



# Financial Supplement

**NEW YORK STATE PUBLIC EMPLOYEES FEDERATION AND SUBSIDIARY**

## **Consolidated Schedule of Chargeable and Non-chargeable Expenses Year Ended March 31, 2004**



**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 Subsidiaries (the Federation) for the year ended March 31, 2004, and have issued our report thereon dated June 11, 2004. 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, 2004. This schedule is the responsibility of the Federation'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 the

Federation 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 the Federation 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 Subsidiaries for the year ended March 31, 2004, 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 the Federation and is intended solely for the information and use of those who are knowledgeable of the Federation'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.*

October 8, 2004

## New York State Public Employees Federation and Subsidiaries

# Consolidated Schedule of Chargeable and Non-chargeable Expenses

For the Year Ended March 31, 2004

<b>Expenses</b>	<i>Total Allocable Expense</i>	<i>Chargeable Expenses</i>	<i>Non Chargeable Expenses</i>
Divisional distributions	\$ 1,063,941	\$ 531,971	\$ 531,970
Affiliation dues	198,993	171,347	27,646
Salaries	7,603,933	6,563,625	1,040,308
Union leave	749,614	653,987	95,627
Payroll taxes	685,665	593,628	92,037
Employee benefits	2,595,872	2,240,416	355,456
Staff travel	223,580	186,739	36,841
Automobile expense	179,601	166,790	12,811
Program related travel	1,699,020	1,561,465	137,555
Earned organization leave	359,417	316,322	43,095
Reproduction	129,499	95,814	33,685
Printing	333,536	261,466	72,070
Postage	446,916	372,016	74,900
Office supplies	101,938	80,692	21,246
Telephone and communications	334,664	274,493	60,171
Office rent and parking	591,011	519,299	71,712
Utilities	113,459	100,979	12,480
Janitorial	74,464	66,099	8,365
Maintenance and repairs	69,430	60,288	9,142
Equipment rental	10,554	9,863	691
Minor equipment purchases	35,176	28,263	6,913
Computer fees	66,086	49,661	16,425
Advertising	1,586,531	1,496,634	89,897
Photographic supplies	6,195	4,641	1,554
Periodicals and membership fees	31,638	27,471	4,167
Books and reference material	52,281	37,454	14,827
Insurance	131,365	115,630	15,735
Outside temporary hires	43,834	39,394	4,440
Steno and transcript fees	29,359	26,994	2,365
Miscellaneous	37,012	29,542	7,470
Arbitration	185,367	183,513	1,854
Political and associated contributions	275,728	—	275,728
Charitable and other contributions	55,049	—	55,049
Depreciation and amortization	432,832	372,698	60,134
Interest expense	59,412	59,412	—
Real estate taxes	91,954	79,179	12,775
Scholarships	40,000	—	40,000
Professional and consultant fees	262,036	216,824	45,212
Outside legal fees	8,034	8,034	—
<b>Total Expenses</b>	<b><u>\$20,994,996</u></b>	<b><u>\$17,602,643</u></b>	<b><u>\$3,392,353</u></b>
<b>Percentages</b>	<b><u>100.00%</u></b>	<b><u>83.84%</u></b>	<b><u>16.16%</u></b>

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

# NEW YORK STATE PUBLIC EMPLOYEES FEDERATION AND SUBSIDIARY

## Notes to Consolidated Schedule of Chargeable and Non-chargeable Expenses

March 31, 2004

### 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, 2004 includes the accounts of PEF and its subsidiaries, PEF Land Holding Corporation and P.E.F. World Trade Center Relief Fund. 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. P.E.F. World Trade Center Relief Fund is a not-for-profit organization formed to provide financial assistance to surviving members of the World Trade Center disaster. Transactions between the entities have been eliminated.

PEF and its subsidiaries 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. P.E.F. World Trade Center Relief Fund is a not-for-profit organization exempt from federal income tax under Section 501(c)(3) 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:

	<i>Years</i>
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 \$5.88 per member up to 200 members and \$4.70 for each member in excess of 200, in each calendar quarter for the years ended March 31, 2004 and 2003. This expense is considered by management to be 50% nonchargeable.

