



ANNUAL REPORT 2023

Notice of Annual Meeting

To: Member Agencies

From: Laurie Zarzecki Emelander, Secretary

The annual meeting of the 501 Alliance will be held at the University Club of Michigan State University on Thursday, May 9, 2024. The University Club is located at 3435 Forest Road, Lansing, Michigan 48910. All members are invited and encouraged to attend. RSVP required at www.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 & Speaker
1:00 PM	Business Matters <ul style="list-style-type: none">• Opening comments & approval of previous Annual Meeting Minutes (Section 1)<ul style="list-style-type: none">○ Gale Overstreet, 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">○ Larry Poupard, 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">○ Tina Alonzo• 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">○ Gale Overstreet, President
2:45 PM	Adjourn

SECTION 1

2023 Annual Meeting Minutes

2023 Annual Meeting Minutes

Thursday, May 11, 2023

University Club of Michigan State University

Presiding: Larry Poupard, President

President Poupard called the meeting to order

Upon motion duly made by Director Mack and seconded by Director Montigny, the members in attendance voted unanimously to approve the minutes of the 2022 annual meeting as written.

Next, Marisa Ahrens of Yeo & Yeo presented the independently audited financial report prepared for year-end December 31, 2022. 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.

Marisa shared that the audit opinion is unmodified, which is the highest rating we can get. Marisa shared the Statement of Financial position. She highlighted a few areas. Investments saw a large loss due to the market conditions. She shared that claims payable was at a normal level. In 2021, 501 Alliance still had the pre-paid credit skewing that number.

Marisa shared that member fees were down. President Poupard shared that it was a deliberate reduction by the Rate Committee as the board tries to charge the lowest amount possible to operate the fund.

Claim processed were down but expenses were up. That's in large part because there were COVID relief funds that supported 2021 claim expenses. Marketing expenses also saw a large increase due to the brand refresh and new website. Despite the market losses, causing about a \$6 million net asset loss, net assets at the end of the year were still over \$35 million which is very strong.

Marisa then shared a 10 year trend of revenue, expenses and net assets. The chart showed how net assets have grown over 10 years while revenue and expenses have decreased. Assets increased about \$25 million over 10 years.

In 2013, \$10.6 million was charged to members. 2022 was only \$1.8 million.

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University Club of Michigan State University

A member asked how many member organizations we had in 2013 vs 2022. President Poupard responded that he thought it was less than 400. Bill added that a more relevant indicator is total employees and taxable payroll.

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 2026. She noted all of the directors volunteer their time and each nominee is an incumbent who is willing to serve another term. She also added that we are not at our minimum or maximum board size. So we do not have to nominate any new board members but we welcome nominations. The individuals being nominated to another term as directors on the board are as follows:

Incumbents:

Laurie Zarzecki Emelander Literacy Center West Michigan	Incumbent
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Art Gadomski Kent County Office of the Defender	Incumbent
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Gale Overstreet Ennis Center for Children	Incumbent
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Lawrence Poupard Financial One Accounting	Incumbent
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Mick Shinkonis GreenPath Financial Wellness	Incumbent
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Upon motion duly made by Director Mack 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 2026.

Next, Bill Gesaman, the Executive Director for 501 Alliance, presented the operations report for 2022. Bill shared some reflections and accomplishments from 2022

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including how the new brand and logo have been integrated in all materials such as brochures, banners, and the new website. Bill also shared that 501 Alliance helped bring more money to members' missions by avoiding or suspending \$8.8 million of claim liability. He added that 98% of protested claims were won in 2022. 2,900+ claims were processed in 2022, reducing the time nonprofits had to spend on unemployment.

Bill shared that total member agencies went down by one. However, we did bring on three new members and the decrease is because of mergers and a couple members closing their doors. Total employees increased. Looking at the revenue, Bill pointed out that the 501 Alliance board is a majority of members. The decisions they make directly impacts them as well and members can be assured that their best interest is at the forefront of how the nonprofit is run.

Bill highlighted some key expenses including administration, which consists of many things including: board meeting space, food, materials, graphic design, day to day operations, claims management and more.

