



Financial Supplement

NEW YORK STATE PUBLIC EMPLOYEES FEDERATION AND SUBSIDIARY

Consolidated Schedule of Chargeable and Nonchargeable Expenses For the Year Ended March 31, 2009



Marvin and company, p.c.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

11 British American Boulevard
Latham, NY 12110

INDEPENDENT AUDITORS' REPORT

Officers and Trustees
New York State Public Employees Federation

We have audited, in accordance with U.S. generally accepted auditing standards, the consolidated financial statements of New York State Public Employees Federation and Subsidiary (PEF) for the year ended March 31, 2009, and have issued our report thereon dated November 19, 2009. We have also audited the accompanying consolidated schedule of chargeable and nonchargeable expenses for the purpose of calculating agency shop fee refunds for the year ended March 31, 2009. This schedule is the responsibility of PEF's management. Our responsibility is to express an opinion on this schedule based on our audit.

We conducted our audit of the schedule in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated schedule of chargeable and nonchargeable expenses is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated schedule of chargeable and nonchargeable expenses. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

Under law, individuals are entitled to a refund of the pro-rata share of agency shop fees spent by PEF

in aid of causes of a political and ideological nature, which are only incidentally related to the terms and conditions of employment. We have been informed by management that PEF bases the determination of nonchargeable expenses for the calculation of its refunds, on the definitions in Note 2 and the significant factors and management assumptions described in Note 3, and that these factors and assumptions are based on management's interpretation of legal precedent.

In our opinion, the consolidated schedule of chargeable and nonchargeable expenses presents fairly, in all material respects, the consolidated allocable expenses and allocation between chargeable and nonchargeable expenses of New York State Public Employees Federation and Subsidiary for the year ended March 31, 2009, in accordance with the definitions, significant factors and management assumptions referred to above.

This report is intended to be used in connection with the calculation of agency shop fee refunds by PEF and is intended solely for the information and use of those who are knowledgeable of PEF's agency shop fee refund policies and procedures and is not intended to be and should not be used by anyone other than these specified parties.

Marvin and Company, P.C.

Marvin and Company, P.C.

November 19, 2009

New York State Public Employees Federation and Subsidiary

Consolidated Schedule of Chargeable and Nonchargeable Expenses

For the Year Ended March 31, 2009

Expenses	Total Allocable Expenses	Chargeable Expenses	Non Chargeable Expenses
Divisional distributions	\$ 1,238,146	\$ 619,073	\$ 619,073
Affiliation dues	252,637	200,268	52,369
Salaries	9,840,516	8,123,757	1,716,759
Union leave	666,854	528,348	138,506
Payroll taxes	839,818	692,942	146,876
Employee benefits	3,947,782	3,394,941	552,841
Staff travel	250,283	198,742	51,541
Automobile expense	270,162	232,884	37,278
Program related travel	1,985,291	1,615,825	369,466
Earned organizational leave	591,287	529,865	61,422
Reproduction	11,527	-	11,527
Printing	396,492	296,556	99,936
Postage	620,816	440,091	180,725
Office supplies	107,243	86,048	21,195
Telephone and communications	265,937	240,505	25,432
Office rent and parking	673,481	591,916	81,565
Utilities	118,991	98,134	20,857
Janitorial	66,876	54,709	12,167
Maintenance and repairs	163,274	134,494	28,780
Equipment rental	7,206	2,131	5,075
Minor equipment purchases	49,033	40,698	8,335
Computer fees	48,836	42,570	6,266
Advertising	741,609	316,890	424,719
Photographic supplies	2,357	951	1,406
Books and reference material	105,262	91,840	13,422
Insurance	89,828	78,807	11,021
Outside temporary hires	29,009	9,065	19,944
Steno and transcript fees	22,959	21,251	1,708
Miscellaneous	62,304	60,712	1,592
Arbitration	157,146	147,754	9,392
Political and associated contributions	463,259	-	463,259
Charitable and other contributions	51,017	-	51,017
Depreciation and amortization	446,640	353,873	92,767
Interest expense	29,958	23,736	6,222
Real estate taxes	96,022	85,001	11,021
Scholarships	38,382	-	38,382
Professional and consultant fees	<u>569,732</u>	<u>417,492</u>	<u>152,240</u>
Total Expenses	<u>\$25,317,972</u>	<u>\$19,771,869</u>	<u>5,546,103</u>
Percentages	<u>100%</u>	<u>78.09%</u>	<u>21.91%</u>

See accompanying notes to consolidated schedule of Chargeable and Non-chargeable expenses.

NEW YORK STATE PUBLIC EMPLOYEES FEDERATION AND SUBSIDIARY

Notes to Consolidated Schedule of Chargeable and Nonchargeable Expenses

March 31, 2009

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

The New York State Public Employees Federation (PEF) is affiliated with the American Federation of Teachers (AFT) and the Service Employees International Union (SEIU). PEF is a self-governing unit representing predominantly the professional, scientific, and technical employees of the State of New York. The majority of revenues are from membership dues and agency shop fees.