**Political, Charitable and Other Contributions**

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

**3. SIGNIFICANT FACTORS AND MANAGEMENT ASSUMPTIONS USED IN THE ALLOCATION OF EXPENSES BETWEEN CHARGEABLE AND 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**  
97% nonchargeable
- Executive Board**  
10% nonchargeable
- Building Department**  
14.34% nonchargeable
- 11 Field Offices**  
5% nonchargeable
- Civil Service Enforcement**  
14% nonchargeable
- Legal Department**  
10% nonchargeable
- Labor Relations Department**  
14.34% nonchargeable
- Divisions Department**  
1% nonchargeable
- Public Relations Department**  
18% nonchargeable
- Plant Fund**  
14.34% nonchargeable

- Accounting Department**  
14.34% nonchargeable
- Nurse Organizer**  
10% nonchargeable
- Executive Department**  
14.34% nonchargeable
- Contract Administration**  
1% nonchargeable
- Education and Mobilization**  
1% nonchargeable
- Job Security**  
10% nonchargeable
- PEF Land Holding Corp. Fund**  
14.34% nonchargeable
- Membership Information System**  
30% nonchargeable
- Health and Safety**  
2% nonchargeable
- Grievance**  
5% 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 . . . . .	\$19,732,062
Divisional distributions . . . . .	1,063,941
Affiliation dues . . . . .	198,993
Total Allocable Expenses - Consolidated Schedule of Chargeable and Nonchargeable Expenses . . . . .	\$20,994,996

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, 2004, applied to the 2003-04 fiscal year, was determined to be 28.75%; SEIU's nonchargeable percentage for the year ended December 31, 2003, applied to the 2003-04 fiscal year, was determined to be 20.10%.

# AMERICAN FEDERATION OF TEACHERS, AFL-CIO

## Combined Statement of General Fund, Militancy/Defense Fund Expenses and Allocation Between Chargeable Expenses and Non-chargeable Expenses

Year Ended April 30, 2004



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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, 2004. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by the Federation's management, as well as evaluating the overall presentation of the combined statement. 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, 2004, 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, 2004, 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*

Washington, DC  
July 16, 2004

### 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, 2004

#### 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.

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 \$1,440,000 of which 97 percent or approximately \$1,400,000, is charged to the General Fund based on the space occupied by the Federation.

h. **Use of Estimates in the Preparation of Financial Statements** – 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.

b. **Fringe Benefits, Payroll and Other Taxes, Severance and Vacation Pay, and Travel and Related Expenses** – These expenses are allocated on the basis

**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, 2004**

	Column A Total Expenses	Column B Chargeable Expenses	Column C Non-Chargeable Expenses	Notes
<b>DIRECT EXPENSES</b>				
Salaries	\$ 26,919,368	\$ 21,529,804	\$ 5,389,564	3a
Fringe benefits	10,273,727	8,141,013	2,132,714	3b
Payroll and other taxes	1,914,124	1,527,812	386,312	3b
Severance and vacation pay	768,696	613,556	155,140	3b
Travel and related expenses	6,791,081	6,218,667	572,414	3b
Dues, donations, and membership fees	1,273,793	-	1,273,793	3c
Publications:				
American Teacher	2,027,100	839,308	1,187,792	3d
American Educator	1,435,861	777,944	657,917	3d
Healthwire	154,972	101,681	53,291	3d
Public Service Reporter	189,501	62,725	126,776	3d
On Campus Reporter	518,495	131,014	387,481	3d
Reporter	235,662	151,410	84,252	3d
Mass and electronic media information services	3,596,168	1,407,181	2,188,987	3e
"Where We Stand" column	464,095	295,350	168,745	3f
AFT-COPE and related activities	2,835,857	-	2,835,857	3g
Affiliation fees	8,812,917	-	8,812,917	3h
Educational training programs	437,389	410,930	26,459	3i
Regional conferences and training	1,942,424	1,942,424	-	3i
QuEST Conference	625,603	625,603	-	3i
Assistance and collective bargaining	22,013,158	22,013,158	-	3j
State federation rebates	1,905,267	1,905,267	-	3k
Militancy Fund	(6,253)	-	(6,253)	3l
Defense Fund	3,332,403	1,954,121	1,378,282	3m
Solidarity Fund - National	765,000	300,000	465,000	3n
Solidarity Fund - State Federations	2,434,993	2,434,993	-	3n
Legal, audit, and consulting expenses- agency shop	142,471	142,471	-	3o
Legislative activities	753,962	-	753,962	3p
Public affairs activities	137,747	-	137,747	3p
Member benefits activities	763,932	-	763,932	3p
International affairs activities	300,998	-	300,998	3p
Convention and executive council meetings	331,968	331,968	-	3q
Departmental meetings	3,712,607	2,899,768	812,839	3r
Regional offices	196,365	189,088	7,277	3s
Total direct expenses	<u>\$108,001,451</u>	<u>\$ 76,947,256</u>	<u>\$ 31,054,195</u>	
<b>GENERAL, ADMINISTRATIVE, AND OPERATING EXPENSES</b>				
National office and equipment rental	\$ 1,829,820	\$ 1,303,683	\$ 526,137	3t
Depreciation and amortization	1,280,082	912,014	368,068	
Repairs and maintenance	280,075	199,544	80,531	
Information technology expenses	222,137	158,265	63,872	
Computer implementation/AFTECH	312,850	222,895	89,955	
General insurance	1,082,986	771,590	311,396	
Legal, audit, and consulting expenses	3,964,863	2,824,826	1,140,037	
Postage, express and delivery, and telephone	527,623	375,913	151,710	
Office supplies, subscriptions, books, and other expenses	1,834,847	1,307,264	527,583	
Office renovation expenses	16,685	11,887	4,798	
Total general, administrative, and operating expenses	<u>11,351,968</u>	<u>8,087,880</u>	<u>3,264,088</u>	
Total expenses	<u>\$119,353,419</u>	<u>\$ 85,035,136</u>	<u>\$ 34,318,283</u>	
	<u>100%</u>	<u>71.25%</u>	<u>28.75%</u>	