Bill then showed a comparison of 2023 to 2022 for claim activity. Claims decreased from 5,661 to 2,948. He added that comparing reimbursements is not really apples to apples because 2021 was a spend down of a credit 501 Alliance had with the state, as a result of COVID relief funding. Charge error credits were about half of what they were in 2021.

Looking at the most common separation reasons, a top reason in the other category are those who were monetarily ineligible to receive benefits. The top quit reason was found other work. The top reason for discharges was violation of company policy.

Bill then introduced the guest speaker, Dr. Lee Meadows. Dr. Meadows spoke on various talent acquisition topics.

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University Club of Michigan State University

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 Evan Myers was the \$2,500 scholarship winner. Evan joined virtually as he was out of state during the time of the Annual Meeting. Evan currently attends Wayne State Law School and read his 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.

President Poupard made some closing comments and shared that he was finishing his second term as President of 501 Alliance. He highlighted how during his first term, Equifax (TALX at the time), discontinued providing an accountant for 501 Alliance but 501 Alliance then connected with Brett Luplow who has been great. He added that it was also during the time of a great recession. It gives perspective on where we are at now and how we are prepared for bad times now. President Poupard was elected to his second term in 2020 when the pandemic hit. Later that year the Administrator of 18 years, Mike Penanen resigned. He shared that Mike was a tremendous Administrator during that time and he was grateful that Bill was his successor. He added that Bill has challenged the board to grow, the brand to improve, and the website to be more functional. President Poupard thanked everyone for attending and acknowledged it is the highest attendance they have seen in a long time.

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

Respectfully submitted,

Gale Overstreet, President

Laurie Zarzecki Emelander, Secretary

SECTION 2

Audit Report

The 501 Alliance
Financial Statements
December 31, 2023 and 2022



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, 2023 and 2022, 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, 2023 and 2022, 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 19, 2024

The 501 Alliance
Statement of Financial Position
December 31, 2023 and 2022

	2023	2022
Assets		
Current assets		
Cash	\$ 276,320	\$ 727,560
Investments	40,070,375	35,144,443
Member fees receivable, net of allowance of \$10,000	163,391	174,390
Prepaid expenses	83,500	-
Total current assets	\$ 40,593,586	\$ 36,046,393
Liabilities and net assets		
Current liabilities		
Claims payable	\$ 449,214	\$ 337,668
Accounts payable	875	23,393
Due to member agencies	6,957	7,908
Total current liabilities	457,046	368,969
Net assets		
Without donor restrictions		
Undesignated	40,136,540	35,677,424
Total liabilities and net assets	\$ 40,593,586	\$ 36,046,393

See Accompanying Notes to the Financial Statements

The 501 Alliance
Statement of Activities
Years Ended December 31, 2023 and 2022

	2023	2022
Revenue and gains (losses)		
Member fees, net of refunds	\$ 1,998,649	\$ 1,826,978
Investment income (loss)	<u>4,620,470</u>	<u>(5,998,539)</u>
Total revenue and gains (losses)	<u>6,619,119</u>	<u>(4,171,561)</u>
Expenses		
Program services	2,059,262	1,660,291
Management and general	<u>100,741</u>	<u>268,711</u>
Total expenses	<u>2,160,003</u>	<u>1,929,002</u>
Change in net assets	4,459,116	(6,100,563)
Net assets - beginning of year	<u>35,677,424</u>	<u>41,777,987</u>
Net assets - end of year	<u>\$ 40,136,540</u>	<u>\$ 35,677,424</u>

See Accompanying Notes to the Financial Statements

The 501 Alliance
Statement of Functional Expenses
Years Ended December 31, 2023

	Program Services	Management and General	Total
Claims	\$ 1,627,313	\$ -	\$ 1,627,313
Accounting Fees	-	9,600	9,600
Audit Services	-	12,600	12,600
Marketing	-	20,450	20,450
Management Fees	431,949	30,853	462,802
Technology Fees	-	11,817	11,817
Bank Fees	-	6,664	6,664
Board Member Expenses	-	1,722	1,722
Miscellaneous	-	7,035	7,035
	<u>\$ 2,059,262</u>	<u>\$ 100,741</u>	<u>\$ 2,160,003</u>