The consolidated schedule of chargeable and nonchargeable expenses for the year ended March 31, 2009 includes the accounts of PEF and its subsidiary, PEF Land Holding Corporation. PEF Land Holding Corporation is a not-for-profit corporation formed to hold title to the land and office building used to house PEF's headquarters. Transactions between the entities have been eliminated.

PEF and its subsidiary adhere to generally accepted accounting principles as described in the AICPA Audit and Accounting Guide, "Not-for-Profit Organizations" published by the American Institute of Certified Public Accountants.

PEF is a labor union exempt from federal income tax under Section 501(c)(5) of the Internal Revenue Code (the Code). PEF Land Holding Corporation is a title holding corporation and is exempt from federal income tax under Section 501(c)(2) of the Code.

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Building and improvements	31.5
Furniture, fixtures and equipment	3-10
Automobiles	3-10
Computer equipment	3-10

Maintenance and repairs are charged to operations when incurred; betterments and renewals are capitalized. When property, plant and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation are relieved, and any gain or loss is included in operations.

Individuals are entitled to a refund of the pro-rata share of agency shop fees spent by PEF in aid of causes of a political and ideological nature, which are only incidentally related to the terms and conditions of employment. PEF bases the determination of nonchargeable expenses for the calculation of its

refunds on the definitions in Note 2 and the significant factors and management assumptions described in Note 3.

2. DEFINITIONS

Chargeable Expenses

Chargeable expenses are those incurred by PEF that reflect the share of the costs of operations of PEF which are considered necessarily and reasonably incurred for the purpose of assisting PEF and local divisions in the performance of their duties as representatives of the employees in dealing with the employer on labor management issues, including the costs of: negotiating and administering the collective bargaining contract; settling grievances and disputes by mutual agreement, or in arbitration, court or otherwise; activities and undertakings normally and reasonably employed to implement the duties of the local union or council as representative of the employees in the bargaining unit; and the maintenance of PEF's local divisions' associational existence.

The following are examples of expenditures classified as chargeable; preparation for and negotiation of collective bargaining agreements; contract administration including investigation and processing grievances; meetings, conferences, administrative, arbitral and court proceedings, and pertinent investigation and research in connection with work-related subjects and issues; handling work-related problems of employees; communications with community organizations, civic groups, government agencies, and the media with respect to PEF's position on work related matters; lobbying and legislative activities with respect to matters concerning employees' work-related issues; maintaining membership and recruitment of members; employee group programs; and providing legal, economic, and technical expertise on behalf of employees in all work-related matters.

Nonchargeable Expenses

Nonchargeable expenses are those of a political or ideological nature and those that are not relevant to work-related interests of employees. The term "political" is defined as support for or against candidates for political office of any level of government and any office in the union structure. The term "ideological" is defined as support for or against certain positions that PEF may take which are not work-related.

3. SIGNIFICANT FACTORS AND MANAGEMENT ASSUMPTIONS USED IN THE ALLOCATION OF EXPENSES BETWEEN CHARGEABLE AND NONCHARGEABLE

Divisional Distributions

Divisional distributions represent allocations to local organizations of PEF members. Each division was paid \$6.77 per member up to 200 members and \$5.41 for each member in excess of 200 in each calendar quarter for the year ended March 31, 2009. This expense is considered by management to be approximately 50% nonchargeable.

Political, Charitable and Other Contributions

All contributions are considered by management to be 100% nonchargeable.

Scholarship Fund Committee

All actual expenses associated with this committee, including employee organizational leave and travel expenses, have been considered by management to be 100% nonchargeable.

Departments

Based on estimates of time spent and expenses incurred for each department in connection with nonchargeable activities, management has designated the following allocation of nonchargeable expenditures for each department:

- Legislative Department**
99.1% nonchargeable
- Executive Board**
10.0% nonchargeable
- Building Department**
20.8% nonchargeable
- 11 Field Offices**
6.1% nonchargeable
- Civil Service Enforcement**
7.8% nonchargeable
- Legal Department**
3.9% nonchargeable
- Labor Relations Department**
6.1% nonchargeable
- Divisions Department**
4.2% nonchargeable
- Public Relations Department**
40.7% nonchargeable
- Plant Fund**
20.8% nonchargeable
- Accounting Department**
20.8% nonchargeable

- Executive Department**
20.8% nonchargeable
- Contract Administration**
5.3% nonchargeable
- Membership Mobilization**
63.3% nonchargeable
- PEF Land Holding Corp. Fund**
20.8% nonchargeable
- Membership Information System**
4.4% nonchargeable
- Health and Safety**
3.6% nonchargeable

All other departments' expenses are considered by management to be 100% chargeable. Management has determined that interest expense accrued on the AFT judgment and expenses related to the COPE, are not considered allocable for purposes of this schedule.

4. RECONCILIATION OF TOTAL ALLOCABLE EXPENSES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Allocable expenses per the financial statements:

Total consolidated expenses per financial statements, excluding COPE expense	\$23,827,190
Divisional distributions	1,238,146
Affiliation dues	<u>252,636</u>
Total Allocable Expenses - Consolidated Schedule of Chargeable and Nonchargeable Expenses	<u>\$25,317,972</u>

Per capita taxes paid to AFT and SEIU are not considered allocable for purposes of this schedule because separate allocation schedules, audited by other auditors, are prepared for these unions. PEF utilizes the nonchargeable percentages determined in the most recent schedules to compute the rebate related to the portion of agency shop fees paid to AFT and SEIU. AFT's nonchargeable percentage for the year ended April 30, 2009, applied to the 2008-09 fiscal year, was determined to be 34.32%; SEIU's nonchargeable percentage for the year ended December 31, 2008, applied to the 2008-09 fiscal year, was determined to be 39.40%.