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

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. **"Where We Stand" Column** – Direct publishing expenses of the monthly "Where We Stand" articles in various newspapers and periodicals written by the president of the Federation on contract administration, collective bargaining, and matters directly affecting wages, hours, and working conditions are allocated based on the specific content of the articles. Expenses allocable to articles considered political or ideological in nature, or pertaining to general public relations of the teaching profession, or to enhance the reputation of the teaching profession as a whole are non-chargeable.

g. **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.

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

i. **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.

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

k. **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.

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

m. **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). This fund is administered through a committee comprised of Vice Presidents, the Secretary-Treasurer and the General Counsel, all of the Federation.

n. **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.

o. **Legal, Audit, and Consulting Expenses - Agency Shop** – 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.

p. **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.

q. **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.

r. **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.

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

t. **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, AFL-CIO, CLC – United States Division**

**Consolidated Statement of Expenses and Allocation Between Chargeable Expenses and Non-chargeable Expenses**

**Year Ended December 31, 2003**

**Toal & Griffith, LLC**

CERTIFIED PUBLIC ACCOUNTANTS

200 Harry S. Truman Parkway, Ste. 110

Annapolis, Maryland 21401

410-224-0304 • 410-224-0032 Fax

**REPORT OF INDEPENDENT AUDITORS**

The Executive Board of the Service Employees International Union, AFL-CIO, CLC

We have audited the accompanying consolidated statement of expenses and allocation between chargeable expenses and non-chargeable expenses of the Service Employees International Union, AFL-CIO, CLC - United States Division (the International Union) for the year ended December 31, 2003. 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 did not audit the total expenses reflected in Column A of the consolidated financial statements. Total expenses were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts in Column A, is based solely on the report of the other auditors.

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 the audit to obtain reasonable assurance about whether the consolidated statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by the International Union's management, as well as evaluating the overall presentation of the consolidated statement. 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, 2003, as modified to remove from expenses the per capita tax rebates paid to local unions of \$10,204,666, political expenses paid from voluntary contributions of \$2,349,224, and expenses associated with the Eastern and Western Regional Conferences amounting to \$326,875, which were paid from funds transferred upon the dissolution of the Eastern Conference affiliate. The allocation of 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 consolidated statement referred to above present fairly, in all material respects, the consolidated expenses of the Service Employees International Union, AFL-CIO, CLC - United States Division for the year ended December 31, 2003, 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, AFL-CIO, CLC and its agency fee payers and is not intended to be and should not be used by anyone other than those specified parties.

*Toal & Griffith, LLC*

/s/ Toal & Griffith, LLC

October 29, 2004

**Service Employees International Union, AFL-CIO, CLC**

**NOTES TO CONSOLIDATED STATEMENT OF EXPENSES AND ALLOCATION BETWEEN CHARGEABLE EXPENSES AND NON-CHARGEABLE EXPENSES**

**YEAR ENDED DECEMBER 31, 2003**

**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, AFL-CIO - 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.

**Financial Statement Presentation and Principles of Consolidation –**

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 and the operations of 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 headquarters building. The General Fund includes the consolidated accounts of 1313 L Street. All significant intercompany account balances have been eliminated in consolidation.

