

Private Sector Notice

THE CIVIL SERVICE EMPLOYEES ASSOCIATION/AFSCME LOCAL 1000, AFL-CIO

143 Washington Ave., Albany, NY 12210

NOTICE TO PRIVATE SECTOR FEE PAYERS

There are many benefits to becoming a member of CSEA. We therefore urge you to consider becoming a full member of your Union at this time and enjoy the full benefits of membership. However, since you have not yet chosen to become a member, you are receiving this notice because you are a “financial core fee payer.” Such notice is required by certain decisions of the United States Supreme Court including Communications Workers of America v. Beck and their progeny. PLEASE READ THIS NOTICE CAREFULLY. IT CONTAINS IMPORTANT INFORMATION AND PROCEDURES CONCERNING YOUR LEGAL RIGHTS.

FINANCIAL CORE and UNION SHOP FEES

As a Fee Payer, you are being charged a fee intended to cover your share of the costs of the collective bargaining process, contract administration and pursuing matters affecting wages, hours and other conditions of employment. This charge is in accordance with the provisions of law.

Expenses associated with the following activities are totally chargeable to fee payers:

1. Gathering information in preparation for the negotiation of collective bargaining agreements.
2. Gathering information from employees concerning collective bargaining positions.
3. Negotiating collective bargaining agreements.
4. Administration of ballot procedures on the ratification of negotiated agreements.
5. The public advertising of CSEA’s positions on the negotiation, ratification or implementation of collective bargaining agreements.
6. Activities related to the negotiation, ratification or implementation of a collective bargaining agreement.
7. Adjusting grievances pursuant to the provisions of collective bargaining agreements, enforcing collective bargaining agreements and representing employees in proceedings under civil service laws or regulations.
8. Purchasing books, reports and advance sheets used in (a) negotiating and administering collective bargaining agreements, and (b) processing grievances.
9. Paying technicians in labor law, economics and other subjects for services used (a) in negotiating and administering collective bargaining agreements, and (b) in processing grievances.
10. Defending CSEA against efforts by other unions or organizing committees to gain representation rights in units represented by CSEA.
11. Proceedings regarding jurisdictional controversies under the AFL-CIO Constitution.
12. Membership meetings and conventions held at least in part to determine the positions of employees on collective bargaining issues, contract administration and other matters affecting wages, hours and working conditions, including the cost of sending representatives to such meetings and conventions.

13. Internal communications which concern collective bargaining issues, contract administration, employee development, unemployment, job opportunities, award programs and other matters affecting wages, hours and working conditions.

14. Impasse procedures, including fact finding, mediation, arbitration, strikes, slowdowns and work stoppages over provisions of collective bargaining agreements and the administration thereof, so long as they are legal under state law. These costs may include preparation for strikes, slowdowns and work stoppages regardless of their legality under state law, so long as no illegal conduct actually occurs.

15. The prosecution or defense of arbitration, litigation or charges to obtain ratification, interpretation, implementation or enforcement of collective bargaining agreements and any other litigation before agencies or in the courts which concerns bargaining unit employees which is normally conducted by an exclusive representative.

Expenses associated with the following activities are chargeable to the extent that they are germane to collective bargaining activity, are justified by the government’s vital policy interest in labor peace and avoiding free-riders, and do not significantly add to the burdening of free speech that is inherent in the allowance of an agency or union shop.

16. Services provided by a parent organization to other bargaining units, which are provided from a pool of resources available to all units, and may ultimately inure to the benefit of the members in the Local bargaining unit.

17. Purchasing books, reports and advance sheets used in activities or for purposes other than negotiating collective bargaining agreements and processing grievances. Training material for staff professional development is allocated between chargeable and nonchargeable based upon the overall percent within the department for a Program department or upon the overall percent of the total of all the Program departments for the Administrative departments. Subscriptions charged to the Legal Department are allocated based upon the overall percents of the activity of the department.

18. Paying technicians in labor law, economics and other subjects for services used in activities other than negotiating, implementing and administering collective bargaining agreements and processing grievances. Personnel costs for the Legal Department are allocated based upon a review of their time.

19. The affiliation payment to AFSCME is allocated using the percent provided by AFSCME as a result of their financial analysis. This analysis is included later in this publication.

20. Membership meetings and conventions held for purposes other than to determine the positions of employees on collective bargaining issues, contract grievance adjustment or other matters affecting wages, hours and working conditions. Costs associated with CSEA’s annual convention and Spring Workshop are allocated between chargeable and nonchargeable based on analysis of the agendas. Expenses associated with AFSCME’s biennial convention are allocated in the same manner as CSEA’s convention expenses. Costs associated with attending the meetings and conferences of other organizations such as Coalition of Black Trade Unionists, Black and Puerto Rican Caucus and Labor Council for Latin American Advancement are considered totally nonchargeable.