AMERICAN FEDERATION OF TEACHERS, AFL-CIO
Combined Statement of General Fund and Militancy/Defense Fund Expenses
and
Allocation Between Chargeable Expenses and Nonchargeable Expenses
Year Ended April 30, 2009



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REPORT OF INDEPENDENT AUDITORS

The Secretary-Treasurer
 American Federation of Teachers, AFL-CIO

We have audited the accompanying combined statement of General Fund and Militancy/Defense Fund expenses and allocation between chargeable expenses and non-chargeable expenses of the American Federation of Teachers, AFL-CIO (the Federation) for the year ended April 30, 2009. This combined statement is the responsibility of the Federation's management. Our responsibility is to express an opinion on this combined statement based on our audit.

We conducted our audit of this combined statement in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the combined statement is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Federation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used and significant estimates made by the Federation's management, as well as evaluating the overall combined financial statement presentation. We believe that our audit provides a

reasonable basis for our opinion.

The total expenses reflected in Column A of the combined statement are based on the expenses of the Federation for the year ended April 30, 2009, as modified for the accounts and funds described in Note 1b. The allocation of combined expenses between chargeable (column B) and non-chargeable (column C) is based on the definitions and significant factors and assumptions described in Notes 2 and 3.

In our opinion, the combined statement referred to above presents fairly, in all material respects, the combined expenses of the American Federation of Teachers, AFL-CIO for the year ended April 30, 2009, as modified for the accounts and funds described in Note 1b, and the allocated combined expenses between chargeable and non-chargeable expenses, on the basis of the definitions and significant factors and assumptions described in Notes 2 and 3.

This report is intended solely for the information and use of the American Federation of Teachers, AFL-CIO and its agency fee payers, outside the State of California, and is not intended to be and should not be used by anyone other than these specified parties.

Calibre CPA Group, PLLC

CALIBRE CPA GROUP, PLLC
 Certified Public Accountants
 Washington, DC

July 31, 2009

American Federation of Teachers, AFL-CIO
NOTES TO COMBINED STATEMENT OF GENERAL FUND AND
MILITANCY / DEFENSE FUND EXPENSES AND
ALLOCATION BETWEEN CHARGEABLE EXPENSES AND NON-CHARGEABLE EXPENSES
Year Ended April 30, 2009

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Presentation – The accompanying combined statement was prepared for the purpose of determining the fair share cost of services rendered by the American

Federation of Teachers, AFL-CIO (the Federation) for employees represented by, but not members of, the Federation and its affiliated local unions. The accompanying combined statement is not intended to be a complete presentation of the Federation's financial position, changes in its net assets, or its

cash flows in accordance with generally accepted accounting principles.

b. Accounts and Funds Excluded from the Combined Statement – The expense of providing accident and liability insurance to members and agency fee payers is recovered through premium charges to locals

and has been excluded from the combined expense statement. Rent and various other operating expenses associated with the subletting operations of the Federation, which are accounted for in the Federation's Building Fund, have been excluded from the combined expense statement.

c. **Income Taxes** – The Federation is exempt from federal income taxes under Section 501(c)(5) of the Internal Revenue Code, except on net income from unrelated business activities.

d. **Retirement Plans** – The Federation contributes a percentage of eligible employees' salaries to retirement plans. The Federation follows the practice of recording as expense its required contributions under such plans in each fiscal year. During the year ended April 30, 2008, the Federation adopted Statement of Financial Accounting Standards No. 158, *Employers Accounting for Defined Pension and Other Postretirement Plans* (SFAS 158) which requires an employer to recognize the underfunded status of a defined benefit postretirement plan as a liability in its statement of financial position and in changes in unrestricted net assets.

e. **Severance and Accumulated Vacation** – The Federation accrues accumulated severance and vacation expense as it is earned by its employees under various contracts and agreements.

f. **Depreciation and Amortization** – Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets.

g. **Leases** – The Federation occupies office space in a building which is owned by a limited partnership of which the Federation, through its wholly owned subsidiary, 555 New Jersey Avenue, N.W., Inc., is the controlling partner. Annual rental payments were approximately \$1,808,000 of which 97 percent or approximately \$1,753,000, is charged to the General Fund based on the space occupied by the Federation.

h. **Estimates** – The preparation of financial statements requires management to make estimates and assumptions that affect the reported expenses during the reporting period and the allocation of expenses between chargeable and non-chargeable. Actual results could differ from those estimates.

NOTE 2. DEFINITIONS

The following definitions of chargeable and non-chargeable expenses are based on existing law and the Federation's interpretation of court cases.