**Strike and Defense Funds** – Established to financially assist local unions and members involved in strikes. In accordance with the International Union's constitution, local unions may withdraw their per capita payments from the Strike and Defense Local 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 Abreakthrough@ campaigns, coordinated bargaining, and other activities designed to increase density in SEIU's core industries. The Unity Fund is divided among the Building Service, Health Care, and Public Services Divisions and a discretionary 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.

**Depreciation and Amortization** – Depreciation and amortization of property, equipment, and

<b>Service Employees International Union, AFL-CIO, CLC United States Division</b>				
<b>CONSOLIDATED STATEMENT OF EXPENSES AND ALLOCATION BETWEEN CHARGEABLE EXPENSES AND NON-CHARGEABLE EXPENSES</b>				
<b>Year Ended December 31, 2003</b>				
	<i>COLUMN A</i> <i>Total</i> <i>Expenses</i>	<i>COLUMN B</i> <i>Chargeable</i> <i>Expenses</i>	<i>COLUMN C</i> <i>Non-chargeable</i> <i>Expenses</i>	<i>Notes</i>
<b>GENERAL FUND</b>				
Personnel costs				
Organizing	\$25,070,290	25,070,290	\$ —	3a
Organizing campaign support	10,970,866	10,591,804	379,062	3a
Politics, government, and community	2,453,781	—	2,453,781	3a
Union communications	5,084,529	3,692,388	1,392,141	3a
Leader support	6,714,624	5,954,967	759,657	3a
Administrative and financial services	4,457,970	3,669,802	788,168	3a
Professional fees and expenses	8,669,044	7,765,364	903,680	3b
Administrative expenses	9,634,164	8,617,760	1,016,404	3c
Contributions	2,111,182	—	2,111,182	3d
Payments to locals				
Subsidies	6,613,612	6,613,612	—	3e
Per capita tax rebates	10,204,666	10,204,666	—	3e
Reimbursements	985,772	985,772	—	3e
Political subsidies	1,493,105	—	1,493,105	3f
Conferences and meetings	3,664,698	1,836,014	1,828,684	3g
Communications and media	867,241	563,707	303,534	3h
Special projects	(5,165)	(5,165)	—	3i
Affiliation fees and assessments	10,004,911	—	10,004,911	3j
Death gratuities	122,633	—	122,633	3k
Building expenses	3,793,165	3,392,986	400,179	3l
Member telephone calls and visibility	799,888	—	799,888	3m
State Council return	776,114	776,114	—	3n
Total General Fund	114,487,090	89,730,081	24,757,009	
STRIKE AND DEFENSE FUNDS	6,435,572	6,435,572	—	3o
POLITICAL EDUCATION AND ACTION FUNDS	7,794,055	—	7,794,055	3p
COMMITTEE OF POLITICAL EDUCATION	2,349,224	—	2,349,224	3p
UNITY FUND	43,400,147	43,400,147	—	3q
CONVENTION FUND	155,468	155,468	—	3r
LEGAL DEFENSE FUND	29,945	—	29,945	3s
CONFERENCE FUND EXPENSES	326,875	326,875	—	3t
Total expenses before modification	174,978,376	140,048,143	34,930,233	
LESS				
Per capita tax rebate payments to locals	(10,204,666)	(10,204,666)	—	
Political expenses paid from voluntary contributions	(2,349,224)	—	(2,349,224)	
Conference Fund expenses	(326,875)	(326,875)	—	
Total expenses, as modified	<u>\$162,097,611</u>	<u>\$129,516,602</u>	<u>\$ 32,581,009</u>	
	100%	79.90%	20.10%	

*See report of independent auditors and accompanying notes to consolidated statement.*

improvements are computed over the estimated lives of the respective assets using the straight-line method.

**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 is 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 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 International Union's, local unions' and councils' 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;

organizing employees of employers in competitive markets where SEIU already represents employees; 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; union publications to the extent they report on non-administrative or non-representational activities; 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. **Personnel Costs** – The International Union has assigned all personnel to either program, leader support, or administrative and financial services departments. Program departments implement the programs of the International Union and provide services to affiliates and local unions. Administrative and financial services departments include the following departments: Accounting, Human Resources, Information and

Technology, Meetings and Convention, Member Services, and Finance and General Administration. Leader support includes the Executive Department, the Executive Board, and the Firemen and Oilers Department. Personnel costs include salaries and wages, fringe benefits, payroll taxes, and reimbursed employee expenses.

