2021	2022
Net Contributions by Member Agencies	\$2,295,962	\$2,879,032	\$1,826,978
Investment Income	\$3,649,594	\$3,208,500	(\$5,998,539)
Total Assets	\$37,146,840	\$41,782,776	\$36,046,393

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Expenses

	2020	2021	2022
Administration	\$655,985	\$514,579	\$468,264
Audit	\$11,700	\$11,650	\$12,100
Accounting Services	\$7,135	\$8,385	\$7,740
Legal	\$0.00	\$0.00	\$0.00
Marketing	\$824	\$44,104	\$117,396

Investments

The board uses a comprehensive investment policy to meet its objective of obtaining a competitive rate of return for the pool, commensurate with the "prudent person rule." Per the investment policy, an allocation of 44% to 66% of the total assets may be invested in equities. The remainder of the fund is allocated between bonds and cash.

The board's finance committee reviews this policy on a continuing basis, in addition to meeting with the investment manager every quarter to review the performance of the investment fund.

WWK Advisors, Inc. has managed the fund since 2004. The average annual total return, net of fees, the past 10 years has been 6.31%. The funds are invested with different fund families through an account with LPL Financial.

Contribution Rates

A rate formula continues to be used to calculate the contribution rates for members. This provides members with a smoother rate transition from one year to the next by providing gradual rate changes, rather than drastic increases or decreases.

The rate committee and the board review the contribution rate structure each year to ensure the integrity of the fund. Information that is used to determine the rate structure includes; reserve levels, contribution income, benefit reimbursements and the economic outlook. For positive balance members in 2022, the maximum rate decreased from 2.00% to 1.70% and the minimum rate decreased from 0.20% to 0.18%. The positive balance slope factor remained at 0.075. For negative

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balance members in 2022, the minimum rate decreased from 3.50% to 3.20% and the maximum rate decreased from 11.00% to 10.70%. The negative balance slope factor remained at 1.000. The Taxable Wage Base was set at \$9,500 for both positive and negative rated members.

Positive History Members:

The formula for those members who had positive histories is shown below.

Formula:	$1.70 - 0.075 * (\text{Account History} / (\text{Average of the Taxable Payroll over the previous three years}))$
Maximum:	1.70%
Minimum:	0.18%
Taxable Wage Base:	\$9,500

Negative History Members:

The formula for those members who had negative histories is shown below.

Formula:	$3.20 - 1.000 * (\text{Account History} / (\text{Average of the Taxable Payroll over the previous three years}))$
Maximum:	10.70%
Minimum:	3.20%
Taxable Wage Base:	\$9,500

Penalty Rates

Penalty rates are intended to bring members with negative histories back into a positive position more quickly. This ensures that members with negative histories pay higher proportionate rates than those with positive histories. In 2022, five members or 1.5% of the total membership had negative histories. This was a decrease of 11 members from the previous year.

In 1996, the board voted to assess a surcharge on members paying the maximum contribution rate for three or more consecutive years. The surcharge is the amount by which benefit charges exceed member contributions in the third year. In 2022, none of the members were assessed a surcharge, which was also the case in 2021.