Chargeable Expenses –

Chargeable expenses are those incurred by the Federation that reflect the share of the costs of operations of the Federation which are considered necessarily and reasonably incurred for the purpose of assisting state federations and local unions and councils in the performance of their duties as a representative of the employees in dealing with the employer on labor management issues, including the costs of: negotiating and administering the collective bargaining contract; settling grievances and disputes by mutual agreement, or in arbitration, court or otherwise; activities and undertakings normally and reasonably employed to implement the duties of the local union or council as representative of the employees in the bargaining unit; and the maintenance of the Federation's, state federations', local unions' and councils' associational existence.

The following are examples of expenditures classified as chargeable: preparation for and negotiations of collective bargaining agreements; contract administration including investigating and processing grievances; meetings, conferences, administrative, arbitral and court proceedings, and pertinent investigation and research in connection with work-related subjects and issues; handling work-related problems of employees; communications with community organizations, civic groups, government agencies, and the media regarding the Federation's position on work-

related matters; maintaining membership; employee group programs; and providing legal, economic, and technical expertise on behalf of employees in all work-related matters.

Non-chargeable Expenses – Non-chargeable expenses are those of an ideological or political nature and those that are not germane to work-related interests of employees.

The term "political" is defined as support for or against candidates for political office of any level of government and any office in the union structure. The term "ideological" is defined as support for or against certain positions that the union may take which are not work-related.

The following expenses are classified as non-chargeable: lobbying, electoral or political activities outside the limited context of contract ratification or implementation; litigation expenses that do not concern the objecting employees' bargaining unit; and public relations efforts designed to enhance the reputation of the teaching profession.

NOTE 3. SIGNIFICANT FACTORS AND ASSUMPTIONS USED IN THE ALLOCATION OF COMBINED EXPENSES BETWEEN CHARGEABLE AND NON-CHARGEABLE

a. **Salaries** – Salary expenses of the Committee on Political Education (COPE), legislative, public affairs, international affairs, and member benefit departments have been determined to be 100 percent non-chargeable. Salary expenses of executives, editorial department editors and administrative staff, as well as salary expenses for personnel responsible for the library, office management, finance, travel and meetings, and the print shop have been allocated between chargeable and non-chargeable activities based on time spent by personnel on such activities. The salaries of office and clerical personnel are allocated between chargeable and non-chargeable in the same percentage as their supervisors.

American Federation of Teachers, AFL-CIO				
COMBINED STATEMENT OF GENERAL FUND AND MILITANCY/DEFENSE FUND EXPENSES AND ALLOCATION BETWEEN CHARGEABLE EXPENSES AND NON-CHARGEABLE EXPENSES				
Year Ended April 30, 2009				
	Column A Total Expenses	Column B Chargeable Expenses	Column C Non-Chargeable Expenses	Notes
DIRECT EXPENSES				
Salaries	\$33,670,310	\$26,324,347	\$7,345,963	3a
Fringe benefits	12,019,641	9,499,475	2,520,166	3b
Payroll and other taxes	2,644,558	2,045,106	599,452	3b
Severance and vacation pay	1,210,280	935,941	274,339	3b
Travel and related expenses	6,427,561	5,820,388	607,173	3b
Dues, donations, and membership fees	4,637,522	-	4,637,522	3c
Publications:				
<i>American Teacher</i>	1,982,037	353,472	1,628,565	3d
<i>American Educator</i>	1,602,592	1,113,019	489,573	3d
<i>Health Wire</i>	153,758	43,321	110,437	3d
<i>Public Employee Advocate</i>	199,671	37,778	161,893	3d
<i>On Campus</i>	416,979	98,559	318,420	3d
<i>PSRP Reporter</i>	402,933	89,402	313,531	3d
Mass and electronic media information services	151,634	151,634	-	3e
AFT-COPE and related activities	5,833,903	-	5,833,903	3f
Affiliation fees	11,599,147	-	11,599,147	3g
Educational training programs	572,104	528,197	43,907	3h
Regional conferences and training	2,580,686	2,580,686	-	3h
QuEST conference	659	659	-	3h
Assistance and collective bargaining	27,599,162	27,599,162	-	3i
State federation rebates	1,976,188	1,976,188	-	3j
Militancy Fund	-	-	-	3k
Defense Fund	5,425,268	5,425,268	-	3l
Solidarity Fund - National	10,783,408	575,000	10,208,408	3m
Solidarity Fund - State Federations	3,984,171	3,984,171	-	3m
Legal, audit, and consulting expenses	5,332,238	3,935,110	1,397,128	3n
Legal, audit, and consulting				
- agency shop	135,874	135,874	-	3n
Legislative activities	1,095,302	-	1,095,302	3o
Public affairs activities	787,099	-	787,099	3o
Member benefits activities	1,307,704	-	1,307,704	3o
International affairs activities	181,703	-	181,703	3o
Convention and executive council meetings	2,254,618	2,254,618	-	3p
Departmental meetings	6,117,421	4,962,030	1,155,391	3q
Regional offices	299,868	279,696	20,172	3r
Total direct expenses	<u>\$153,385,999</u>	<u>\$100,749,101</u>	<u>\$52,636,898</u>	
GENERAL, ADMINISTRATIVE, AND OPERATING EXPENSES				
National office and equipment rental	\$2,039,308	\$1,339,486	\$699,822	3s
Depreciation and amortization	1,584,773	1,040,932	543,841	
Repairs and maintenance	475,349	312,225	163,124	
Information technology expenses	54,188	35,593	18,595	
Computer implementation/AFTECH	214,070	140,608	73,462	
General insurance	470,580	309,093	161,487	
General legal, audit, and consulting expenses	2,065,801	1,356,888	708,913	
Postage, express and delivery, and telephone	423,805	278,369	145,436	
Office supplies, subscriptions, books, and other expenses	2,415,795	1,586,776	829,019	
Total general, administrative, and operating expenses	<u>9,743,669</u>	<u>6,399,971</u>	<u>3,343,698</u>	
Total expenses	<u>\$163,129,668</u>	<u>\$107,149,072</u>	<u>\$55,980,596</u>	
	<u>100%</u>	<u>65.68%</u>	<u>34.32%</u>	