21. Internal communications which concern subjects other than collective bargaining issues, contract administration, public employment generally, employee development, unemployment, job opportunities, award programs or other matters affecting wages, hours and working conditions. CSEA’s monthly publication, The Work Force, is allocated on the basis of a column inch analysis of the chargeable and nonchargeable content of the publication.

22. Prosecution or defense or arbitration, litigation or charges involving matters other than the ratification interpretation, implementation or enforcement of collective bargaining agreements or which relates to the maintenance of the union’s associational or corporate existence. Costs associated with defending a challenge to our collective bargaining status, defending the association in liability suits would be considered chargeable. Costs associated with political or lobbying activity in areas such as Hatch Act would be considered nonchargeable.

23. Social and recreational activities.

24. Payments for insurance, medical care, retirement, disability, death and related benefit plans for union employees, staff and officers.

25. Administrative activities and expenses allocable to CSEA’s activities and expenses for which fair share fee payers are charged.

Expenses associated with the following activities are not chargeable:

26. Training in voter registration, get-out-the-vote and political campaign techniques.
27. Supporting and contributing to charitable organizations.
28. Supporting and contributing to political organizations and candidates for public office.
29. Supporting and contributing to ideological causes.
30. Supporting and contributing to international affairs.
31. The public advertising of CSEA’s position on issues other than negotiation, ratification or implementation of collective bargaining agreements.
32. For purposes of this calculation, organizing expenses are treated as nonchargeable.
33. Affiliation payments to other Labor Organizations, other than AFSCME.
34. Member-only benefits.

Applying these criteria to activities of AFSCME for the year ended December 31, 2020 and to CSEA Local 1000 and its locals for the year ending September 30, 2020 we have determined that 56.73% of the total, combined expenses of AFSCME, CSEA Local 1000 and its locals is chargeable to Union Shop Fee Payers in CSEA fiscal year 2021-22. Using this percentage will lower full-time Union Shop Fee Payers fee by \$100 to \$360 annually.

The CSEA Local 1000 chargeable amount was compiled based on audited financial information covering expenditures of AFSCME, CSEA Local 1000 and its locals in major categories of expenditures, audited by independent accountants.

CSEA Local 1000 has over 300 locals. During fiscal year 2020, these locals had total expenses of approximately \$19 million. In accordance with decisions of the federal courts on the question of how local expenditures should be allocated for the purpose of determining chargeable expenses, CSEA has determined that the percentage of chargeable activities of these locals is at least as great as the percentage of chargeable activities for CSEA.

CSEA Local 1000 Procedure for Objecting to Union Shop Fees

An individual paying a Fee who objects to the appropriation of that portion of the fee above the chargeable amount has the right to file an objection to such use. An objector shall file written notice of his or her objection with the CSEA Treasurer, at the address listed below, in the period from June 17, 2021 to July 17, 2021. The written objection must include the objecting fee payer’s name, address, home and work phone numbers, Social Security number, job title, employer, employing agency, work location and CSEA local, if known. Upon receipt of such objection, the Treasurer shall reduce your financial core fees by 43.27%. Once an objection is filed, an objector need not refile each year.

CSEA Local 1000 Procedure for Challenging the Chargeable Amount of Fees

CSEA Local 1000 has established the following procedure for individual Fee Payers who wish to challenge the foregoing calculation and the chargeable amount of the Fee. PLEASE READ THIS PROCEDURE CAREFULLY. YOU MUST COMPLY WITH THESE PROCEDURES IN ORDER TO CHALLENGE THE CSEA LOCAL 1000/AFSCME ASSESSED PERCENTAGE.

A. CHALLENGE

Fee Payers must inform CSEA of their challenge to the amount chargeable, in writing, by mail. The written challenge must include the Challenger's name, address, home and work phone numbers, Social Security number, job title, employer, employing agency, work location and CSEA local, if known. The written challenge must be received by CSEA at the following address and be postmarked no later than July 17, 2021. This challenge must be filed annually.

Statewide Treasurer
CSEA Local 1000, AFSCME
143 Washington Ave.
P.O. Box 7125
Albany, NY 12224

B. CSEA LOCAL 1000 ARBITRATION PROCEDURE

An impartial decision maker will be appointed by the American Arbitration Association or other similar alternative dispute resolution agency to resolve all challenges to the CSEA Local 1000 calculation of the fee chargeable to fee payers. All challenges to the CSEA Local 1000 calculation will be consolidated into a single proceeding. The challengers will receive correspondence containing notice of the hearing date, time and place. The impartial arbitrator will hold a hearing in which challengers can participate personally or through a representative but do not have to be present at the hearing. In this hearing, CSEA Local 1000 will have the burden of proof regarding the accuracy of the calculation of chargeable versus nonchargeable expenses. Challengers will be given an opportunity to present evidence and written arguments in support of their challenge. The arbitrator will issue a written decision and award on the basis of the evidence and arguments presented.