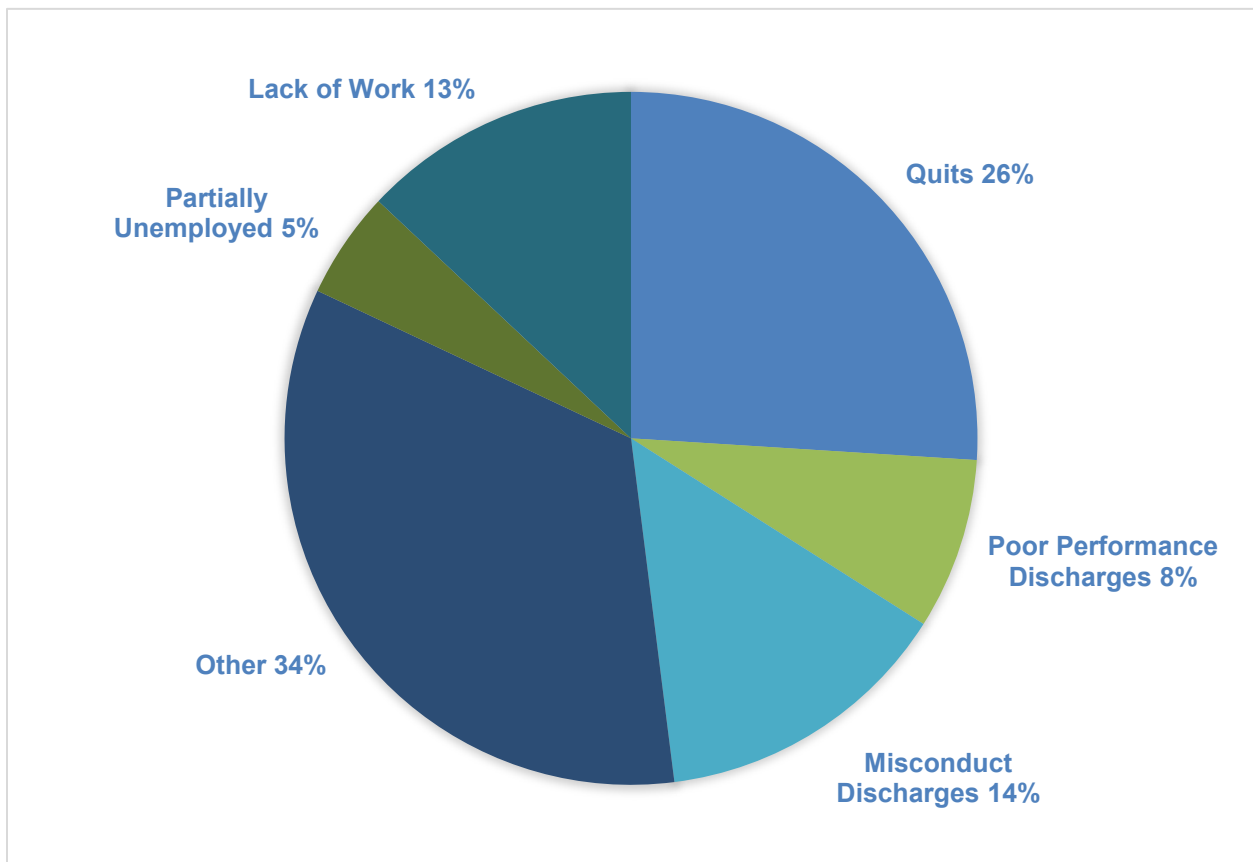
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Annual Claim Activity

2,948 claims were processed in 2022, which was approximately half of 2021.

Claim Activity By Separation Issue

The separation reasons noted for claims filed in 2022 are allocated into six categories:



Annual Decision Analysis

In reviewing the decisions received during 2022, 98% of the claim decisions received were favorable, avoiding/suspending \$8,841,160 in liability for members of 501 Alliance.

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Annual Charge Error Credits

One of the valuable benefits of membership is the verification of charges to the accounts of members. During 2022, charge error credits totaling \$627,301 were received.

Charge error credit examples include: 1.) Wages and benefits drawn in the same week; 2.) the claimant is disqualified for a specific period of time due to ineligibility and benefits were drawn during the disqualification period; 3.) benefits were paid prior to a determination of charges being issued.

Claims Reimbursement

In 2022, \$1,314,946 was incurred in benefit charges from members. This was an increase from 2021 as the 501 Alliance was still spending down a large credit with the state (\$863,629).

In Closing

Despite the 501 Alliance's 50+ year history, many nonprofit HR and Finance leaders are unaware that they can outsource unemployment processing and achieve a greater balance of risk and cost savings by joining the 501 Alliance. Together, we can keep the 501 Alliance strong and growing. Refer nonprofits who may benefit from joining to Bill Gesaman at 800-968-9675 or have them visit our web site at 501alliance.org for more information.