See Accompanying Notes to the Financial Statements

The 501 Alliance
Statement of Functional Expenses
Years 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 Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022
Cash flows from operating activities		
Change in net assets	\$ 4,459,116	\$ (6,100,563)
Items not requiring cash		
Net realized and unrealized (gain) loss on investments	(3,106,775)	7,261,720
Changes in operating assets and liabilities		
Member fee receivable	10,999	100,251
Prepaid claims	-	1,152,733
Prepaid expenses	(83,500)	-
Claims payable	111,546	337,664
Accounts payable	(22,518)	18,608
Due to member agencies	(951)	7,908
	1,367,917	2,778,321
Cash flows from investing activities		
Purchase of investments	(3,829,158)	(5,048,048)
Proceeds from sales or maturities of investments	2,010,001	2,560,957
	(1,819,157)	(2,487,091)
Net cash used by investing activities		
	(451,240)	291,230
Net change in cash		
Cash - beginning of year	727,560	436,330
Cash - end of year	\$ 276,320	\$ 727,560

See Accompanying Notes to the Financial Statements

The 501 Alliance
Notes to the Financial Statements
December 31, 2023 and 2022

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)(4) 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, 2023 or 2022.

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, 2023, all of cash was insured by the FDIC.

Member Fee Receivable

The 501 Alliance’s member fee receivable are stated net of an allowance for credit losses. The Organization estimates the allowance based on an analysis of specific accounts, taking into consideration the age of past due accounts, an assessment of ability to pay, current conditions, and reasonable and supportable forecast. Member fee receivables are written off as a charge to the allowance for credit losses when, in management’s estimation, it is probable that the receivable is worthless.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years. Such payments are recorded as prepaid expenses.

Investments

Investments are stated at fair value. 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

The 501 Alliance
Notes to the Financial Statements
December 31, 2023 and 2022

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.

Marketing

The Organization expenses marketing costs the first time the marketing occurs. Marketing expense for the years ended December 31, 2023 and 2022 was \$20,450 and \$117,396, 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.

Adoption of New Accounting Standard

The Company adopted FASB Topic 326, *Financial Instruments – Credit Losses*, as of the beginning of the year ended December 31, 2023. FASB Topic 326 revises the accounting requirements related to the measurement of credit losses and requires organizations to measure all expected credit losses for financial assets based on historical experience, current conditions, and reasonable and supportable forecasts about collectability. Assets must be presented in the financial statements at the net amount expected to be collected. This has been adopted prospectively using the modified retrospective approach, which restates the balances as of the date of adoption. Beginning net assets for the year ended December 31, 2023 did not change as a result of this standard

Subsequent Events

Management has evaluated subsequent events through April 19, 2024, which is the date the financial statements were available to be issued.

The 501 Alliance
Notes to the Financial Statements
December 31, 2023 and 2022

Note 2 – Accounts Receivable

Accounts receivable at December 31, 2023 and 2022 consist of:

	2023	2022
Member fees receivable	\$ 167,336	\$ 181,122
Member fees receivable - delinquent members	6,055	3,268
	173,391	184,390
Less: allowance for credit losses	(10,000)	(10,000)
	\$ 163,391	\$ 174,390

There were no changes in the allowance for credit losses during the year ended December 31, 2023.

Note 3 - 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:

	2023	2022
Cash	\$ 276,320	\$ 727,560
Investments	40,070,375	35,144,443
Member fees receivable	163,391	174,390
	\$ 40,510,086	\$ 36,046,393

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, 2023 and 2022

Note 4 - 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:

	<u>2023</u>	<u>2022</u>
	<u>Fair Value</u>	<u>Fair Value</u>
Exchange Traded Products, Mutual Funds and Exchange-Traded Funds		
Alliance Bernstein Funds Cap Growth Advisor	\$ 1,131,834	\$ 838,389
Amer. Funds Amer. Balanced Fund	2,863,042	2,506,432
Amer. Funds Capital Income Builder A	1,868,771	1,711,167
Amer. Funds Capital World Growth & Income	1,773,049	1,464,283
Amer. Funds Fundamental Investors	1,256,651	996,146
Amer. Funds Growth Fund of America	963,438	700,718
Amer. Funds Income Fund of America	2,082,839	1,932,555
Amer. Funds New Perspective Fund	2,343,003	1,876,118
Amer. Funds New World A	1,218,902	1,050,050
Amer. Funds Washington Mutual Investors	2,538,060	2,160,770
Amer. Strategic Bond CL F2	1,009,721	991,650
Calamos Market Neutral Income	878,792	805,006
EATON Vance Short Duration Govt Income	369,717	357,876
Fidelity Investments Growth Opportunities	948,952	652,146
Fidelity Investments Initial Capital Appreciation	527,116	412,988
Franklin Income Advisor	1,036,692	952,607
Franklin Rising Dividends A	1,310,040	1,165,230
Franklin Small Cap Growth A	896,988	684,473
JPMorgan Federal Money Market Premium CL	589,042	-
Lord Abbott Short Duration Income I	1,732,939	1,645,352
PGIM Total Return	196,376	182,419
PGIM Total Return	2,447,920	2,273,942
PIMCO Emerging Markets Bond A	445,235	397,298
PIMCO Global Bond A	332,413	310,172
PIMCO Investment Grade Corp Bond A	2,089,918	1,928,739
PIMCO Investment Grade Credit Bond CL I2	397,519	367,225
PIMCO Low Duration	56,732	103,060
PIMCO Money Market Fund	32,654	31,125
PIMCO Real Return	692,051	664,178
PIMCO Real Return CL 12	300,588	288,771
PIMCO Short Term A	1,253,812	1,183,815
PIMCO Short Term Invmt Instl	450,536	427,095
PIMCO Total Return	814,533	765,553
Western Asset Core Plus Bond Fund Class I	190,505	178,446
Western Asset Core Plus Bond I	2,034,105	1,905,349
	<u>39,074,485</u>	<u>33,911,143</u>
Certificates of Deposit		
American B&T Inc	250,000	-
Bank of America NA	250,000	-
Beal Bank Plano TX CD FDIC	247,279	242,175
Goldmach Sachs Bank USA New York CD	248,611	741,125
TIAA FSB Jacksonville FL CD FDIC	-	250,000
	<u>995,890</u>	<u>1,233,300</u>
Total Investments	<u>\$ 40,070,375</u>	<u>\$ 35,144,443</u>

The 501 Alliance
Notes to the Financial Statements
December 31, 2023 and 2022

Investment income consists of the following:

	2023	2022
Investment income		
Interest	\$ 164	\$ 255
Dividends	1,124,447	968,470
Capital gain distributions	460,247	366,739
Realized gain	438	87,485
Unrealized gain	3,106,337	(7,349,205)
Investment management fees	(71,163)	(72,283)
Total investment income	\$ 4,620,470	\$ (5,998,539)

Note 5 - Claims Payable

The liability for claims payable consists of the following:

	2023	2022
Claims paid by the State for fourth quarter and billed to The 501 Alliance subsequent to December 31	\$ 449,214	\$ 337,668

The 501 Alliance estimates that there is approximately \$470,000 in potential future claims attributable to employees separated prior to December 31, 2023, for benefit weeks that may be incurred subsequent to December 31, 2023.

Note 6 - Line of Credit

The 501 Alliance has a \$13,000,000 revolving line of credit with TriState Capital Bank, secured by the investments. The interest rate on the line of credit at December 31, 2023 was 7.46%. While the line of credit was available for use, there were no borrowings during the year.

Note 7 - 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, 2023 and 2022, 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 measurements requires judgment and considers factors specific to each asset.