See report of independent auditors and accompanying notes to combined statement.

b. **Fringe Benefits, Payroll and Other Taxes, Severance and Vacation Pay, and Travel and Related Expenses** - These expenses are allocated on the basis of salary expense allocations described in Note 3a above.

c. **Dues, Donations, and Membership Fees** - Dues, donations, and membership fees to all organizations are considered to be 100 percent non-chargeable.

d. **Publications** - Direct printing and publishing expenses of the publications are allocated based on the specific content of articles in the publications as determined by the Federation's editorial department. Expenses allocable to articles considered political or ideological in nature are deemed not to benefit nonmembers and are non-chargeable. Expenses allocable to reporting on legislative and lobbying activities, litigation activities, public relations activities, illegal strike activities, and articles relating to enhancement of the reputation of the teaching profession as a whole are non-chargeable. The content of articles deemed chargeable were reviewed by editorial staff and are directly related to issues in collective bargaining, contract administration, and grievance matters. Chargeable articles include topics such as collective bargaining contracts negotiated by locals throughout the country and arbitrations won by the Federation's locals. Chargeable articles also include topics such as salary and fringe benefit improvements, health and welfare areas such as asbestos removal, etc. Other chargeable articles deal with specific topics like class size and educational reform issues on new and advanced methods of classroom instruction. Expenses allocable to advertising, net of advertising revenue, are considered non-chargeable.

e. **Mass and Electronic Media Information Services** - Mass and electronic media information services promote the union and provide a method of disseminating information on union activities in areas of collective bargaining, contract administration, and grievance matters. Media is also used to explain the Federation's

positions in educational reform on such issues as educational changes in the profession, class size, modern methods of teaching and school structure, financial improvements, educational accountability issues, and educational restructuring of schools. These expenses are considered to be 100 percent chargeable. Publicity and public relations on the subject of enhancing the reputation of the teaching profession as a whole are non-chargeable.

f. AFT-COPE and Related Activities – Contributions to the Federation's Committee on Political Education (COPE) Fund and related expenses are considered to be 100 percent non-chargeable.

g. Affiliation Fees – Affiliation fees are considered to be 100 percent non-chargeable.

h. Educational Training Programs and Conferences – Educational training programs and conferences are for local, state, and national staff and are to enhance staff skills in collective bargaining, grievance handling, and contract administration. These educational training programs and conferences are considered to be 100 percent chargeable, except that items of a political or public relations nature contained within the programs are non-chargeable.

The Quality in Education Standards (QuEST) conference is a biennial conference that concentrates on educational reform and new instructional methods. As this conference focuses on education related issues, the related expenses are considered to be 100 percent chargeable.

i. Assistance and Collective Bargaining – Expenses of organizing, collective bargaining, assistance to local unions, grievance handling, contract administration, etc. are 100 percent chargeable.

j. State Federation Rebates – State federation rebates are required by the Federation's constitution and are therefore 100 percent chargeable. These funds are to be used to hire staff at the state and local level, to negotiate

collective bargaining agreements, and to enforce contract administration. Also, funds are used to service members directly.

k. Militancy Fund – The Militancy Fund supports members and locals involved in strikes. These expenses are considered to be 100 percent non-chargeable.

l. Defense Fund – The Defense Fund is a legal defense fund available to members and nonmembers which grants assistance to local and state bodies to help protect the rights of teachers, career service personnel, and other educational workers, as well as health care and federal, state, and local employees. Matters involving contract administration, grievance handling, and litigation involving the defense of the Federation are considered to be chargeable. Expenses of litigation unrelated to an objecting employee's unit and not germane to the Federation's duties as exclusive bargaining representative are not considered to be chargeable as defined in *Lehnert v. Ferris Faculty Association* (1991) but now nonmembers could be charged by the local or national union for national litigation expenses as long as the subject matter of the extra-local litigation was of a kind that would be chargeable if the litigation were local and the charge was reciprocal in nature. *Locke v. Karass*, U.S. Supreme Court, January 21, 2009. This fund is administered through a committee comprised of Vice Presidents, the Secretary-Treasurer and the General Counsel, all of the Federation.

m. Solidarity Funds – Solidarity Fund expenses consist of payments made by the National Fund related to political and legislative activities. These payments are considered to be 100 percent non-chargeable unless the expense is directly related to improving the wages, hours, or working conditions of the members of the bargaining unit(s). Payments made to AFT State

Federation Solidarity Funds as required by the Federation's Constitution are considered 100 percent chargeable.

n. Legal, Audit and Consulting Expenses – Legal, audit, and consulting expenses related to specific projects are allocated based on the chargeable percentages of the related departments, except that legal, audit and consulting expenses primarily for non-chargeable activities are considered to be 100 percent non-chargeable.