C. ESCROW OF FEES

In the event that the arbitration procedure described above fails to elicit a decision from an arbitrator before the beginning of the new fiscal year, October 1, 2021, CSEA shall escrow an amount equal to all Fees paid by challengers, less any advance rebate, from October 1, 2021 forward in an interest-bearing account. The Fees shall remain in escrow until the arbitration award is issued at which time those escrowed fees shall be allocated to CSEA and the challengers pursuant to the arbitrator's ruling.

THE CIVIL SERVICE EMPLOYEES ASSOCIATION, INC.
SCHEDULE OF EXPENSES AND ALLOCATION BETWEEN
CHARGEABLE AND NONCHARGEABLE EXPENSES
Year ended September 30, 2020

INDEPENDENT AUDITOR'S REPORT

May 11, 2021
To the Officers and Directors
The Civil Service Employees Association, Inc.

Report on the Schedule of Expenses and Allocation between Chargeable and Nonchargeable Expenses

We have audited the accompanying schedule of expenses and allocation between chargeable and nonchargeable expenses of The Civil Service Employees Association, Inc. ("CSEA", the "Union") for the year ended September 30, 2020, and the related notes to the financial schedule.

Management's Responsibility for the Schedule of Expenses and Allocation between Chargeable and Nonchargeable Expenses

Management is responsible for the preparation and fair presentation of this financial schedule in accordance with the basis of the definitions and significant policies and procedures described in Notes 2, 3, and 4. This includes determining that this basis is an acceptable basis for the preparation of the financial schedule in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial schedule that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial schedule 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 the audit to obtain reasonable assurance about whether the financial schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial schedule. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial schedule referred to above presents fairly, in all material respects, the expenses of The Civil Service Employees Association, Inc. and the allocation between chargeable and nonchargeable expenses for the year ended September 30, 2020, in accordance with the basis of the definitions and significant policies and procedures described in Notes 2, 3, and 4.

Basis of Accounting

We draw attention to Notes 2, 3, and 4, which describe the basis of accounting. The financial schedule is prepared on a basis other than accounting principles generally accepted in the United States of America. The accompanying financial schedule is not intended to be a complete presentation of the Union's financial statements. Our opinion is not modified with respect to this matter.

Restriction of Use

Our report is intended solely for the information and use of the Union, CSEA members, and financial core members in the private sector and is not intended to be and should not be used by anyone other than those specified parties.

Bonadio & Co., LLP

The Civil Service Employees Association, Inc.
Schedule of Expenses and Allocation Between Chargeable and
Nonchargeable Expenses
Year Ended September 30, 2020

	Total Expenses	Chargeable Expenses	Non-Chargeable Expenses
Expenses			
Program departments - Headquarters			
Education	\$ 1,068,742	\$ 1,053,761	\$ 14,981
Executive	19,291	5,890	13,401
Safety	1,191,439	1,190,185	1,254
Member benefits	569,664	1,688	567,976
Field and member services	2,145,969	1,732,753	413,216
Contract administration	2,506,540	2,329,198	177,342
Communications	3,155,532	505,461	2,650,071
Organizing	2,684,330	167,408	2,516,922
Insurance	3,378,049	-	3,378,049
Member Solutions Center	428,593	1,549	427,044
Legal	4,718,691	3,742,390	976,301
Print Shop non-chargeable use	24,893	-	24,893
Administrative	1,097,605	812,318	285,287
Building maintenance - headquarters	1,413,243	709,589	703,654
Program departments - field services	17,744,680	16,854,842	889,838
Administrative departments - Union wide			
Administrative	9,796,610	6,765,539	3,031,071
Central files	391,470	270,349	121,121
Print shop/mail room	478,005	330,110	147,895
Internal operations	1,693,978	1,169,861	524,117
Human resources	1,125,747	777,441	348,306
Finance	1,478,795	1,021,256	457,539
Information systems	4,296,590	2,967,225	1,329,365
Member Solutions Center	1,107,553	764,876	342,667
Member records	990,776	684,230	306,546
Executive	901,592	622,639	278,953
Dues and financial core fees refunded			
to local and regional unions	18,955,662	13,090,780	5,864,882
Affiliation dues	28,684,578	8,033,977	20,650,601
Political action provisions	3,592,996	-	3,592,996
Total operating expenses	\$ 115,641,613	\$ 65,605,315	\$ 50,036,298
Overall Union allocation rates	100.00%	56.73%	43.27%

The accompanying notes are an integral part of the schedule of expenses and allocation between chargeable and nonchargeable expenses.