The 501 Alliance
Notes to the Financial Statements
December 31, 2023 and 2022

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

	Balance at December 31, 2023	Fair Value Measurements using Quoted Prices in Active Markets for Identical Assets (Level 1)
Investments (Exchange-Traded Products, Mutual Funds, Exchange-Traded Funds, and Certificates of Deposit)	<u>\$ 40,070,375</u>	<u>\$ 40,070,375</u>
	Balance at December 31, 2022	Fair Value Measurements using Quoted Prices in Active Markets for Identical Assets (Level 1)
Investments (Exchange-Traded Products, Mutual Funds, Exchange-Traded Funds, and Certificates of Deposit)	<u>\$ 35,144,443</u>	<u>\$ 35,144,443</u>

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

Note 8 - Service Agreements

Equifax Workforce Solutions provided The 501 Alliance with administrative services, claims management and supervision and the use of office space in 2023. The 501 Alliance had a multi-year agreement with Equifax Workforce Solutions. The 501 Alliance paid Equifax Workforce Solutions fees of \$462,802 and \$468,264 for the years ended December 31, 2023 and 2022.

Effective January 1, 2024, The 501 Alliance entered into a three year agreement with Equifax Workforce Solutions for claims management services. The service agreement in effect for 2024 through 2026 is as follows:

2024	\$ 118,200
2025	124,110
2026	<u>130,315</u>
	<u>\$ 372,625</u>

The 501 Alliance
Notes to the Financial Statements
December 31, 2023 and 2022

Effective January 1, 2024, The 501 Alliance entered into a three year agreement with Gesaman & Associates for nonprofit management services. The service agreement in effect for 2024 through 2026 is as follows:

2024	\$ 334,000
2025	344,020
2026	<u>354,341</u>
	<u>\$ 1,032,361</u>

Note 9 - Revenue from Contracts with Customers

The following summarizes revenue by type for the year ended December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Revenue from contracts with customers	\$ 1,998,649	\$ 1,826,978
Investment income (loss)	<u>4,620,470</u>	<u>(5,998,539)</u>
Total revenue	<u>\$ 6,619,119</u>	<u>\$ (4,171,561)</u>

Bad debt expense as a result of impairment loss on receivables and contract assets on contracts with customers was \$0 for the years ended December 31, 2023 and 2022.

All revenue from contracts with customers is earned at a point in time for the year ended December 31, 2023 and 2022.

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:

	<u>December 31, 2023</u>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Contract assets			
Member fees receivable	\$ <u>163,391</u>	\$ <u>174,390</u>	\$ <u>274,641</u>
Contract liabilities			
Due to member agencies	\$ <u>6,957</u>	\$ <u>7,908</u>	\$ <u>-</u>

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 2027. All of the directors volunteer their time and provide input on topics that impact our members.

Christopher O’Leary W.E. Upjohn Institute for Employment	Incumbent
Karin Keim Retired	Incumbent
Kim Westmoreland Michigan Public Health Institute	Incumbent
Mike Blau Attorney	Incumbent
Remi Montigny Retired	Incumbent

SECTION 4

Operations Report

2023 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, 2021, 2022 and 2023. 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

	2021	2022	2023
Member Agencies	339	338	348
Number of Member Agency Employees	21,762	22,099	24,103
Gross Payrolls	\$922,649,028	\$990,148,702	\$1,088,778,277
Taxable Payrolls	\$244,777,294	\$240,775,917	\$271,820,796
Taxable Wage Base	\$9,500	\$9,500	\$9,500

Support & Revenue

	2021	2022	2023
Net Contributions by Member Agencies	\$2,879,032	\$1,826,978	\$1,998,649
Investment Income	\$3,208,500	(\$5,998,539)	\$4,620,470

2023 Operations Report

Marketing

The 501 Alliance concluded a multi-year project to upgrade its brand elements and website. The ability for members to pay online at no additional cost was added along with a more intuitive interface.

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 6.58%. 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. The rate structure for 2023 remained the same as 2022.

Positive History Members:

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

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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 2023 1.1% of the total membership had negative histories. This is a very small decrease 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 2023, none of the members were assessed a surcharge, which was also the case in 2022.