Legal, audit, and consulting expenses - agency shop are fees paid to outside lawyers, auditors, and consultants for services directly relating to agency shop matters. These expenses are considered to be 100 percent chargeable.

General legal, audit and consulting expenses are allocated as described in Note 3s below.

o. Legislative Activities, Public Affairs Activities, Member Benefits Activities and International Affairs Activities – Activities related to legislative, public affairs, member benefits, and International affairs expenses are considered to be 100 percent non-chargeable.

p. Convention and Executive Council Meetings – Expenses related to the Federation's biennial convention and periodic Executive Council meetings are considered to be 100 percent chargeable.

q. Departmental Meetings – Departmental meetings expenses are allocated based on the chargeable percentages of the related departments, except that meeting expenses primarily for non-chargeable activities are considered to be 100 percent non-chargeable.

r. Regional Offices – Regional offices expenses are allocated based on the chargeable percentages of the regional office directors.

s. General, Administrative, and Operating Expenses – General, administrative, and operating expenses have been allocated to chargeable and non-chargeable expenses based on the same ratio as total direct expenses.



SERVICE EMPLOYEES INTERNATIONAL UNION, CTW, CLC

United States Division



Consolidated Statement of Expenses and Allocation Between Chargeable Expenses and Nonchargeable Expenses — Series 1

December 31, 2008



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REPORT OF INDEPENDENT AUDITORS

The Executive Board of the
Service Employees International Union, CTW, CLC

We have audited the accompanying consolidated statement of expenses and allocation between chargeable expenses and non-chargeable expenses - series 1 of the Service Employees International Union, CTW, CLC - United States Division (the International Union) for the year ended December 31, 2008. This consolidated statement is the responsibility of the International Union's management. Our responsibility is to express an opinion on this consolidated statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the International Union's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The total expenses reflected in Column A of the consolidated statement agree to the expenses in the

audited consolidated financial statement of the International Union for the year ended December 31, 2008, as modified to remove from expenses the per capita tax rebates paid to local unions of \$9,826,328, political expenses paid from voluntary contributions of \$29,767,110, expenses associated with the convention amounting to \$13,126,671, expenses paid from the Legal Defense Fund of \$909,440, the SEIU Services Corp. expenses totaling \$5,506,208, and the SEIU-CC, LLC expenses totaling \$5,279,183. The allocation of expenses between chargeable (Column B) and nonchargeable (Column C) is based on the definitions and significant factors and assumptions described in Notes 2 and 3.

In our opinion, the consolidated statement referred to above presents fairly, in all material respects, the consolidated expenses of the Service Employees International Union, CTW, CLC - United States Division for the year ended December 31, 2008, modified as discussed in the preceding paragraph and the allocated consolidated expenses between chargeable and non-chargeable expenses, on the basis of the definitions and significant factors and assumptions described in Notes 2 and 3.

This report is intended solely for the information and use of the Service Employees International Union, CTW, CLC and its agency fee payers and is not intended to be and should not be used by anyone other than those specified parties

Calibre CPA Group, PLLC

Washington, DC
June 23, 2009

**Service Employees International Union, CTW, CLC
United States Division**

**NOTES TO CONSOLIDATED STATEMENT OF EXPENSES AND ALLOCATION
BETWEEN CHARGEABLE EXPENSES AND NONCHARGEABLE EXPENSES - Series 1**

DECEMBER 31, 2008

**NOTE 1 – SUMMARY OF
SIGNIFICANT ACCOUNTING
POLICIES**

Method of Accounting – The financial statement has been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Basis of Presentation – The accompanying consolidated statement of expenses and allocation between chargeable and non-chargeable expenses was prepared for the purpose of determining the fair share cost of services rendered by the Service Employees International Union, CTW, CLC United States Division (the International Union) for employees represented by, but not members of, the International Union and its affiliated local unions. This statement is not intended to be a complete presentation of the International Union's financial position, or changes in its net assets and its cash flows in accordance with generally accepted accounting principles.

Consolidation – The accompanying consolidated financial statements include the accounts of the United States Division; 1313 L Street, N.W., Inc. ("1313 L Street"), a not-for-profit corporation formed to be a title-holding corporation for the International Union's former headquarters building; 1800 Massachusetts Avenue Corporation, a not-for-profit corporation formed to be a title-holding corporation for the International Union's existing headquarters building; SEIU-CC, LLC ("Communications Center") (successor to the SEIU Communications Center, Inc.), a for-profit corporation established to provide communications, polling,

production, and conferencing services and facilities; and SEIU Service Corp., a not-for-profit corporation established to serve as a national member resource center (collectively "SEIU"). All significant intercompany balances have been eliminated in consolidation.