The Civil Service Employees Association, Inc.
Notes to Schedule of Expenses and Allocation Between Chargeable and
Nonchargeable Expenses
September 30, 2020

1. The Union

The Civil Service Employees Association, Inc. (CSEA, the Union) is organized to promote the Union of workers, represent its members with respect to all terms and conditions of employment, uphold and extend the principals of merit and fitness in employment, and advance the interests of its members. CSEA is a self-governing labor union representing state, county, municipal and private company employees within the State of New York. CSEA is exempt from income taxes under Section 501(c)(5) of the Internal Revenue Code.

Under law, individuals in the private sector who have chosen not to become a member of CSEA are entitled to a reduced financial core fee. The refund or reduction of fees is related to the pro rata share of total expenses incurred by CSEA

that aided causes of a political and ideological nature that are only incidentally related to the terms and conditions of employment. CSEA estimates the pro rata share of nonchargeable expenses used to determine such refunds and reductions based on the definitions in Note 3 which are based on management's interpretation of legal precedent.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial schedule was prepared in accordance with the basis of presentation described in Notes 2, 3, and 4 for the purpose of determining the service fee cost of services rendered by the Union for employees represented by, but not members of, the Union. The accompanying financial schedule is not intended to be a complete presentation of the Union's financial position, changes in net assets, or its cash flows in accordance with generally accepted accounting principles.

Use of Estimates

The preparation of the financial schedule in accordance with the basis of presentation described in Notes 2, 3, and 4 requires management to make estimates and assumptions that affect the reported amounts of expenses during the reporting period. Actual results could differ from those estimates, particularly given the economic disruptions and uncertainties associated with the ongoing COVID-19 pandemic, such differences may be significant.

Depreciation

Property, building and equipment are recorded at cost and depreciated on a straight-line basis over estimated useful lives of the assets ranging from 3-5 years for vehicle, software, furniture and equipment and 35 years for buildings.

3. Definitions

Total Expenses

Total expenses include total operating expenses, dues and financial core fees refundable to local and regional unions, affiliation dues, and political action provisions, less expenses incurred for grant supported programs.

Chargeable Expenses

Chargeable expenses are incurred by CSEA and reflect the share of expenses that are considered necessary and reasonable for the purpose of assisting the Union and its local and regional unions in performing their duties as representatives of the employee in dealing with their employers on labor management issues. Chargeable expenses include the costs of negotiating and administering the collective bargaining contract; settling grievances and disputes by mutual agreement, in arbitration, in court or otherwise; activities and undertakings normally and reasonably employed to complement the duties of the local divisions as representatives of the employees in the bargaining unit; pursuing matters affecting the wages, hours or working conditions of employees represented by CSEA before legislative or administrative bodies; communicating with employees or the general public on matters of concern to employees represented by CSEA; and maintaining the Union's affiliated regions and locals.

Chargeable expenses also include: preparations for and negotiations 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; communication with community organizations, civic groups, and government agencies representing CSEA's position on work-related matters; activities with respect to the ratification or negotiation of collective bargaining agreements; employee group programs; and providing legal, economic and technical expertise on behalf of employees in all work-related matters.

Nonchargeable Expenses

Nonchargeable expenses are incurred by CSEA and reflect an ideological or political nature unrelated to collective bargaining and the work-related interests of employees. Nonchargeable expenses include organizational costs for recruiting new membership and other Union benefits available only to members and retirees.

The term "ideological" is defined as support for or against certain positions that the Union may take that are not work-related. The term "political" is defined as support for, or opposition to, political parties or candidates for political office at any level of government.

4. Significant Factors and Assumptions

The significant policies and procedures underlying the allocation of total expenses between chargeable and nonchargeable expenses are summarized as follows:

Program Departments and Administrative Departments

For purposes of the calculation of chargeable and nonchargeable expenses, CSEA's departments are classified as either program or administrative.

Program Departments — Headquarters and Field Services

Program departments implement programs of the Union and provide services to affiliated local and regional unions. Allocations of chargeable and nonchargeable expenses of all program departments, except for communications, are based on management's assessment of the nature of departmental activities. Communications costs associated with the Union's publications, including editorial, production and distribution expenses, are allocated based on management's assessment of content of the publication.