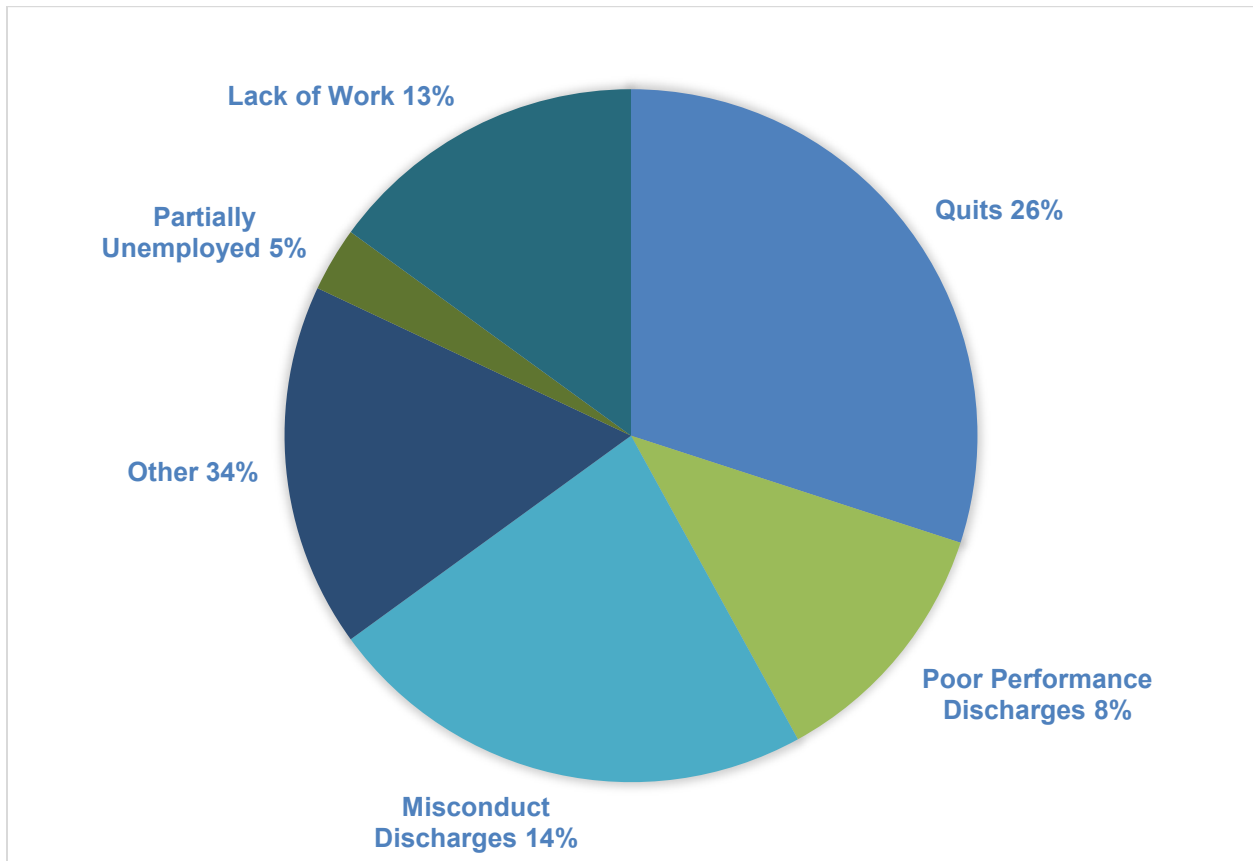
Annual Claim Activity

1,938 claims were processed in 2023, which was a 34% decrease from 2022.

Claim Activity By Separation Issue

The separation reasons noted for claims filed in 2023 are allocated into six categories. The largest increase from 2022 was 9% for misconduct discharges.

2023 Operations Report



Annual Decision Analysis

In reviewing the decisions received during 2023, 95% of the claim decisions received were favorable, avoiding/suspending \$5,136,104 in liability for members of 501 Alliance.

Annual Charge Error Credits

One of the valuable benefits of membership is the verification of charges to the accounts of members. During 2023, charge error credits totaling \$135,363 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.

2023 Operations Report

Claims Reimbursement

In 2023, \$1,627,313 was incurred in benefit charges from members. This was an increase from 2022.

In Closing

Despite the 501 Alliance's 50+ year history, many nonprofit HR and finance leaders are unaware that they can streamline 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 www.501alliance.org for more information.