Financial Statement Presentation

– The International Union records its transactions in various funds, each a self-balancing group of accounts. Each fund reflects only those transactions applicable to its designated functional area. The following fund designations are established by the International Union's Constitution or determined by management:

- *General Fund* – Records all activity not accounted for in the other funds and includes the general operations of the International Union – U.S. Division, the operations of 1313 L Street, N. W., Inc. (1313 L Street) and 1800 Massachusetts Avenue Corporation, formed to be title holding corporations for the International Union's headquarters building. The General Fund includes the consolidated accounts of 1313 L Street and 1800 Massachusetts Avenue Corporation.
- *Strike and Defense Funds* – Established to financially assist local unions involved in legitimate strikes and lockouts, and to provide financial assistance for educational programs including newspaper advertisements, leaflets, handbills, and other media-based messages concerning contract ratification. In accordance with the International Union's constitution, local unions may request payments from the Strike and Defense Fund after one year of making per capita payments.
- *Political Education and Action*

Funds (PEA) – Records all activities for political education and political action disbursed from per capita tax allocations.

- *Committee on Political Education* – Records all activities for political contributions disbursed from net assets received with donor-imposed restrictions.
- *Unity Fund* – The Unity Fund is a segregated fund financed from local union per capita payments that is used to finance breakthrough campaigns, coordinated bargaining, and other activities designed to increase density in SEIU's core industries. The Unity Fund is divided among the Property Services, Health Systems, Long Term Care, and Public Services Divisions and a non-divisional fund.
- *Convention Fund* – Records all activities for the convention of the International Union which meets every four years.
- *Other Funds* – Established to account for assets which have been internally segregated for specific purposes as determined by the Executive Board.

Tax Status – The International Union is exempt from federal income taxes, except on net income, if any, from unrelated business activities, under Section 501(c)(5) of the Internal Revenue Code. 1313 L Street, NW, Inc. and 1800 Massachusetts Avenue Corporation are exempt from income tax, except on net income, if any, from unrelated business activities, under Section 501(c)(2) of the Internal Revenue Code.

NOTE 2 - DEFINITIONS

The following definitions of chargeable and non-chargeable expenses are based on existing law and the International Union's

interpretation of court cases.

a. Chargeable Expenses –

Chargeable expenses are those incurred by the International Union that reflect the share of the costs of operations of the International Union which are considered necessarily and reasonably incurred for the purpose of assisting local unions in the performance of their

duties as a representative of the employees in dealing with the employer on labor management issues, including the costs of: negotiating and administering the collective bargaining contract; settling grievances and disputes by mutual agreement, or in arbitration, court or otherwise; activities and undertakings normally and reasonably employed to implement

the duties of the local union as representative of the employees in the bargaining unit; and the maintenance of the International Union's and local unions' existence. The following are examples of expenditures classified as chargeable: preparation for and negotiations of collective bargaining agreements; contract administration including investigating and

Service Employees International Union, CTW, CLC United States Division				
CONSOLIDATED STATEMENT OF EXPENSE AND ALLOCATION BETWEEN CHARGEABLE AND NONCHARGEABLE EXPENSES				
Series 1				
Year Ended December 31, 2008				
	<i>COLUMN A Total Expenses</i>	<i>COLUMN B Chargeable Expenses</i>	<i>COLUMN C Non-chargeable Expenses</i>	<i>Note</i>
EXPENSES				
Program expenses				
Representational:				
Organizing	\$44,690,507	\$40,942,071	\$3,748,436	3a
Organizing campaign support	20,891,142	16,721,675	4,169,467	3a
Unity Fund Nondivisional	10,437,245	8,733,686	1,703,559	3b
Unity Fund Property Services Division	9,115,654	7,627,804	1,487,850	3b
Unity Fund Health Care Division	27,875,544	23,325,720	4,549,824	3b
Unity Fund Public Services Division	14,025,492	11,736,263	2,289,229	3b
Unity Fund South-Southwest Division	<u>15,284,502</u>	<u>12,789,778</u>	<u>2,494,724</u>	3b
Total representational expenses	142,320,086	121,876,997	20,443,089	
Politics, government and community	8,689,983	1,360,072	7,329,911	3h
Political education and action funds	59,868,786	-	59,868,786	3g
Committee on political education	29,767,110	-	29,767,110	3g
Union communications	7,227,568	5,743,335	1,484,233	3d
Legal defense fund	909,440	-	909,440	3j
Convention fund	13,126,671	13,126,671	-	3i
Strike and defense fund expense	10,326,658	10,326,658	-	3f
Leader support	18,231,280	13,005,360	5,225,920	3l
SEIU Services Corp.	5,506,208	5,506,208	-	3o
Affiliation fee assessments	<u>8,268,068</u>	<u>-</u>	<u>8,268,068</u>	3e
Total program expenses	<u>304,241,858</u>	<u>170,945,301</u>	<u>133,296,557</u>	
Financial and support services	14,791,837	14,176,715	615,122	3m
General and administrative	<u>45,497,099</u>	<u>27,569,290</u>	<u>17,927,809</u>	3n
Total administrative expenses	<u>60,288,936</u>	<u>41,746,005</u>	<u>18,542,931</u>	
Total expenses	364,530,794	212,691,306	151,839,488	
Less:				
Per capita tax rebate payments to Locals	(9,826,328)	(9,002,140)	(824,188)	3c
Political expenses paid from voluntary contributions	(29,767,110)	-	(29,767,110)	3g
Convention Fund expenses	(13,126,671)	(13,126,671)	-	3i
Legal Defense Fund	(909,440)	-	(909,440)	3j
SEIU Services Corp.	(5,506,208)	(5,506,208)	-	3o
SEIU Communications Center, Inc.	<u>(5,279,183)</u>	<u>(3,198,958)</u>	<u>(2,080,225)</u>	3k
Total expenses, as modified	<u>\$300,115,854</u>	<u>\$181,857,329</u>	<u>\$118,258,525</u>	
	<u>100.00%</u>	<u>60.60%</u>	<u>39.40%</u>	