Administrative Departments – Union Wide
Administrative departments oversee and coordinate the functions of the Union and provide support functions to the program departments. Administrative departments include the officers, other Union governing bodies, and support departments. Allocations between chargeable and nonchargeable expenses are based upon the Overall Union allocation rate of 69.06% chargeable and 30.94% non-chargeable, exclusive of respective amounts of dues refunded to local and regional unions, affiliation dues, and political action provisions.

Building Maintenance
Building maintenance – headquarters expenses are allocated between chargeable (50.21%) and non-chargeable (49.79%) expenses based upon the calculated allocation rates associated with total program departments located at the Union for the year ended September 30, 2020.

Dues and Financial Core Fees
Dues and financial core fees refundable to local and regional unions represent rebates based on percentage of dues collected net of per capita payments. Dues refundable to local and regional unions are 69.06% chargeable based upon an overall CSEA Union allocation rate, exclusive of affiliation, dues, and political action provisions for the year ended September 30, 2020.

Affiliation Dues
Affiliation dues represent per capita paid to AFSCME as a result of CSEA's affiliation with AFSCME. Affiliation dues are allocated between chargeable and nonchargeable based on the percentages of chargeable (28.01%) and nonchargeable (71.99%) expense reported on AFSCME's Schedule of Expenses and Allocation between Chargeable and Nonchargeable Expenses (audited) for the year ended December 31, 2019.

Political Action Provisions
Political action provisions represent the amount appropriated to the Civil Service Employees Political Action Fund (PAF) from CSEA. Political action contributions are considered 100.00% nonchargeable expenses.

Overall Union Allocation Rate
Overall Union allocation rate represents the percentages of chargeable (56.73%) and nonchargeable expenses (43.27%) applied in determining dues rates for core members. Using these percentages will increase core dues for full-time members by approximately \$100 to \$360 annually.

5. Reconciliation of the Schedule of Expenses and Allocation Between Chargeable and Nonchargeable Expenses to CSEA's Statement of Activities and Changes in Net Assets for the Year Ended September 30, 2020.

Total operating expenses	\$ 75,831,731
Dues and financial core fees refundable to local and regional unions	18,955,662
Affiliation dues	28,684,578
Political action provisions	<u>3,592,996</u>
	127,064,967
Less: Expenses incurred for grant supported programs and not included in the schedule of expenses and allocation between chargeable and nonchargeable expenses	
Federal government support services	(253,394)
New York State supported services	<u>(11,169,960)</u>
Total expenses included on the schedule of expenses and allocation between chargeable and nonchargeable expenses	<u>\$115,641,613</u>

6. Subsequent Events
Subsequent events have been evaluated through May 11, 2021, which is the date the schedule of expenses and allocation between chargeable and nonchargeable expenses was available to be issued.

AMERICAN FEDERATION OF STATE, COUNTY AND MUNICIPAL EMPLOYEES, AFL-CIO
Revised Consolidated Schedule of Expenses and Allocation Between Chargeable Expenses and Nonchargeable Expenses For the Year Ended December 31, 2019

INDEPENDENT AUDITORS REPORT
To the Executive Board
American Federation of State, County and Municipal Employees, AFL-CIO

Report on the Financial Statement
We have audited the accompanying revised consolidated statement of expenses and allocation between chargeable expenses and nonchargeable expenses (“the statement”) of American Federation of State, County and Municipal Employees, AFL-CIO (“AFSCME”) for the year ended December 31, 2019, and the related notes to this statement.

Management’s Responsibility for the Financial Statement
Management is responsible for the preparation and fair presentation of this statement in accordance with the significant accounting policies presented in Note 2 to the statement, the definitions presented in Note 3 to the statement and the significant factors and assumptions described in Note 4 to the statement; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the statement that is free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility
Our responsibility is to express an opinion on the 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 the audit to obtain reasonable assurance about whether the statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the revised consolidated statement of expenses and allocation between chargeable expenses and nonchargeable expenses presents fairly, in all material respects, the expenses of the American Federation of State, County and Municipal Employees, AFL-CIO for the year ended December 31, 2019 and the allocation of those expenses between chargeable expenses and nonchargeable expenses on the basis of the definitions in Note 3 to the statement and the significant factors and methodologies described in Note 4 to the statement.

Basis of Accounting
We draw attention to the notes to the statement, which describe the basis of presentation. Except as discussed in Note 2, the total expenses reflected in the statement agree to the expenses reflected in the audited consolidated financial statements of AFSCME for the year ended December 31, 2019. Notes 3 and 4 to the statement describe the definitions of chargeable expenses and nonchargeable expenses and the significant factors and methodologies used in the allocation of expenses between chargeable and nonchargeable, in which a union is authorized by statute to collect from non-members only those fees and dues necessary to perform its duties as a collective bargaining representative.