Personnel costs of the organizing departments, field operations and campaign support departments, politics, government, and community departments, Union communications departments, leader support departments and the administrative and financial services departments have been allocated based on determinations made by the various department heads as to the percentage of time his or her department spends on chargeable and non-chargeable activities. The personnel costs of office and clerical personnel are allocated between chargeable and non-chargeable in the same percentage as their supervisors.

b. **Professional Fees and Expenses** – All professional fees and expenses for outside legal counsel are considered to be chargeable or non-chargeable based on the services performed. Accounting and auditing fees and expenses are considered to be fully chargeable. Other professional fees and expenses are considered to be chargeable or non-chargeable based on the service performed by the consultant. Chargeable activities include expenses for training, speakers, and research matters. Professional fees for consulting services in connection with political activities and legislative activities are considered to be fully non-chargeable.

c. **Administrative Expenses** – Administrative expenses include items such as rent and utilities, office supplies and expenses, investment charges, equipment rental and maintenance, computer expenses, other taxes, depreciation and amortization, printing, postage, telephone, subscriptions, insurance, and bad debt expense. These expenses are allocated to chargeable and non-chargeable

expenses based on the same ratio as personnel costs.

d. **Contributions** – Contributions for charitable, civic, and labor-related purposes are not directly related to the function of representation and are considered to be fully non-chargeable.

e. **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.

f. **Political Subsidies** – Political subsidies are considered to be fully non-chargeable.

g. **Conferences and Meetings** – Expenses for conferences and meetings are allocated between chargeable expenses and non-chargeable expenses based on the purpose of and topics discussed at the meetings. Items of a political or legislative nature are considered to be non-chargeable. Educational training programs and conferences for local, state, and national staff, which are to enhance skills in collective bargaining, grievance handling, and contract administration are considered to be fully chargeable since they pertain to matters which are germane to collective bargaining. Executive Board meetings and meetings which pertain to the governance of the International Union such as formulating and communicating union internal policy are considered to be fully chargeable.

h. **Communications and Media** – Direct printing and publishing expenses of the publications are allocated based on the specific content of articles in the publications such as the International Union's magazine, *SEIU Action*, which is distributed to all members and agency fee payers, and the newsletter, *Bold Action Fax*. Expenses allocable to articles considered to be political or ideological in nature are considered

non-chargeable. Expenses allocable to reporting on legislative and lobbying activities, litigation activities, illegal strike activities and articles relating to enhancement of the reputation of the International Union as a whole are considered to be non-chargeable. The content of articles deemed chargeable is directly related to issues on organizing in competitive markets where SEIU already represents employees, collective bargaining, and contract administration. These articles include topics such as collective bargaining contracts negotiated by locals throughout the country. The expenses relating to the maintenance of the International Union's website have been allocated based on an assessment of the content included on the website throughout the year.

i. **Special Projects** – Special projects are considered to be chargeable or non-chargeable based on an analysis of the nature of the special project conducted.

j. **Affiliation Fees and Assessments** – Per capita taxes and assessments paid to the AFL-CIO and affiliated labor organizations are considered to be fully non-chargeable.

k. **Death Gratuities** – Death gratuities are benefits paid to a deceased member's family and are considered to be fully non-chargeable.

l. **Building Expenses** – This category represents expenses incurred by 1313 L Street for the operation and maintenance of the International Union's headquarters building, such as utilities, real estate taxes, insurance, repairs and maintenance and other related expenses. These expenses are allocated to chargeable and non-chargeable expenses based on the same ratio as personnel costs.

m. **Member Telephone Calls and Visibility** – These expenses are considered to be fully non-chargeable.

n. **Regional Conferences and Joint Council Meetings** – The International Union returns a portion of per capita taxes received from the local unions to the

International Union's councils for regional conferences and joint council meetings. These governance meetings are considered to be fully chargeable.

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

p. **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.

q. **Unity Fund** – Expenses of the Unity Fund include financial assistance to local unions involved in Abreakthrough@ campaigns to increase union membership. These expenses are organizing in function and are considered to be chargeable to the extent they involve organizing in competitive markets where SEIU already represents employees.

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

s. **Legal Defense Fund** – Expenses incurred by the Legal Defense Fund are considered to be fully non-chargeable.

t. **Eastern Conference Fund** – Expenses incurred within this Fund are paid from funds transferred upon the dissolution of the Eastern Conference and are accordingly removed from the total expenses.