See accompanying notes to statement.

processing grievances; meetings, conferences, administrative, arbitral and court proceedings and pertinent investigation and research in connection with work-related subjects and issues; handling work-related problems of employees; organizing; and providing legal, economic, and technical expertise on behalf of employees in all work-related matters.

b. Non-Chargeable Expenses – Non-chargeable expenses are those expenses incurred by the International Union for the benefit and advancement of represented employees and their union which are not considered representational activities for non-members. Non-chargeable activities include those services that are ideological or political in nature; those that are exclusively for the benefit of full union members; and those that otherwise are not considered germane to the collective bargaining process.

Activities that are classified as non-chargeable include the following: legislative and government activities outside the limited context of contract ratification or implementation; public relations and other efforts directed towards functional activities that are not considered germane to the collective bargaining process; political activity expenses which include support at the Federal, state, or local level; donations; per capita tax fees paid to a labor organization; and the cost of benefits that are not available to non-members.

NOTE 3 - SIGNIFICANT FACTORS AND ASSUMPTIONS USED IN THE ALLOCATION OF CONSOLIDATED EXPENSES BETWEEN CHARGEABLE AND NON-CHARGEABLE

a. Representational expenses – Representational expenses are comprised primarily of personnel costs. These expenses are allocated to chargeable and non-chargeable expenses based on the allocation of personnel costs which have been determined through a time study.

b. Unity Fund – Expenses of the

Unity Fund include financial assistance to local unions involved in breakthrough campaigns to increase union membership. A majority of these expenses are personnel costs. These expenses are allocated to chargeable and non-chargeable expenses based on the allocation of Unity Fund personnel costs which have been determined through a time study.

c. Payments to Locals – Payments to locals which represent subsidies for organizing are considered to be fully chargeable. Payments to locals which represent reimbursements for operating expenses are considered to be fully chargeable. The total expenses as reported in the audited consolidated financial statement have been modified to remove from expenses the per capita tax rebates paid to local unions.

d. Union Communications – The expenses relating to the maintenance of the International Union's website have been allocated between chargeable and non-chargeable based on the nature of the work performed throughout the year. For example, expenses related to political or ideological activities are non-chargeable, and expenses related to collective bargaining and contract administration are chargeable.

e. Affiliation Fees and Assessments – Per capita taxes and assessments paid to Change to Win federation and affiliated labor organizations are considered to be fully non-chargeable.

f. Strike and Defense Funds – Expenses of the strike and defense funds include financial assistance to local unions involved in legitimate strikes and lockouts, in addition to providing financial assistance for educational programs including newspaper advertisements, leaflets, handbills, and other media-based messages concerning contract ratification. All expenses of the strike and defense funds are considered to be fully chargeable.

g. Politics, government and community – These expenses are comprised primarily of personnel costs. These expenses are allocated to chargeable and non-chargeable

expenses based on the allocation of personnel costs in which have been determined through a time study.

h. Political Education and Action Funds – Expenses incurred by the Committee on Political Education and the Political Education and Action Funds relate entirely to political and legislative activities and are considered to be fully non-chargeable. The total expenses as reported in the audited consolidated financial statement have been modified to remove from expenses the political expenses paid from voluntary contributions.

i. Convention Fund – Expenses for the International Union's convention are considered to be fully chargeable.

j. Legal Defense Fund – Expenses incurred by the Legal Defense Fund are removed from the total expenses, as they are paid solely from court awarded cost reimbursements from lawsuits.

k. SEIU-CC, LLC – Expenses incurred by the Center, a wholly-owned subsidiary of SEIU, are removed from the total expenses, as they are paid solely from the Center's earned income.

l. Leader Support – These expenses are allocated to chargeable and non-chargeable expenses based on the allocation of personnel costs in which have been determined through a time study.

m. Financial Support – These expenses are comprised primarily of personnel costs. These expenses are allocated to chargeable and non-chargeable expenses based on the allocation of personnel costs in which have been determined through a time study.

n. General and administrative – These expenses are allocated to chargeable and non-chargeable expenses based on the chargeable and non-chargeable percentages of the program expenses and financial support expense.

o. SEIU Services Corp. – Expenses incurred by the Service Corp., a wholly-owned subsidiary of SEIU, are removed from the total expenses, as they are paid by the local unions who utilize the Service Corp. and not by per-capita taxes.