Other Matter - December 31, 2019 Audited Consolidated Financial Statements of AFSCME
We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of American Federation of State, County and Municipal Employees, AFL-CIO as of and for the year ended December 31, 2019, and our report thereon dated May 29, 2020 expressed an unmodified opinion on those financial statements.

Restriction on Use
This report is intended solely for the information and use of the Executive Board and management of American Federation of State, County and Municipal Employees, AFL-CIO and is not intended to be and should not be used by anyone other than these specified parties.

William Smith & Brown, PC

October 27, 2020

AMERICAN FEDERATION OF STATE, COUNTY AND MUNICIPAL EMPLOYEES, AFL-CIO
Revised Consolidated Schedule of Expenses and Allocation Between Chargeable Expenses and Nonchargeable Expenses For the year ended December 31, 2019

	Total Expenses	Chargeable Expenses	Non-Chargeable Expenses
EXPENSES			
Assistance to Affiliates	\$3,433,318	\$ 3,139,962	\$ 303,356
Communications	7,882,780	224,333	7,658,447
Conference and Travel Services	1,459,433	467,019	992,414
Data and Analytics	6,857,776	2,168,888	4,688,888
Education	3,673,079	2,545,333	1,127,746
Executive Board	1,085,085	1,085,085	-
Federal Government Affairs	2,258,480	536,849	1,721,631
Field Services	30,816,581	6,617,183	24,199,398
Financial Services	8,277,808	2,648,899	5,628,909
General Counsel	4,850,151	3,591,840	1,258,311
General Operating and Building Services	6,297,608	6,297,608	-
Human Resources	1,416,183	453,179	963,004
Information Systems	2,741,056	877,138	1,863,918
Inter-union Affiliations	18,313,282	-	18,813,282
International Relations	121,612	-	121,612
Judicial Panel	1,025,610	1,025,610	-
Political Action	24,411,627	(237,453)	24,649,080
Postretirement benefit liability change	5,370,000	1,718,400	3,651,600
President’s Office	3,079,170	838,134	2,241,036
Research	5,791,850	4,974,747	817,103
Retirees	1,954,629	519,258	1,435,371
Secretary - Treasurer’s Office	886,552	283,665	602,887
TOTALS	<u>\$ 142,013,670</u>	<u>\$ 39,775,677</u>	<u>\$ 102,237,993</u>
PERCENTAGE	<u>100.000 %</u>	<u>28.008 %</u>	<u>71.992%</u>

The Notes to the Revised Consolidated Statement of Expenses and Allocation Between Chargeable Expenses and Nonchargeable Expenses are an integral part of the statement.

AMERICAN FEDERATION OF STATE, COUNTY AND MUNICIPAL EMPLOYEES, AFL-CIO
Notes to Revised Consolidated Statement of Expenses and Allocation Between Chargeable Expenses and Nonchargeable Expenses For the Year Ended December 31, 2019

NOTE 1: ORGANIZATION

The American Federation of State, County and Municipal Employees, AFL-CIO (AFSCME) is an international labor organization representing workers in the public service and health care sectors. Its organization authority vests in its International Executive Board, and its Officers are elected every four years, by its membership, at a constitutional convention.

The AFSCME Building Corporation (the “Building Corporation”) maintains and operates AFSCME’s headquarters.

The Public Employees Organized to Promote Legislative Equality (“PEOPLE”) Committee receives voluntary financial contribution from AFSCME members to be used exclusively for the purpose of influencing, or attempting to influence, the nominations or election of one or more candidates for federal, state, or local elective public office.

The AFSCME Fallen Heroes Fund (the “Fallen Heroes Fund”) receives voluntary contributions from AFSCME, its affiliates and members to be used exclusively for providing financial assistance to public service employees and their families who are victims of the September 11th terrorist attack, or other disasters.

The AFSCME Public Service Workers, LLC (the “Public Service Workers, LLC”) was established to hold certain investments of AFSCME.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation
The revised consolidated statement of expenses and allocation between chargeable expenses and nonchargeable expenses (the “statement”) was prepared based on management’s interpretation of case law relevant to union fair share costs, in which a union is authorized by statute to collect from non-members only those fees and dues necessary to perform its duties as a collective bargaining representative. This statement is not intended to be a complete presentation of AFSCME’s financial position, or changes in its net assets and its cash flows in accordance with generally accepted accounting principles.

Principles of Consolidation
The revised consolidated statement of expenses and allocation between chargeable expenses and nonchargeable expenses includes the expense accounts of AFSCME and the Building Corporation. All intercompany transactions have been eliminated

in consolidation. The direct expenses related to PEOPLE and the Fallen Heroes Fund, which are included in the audited consolidated financial statements of AFSCME, are not included in this consolidated statement. Per capita rebates of \$3,026,607, which are offset against per capita income in the audited consolidated financial statements of AFSCME, are classified as assistance to affiliates in this statement.

Basis of Accounting

The statement has been prepared on the accrual basis of accounting.

Use of Estimates

The preparation of this statement requires management to make estimates and determine methodologies that affect the reported amounts of expenses during the reported period. Actual results could differ from those estimates.

Depreciation

Property assets are depreciated by the straight-line method at rates calculated to amortize the cost of the assets over their respective estimated useful lives.

Subsequent Events

In preparing this statement, management of the AFSCME has evaluated events and transactions that occurred after December 31, 2019 for potential recognition or disclosure in these statement. These events and transactions were evaluated through October 27, 2020, the date that the statement was available to be issued, and no items have come to the attention of management that would require recognition or disclosure.

NOTE 3: DEFINITIONS

Chargeable Expenses

Chargeable expenses include the share of the costs of operations of AFSCME which are considered necessarily and reasonably incurred for the purposes of assisting affiliated councils and local unions in the performance of their duties as representatives of the employees in dealing with the employers on labor management issues, including the costs of:

- Negotiating and administering, and securing the ratification and implementation of collective bargaining agreements
- 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 AFSCME as the representative of the employees
- Pursuing ratification or implementation of agreements affecting employees represented by AFSCME before legislative or administrative bodies
- Communicating with employees on matters of concern to them
- Maintenance of the associational existence of AFSCME and its affiliates

The following are examples of expenses classified as chargeable:

- Preparation for, and the negotiation of, collective bargaining agreements
- Contract administration, including investigating and processing grievances
- Meetings, conferences, administrative and arbitral proceedings, and pertinent investigation and research in connection with work-related subjects and issues
- Handling work-related problems of employees
- Communications with employers, elected officials, governmental agencies, and media with respect to AFSCME's position on collective bargaining related matters
- Providing legal, economic and technical expertise on behalf of employees in all work-related matters

Nonchargeable Expenses

Nonchargeable expenses include those of an ideological or political nature and expenses incurred for activities unrelated to collective bargaining and the work-related interests of employees. Also included as a category of nonchargeable expenses are affiliation fees, expenses associated with organizing workers, and union benefits available only to members.

The term "political" is defined as support of, or opposition to, political parties or candidates for political office and expenses associated with fundraising for such activities. Also included in the definition of "political" are voter registration and political get-out-the-vote efforts. The term "ideological" is defined as support for certain positions that AFSCME may take which are not work-related or do not have an impact on the wages, hours or working conditions of employees represented by AFSCME.

The following are examples of expenses classified as nonchargeable:

- Contributions to political candidates and political parties
- Fundraising for political candidates, political parties, or political action committees: voter registration and political get out the vote activities
- International affairs; activities concerning judicial nominations
- Endorsements of political candidates
- Contributions to or participation in activities sponsored by organizations that are unrelated to collective bargaining or other work-related interests
- Scholarships and other monetary aid provided to the families of members

- Members only discounted benefits
- Affiliation fees
- Lobbying for any purpose
- Expenses associated with organizing workers

NOTE 4: SIGNIFICANT FACTORS AND METHODOLOGIES RELATING TO THE ALLOCATION OF EXPENSES BETWEEN CHARGEABLE EXPENSES AND NONCHARGEABLE EXPENSES

Significant factors and methodologies underlying the allocation of expenses between chargeable and nonchargeable amounts are summarized as follows:

- a. For purposes of the allocation of expenses, except as noted below, departments are classified as either programmatic or administrative departments. Programmatic departments implement the programs of AFSCME and provide services to AFSCME affiliates. Allocations of chargeable expenses and nonchargeable expenses of the programmatic departments are made on the basis of a review of the activities and expenses of the individual departments.

Administrative departments oversee and coordinate the functions of AFSCME and provide support functions to the programmatic departments. Included among the administrative departments are the International Union Officers and their staffs, Financial Services, Data and Analytics, Information Systems, Human Resources and Conference and Travel. The expenses for the administrative departments are allocated as chargeable and nonchargeable in the same proportion as the total chargeable expenses and nonchargeable expenses of the programmatic departments. The overhead attributable to the programmatic departments is included as an administrative department expense in determining the chargeable and nonchargeable proportion of their expenses.

- b. For purposes of this allocation of expenses, organizing expenses are treated as nonchargeable. The Field Services Department is responsible for all of the International Union's organizing activities. The Field Services Department engages in organizing activities in two ways. First, the Field Services Department has certain employees who have, as one of their responsibilities, the organizing of new members. Second, the Field Services Department provides grants to AFSCME affiliates to permit them to engage in organizing.

AFSCME examines the staff who may have any involvement in organizing, either internal organizing in pre-existing bargaining units, or external organizing of new bargaining units. To the extent such staff are involved in organizing, their salaries are treated as nonchargeable.

The cost of all health and retirement benefits and all travel expenses of each permanent field service staff person who engaged in any organizing activities are treated as nonchargeable to the same extent as the salary of such person. Additionally, all overhead costs associated with organizing are treated as nonchargeable.

Certain of the activities of the Field Services Department are conducted through projects. Each of those projects is examined, and, if the purpose of the project includes any organizing, that portion of the project related to organizing, including that portion of the salaries, benefits and travel expenses of project staff employed in connection with such project is treated as nonchargeable.

Finally, the Field Services Department makes certain grants to AFSCME locals and councils for a variety of purposes, including organizing by the Union. All of these grants are examined by the Union and if the purpose of the grant includes organizing, that portion of the grant is treated as nonchargeable.

- c. Costs associated with AFSCME publications, including editorial, production, and distribution expenses, are allocated on the basis of a square inch analysis of the chargeable content of the publication.
- d. For the purpose of allocating personnel costs, it is assumed that employees work 7 hours per day and 232 days per year. The employee benefits percentage rate is based on a comparison of total department employee benefits to total department salary costs. Employee benefits are allocated on a departmental basis, based upon total chargeable and nonchargeable salary, multiplied by the benefits percentage rate.
- e. Activities of the programmatic department staff are individually analyzed and are allocated on the basis of chargeable activities. The personnel costs of the Communications staff involved in the editing or production of AFSCME's publications are allocated on the basis of the chargeable content of the publications.
- f. Reimbursed and charged travel expenses of the programmatic department staff are individually analyzed and allocated as chargeable or nonchargeable depending on the nature of the activity. Reimbursed expenses of the Communications staff involved in the editing and production of AFSCME publications are allocated on the basis of the chargeable content of the publication.
- g. Overhead expenses are allocated among the programmatic departments and on the basis of activities of programmatic department personnel in the headquarters and field. Overhead expenses are allocated on the basis of the

individual department's percentage of total headquarters or field salaries, reimbursed salaries and lost time costs. Overhead expenses are separated between chargeable and nonchargeable on the same ratio as chargeable to nonchargeable salaries within the headquarters or field departments to which the overhead applies. Included in the calculation of overhead expense are general operating and building service costs. For the year ended December 31, 2019, \$2,048,898 of headquarters and field general operating and building services costs have been allocated to nonchargeable expenses in the programmatic departments.

- h. Assistance to AFSCME affiliates are individually analyzed and allocated on the basis of their chargeable content.
- i. Contributions and participations are individually analyzed and allocated on the basis of their chargeable content.
- j. Affiliation payments to other labor organizations are treated as nonchargeable expenses in this revised calculation.
- k. The expenses of the Executive Board and the Judicial Panel are determined to be fully chargeable.
- l. AFSCME sponsors the AFSCME Group Health and Welfare Plan ("the Health and Welfare Plan"), which offers post retirement benefits for retired participants who have met certain eligibility requirements. The accrued postretirement benefit cost equals the present value of the accumulated postretirement benefit and is determined with the assistance of AFSCME's consulting actuary. During the year ended December 31, 2019, AFSCME experienced an increase in the accrued postretirement benefit cost liability of \$5,370,000. This amount is separately shown on the revised consolidated statement of expenses and allocation between chargeable and nonchargeable expenses, and it is allocated between chargeable and nonchargeable in the same proportion as the total chargeable expenses and nonchargeable expenses of the programmatic departments.

NOTE 5: RISKS AND UNCERTAINTIES

AFSCME is party to a number of lawsuits. The liability, if any, associated with these matters is not presently determinable. In the opinion of management, resolution of these matters will not have a material effect on AFSCME's operating expenses.

On June 27, 2018, the United States Supreme Court decided *Janus v. American Federation of State, County and Municipal Employees, Council 31* which ended a union's right to collect agency fees from non-members in the public sector. In anticipation of this ruling, AFSCME converted many non-members to member status who now pay regular dues. Additionally, AFSCME continues to organize new members whose dues help offset the impact of lost non-members' agency fees. Management is evaluating the long-term revenue impact of this ruling and the continuous legal challenges brought against organized labor in general.

