

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 percent 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, 2022 and to CSEA Local 1000 and its locals for the year ending September 30, 2023 we have determined that 58.53% of the total, combined expenses of AFSCME, CSEA Local 1000 and its locals is chargeable to Union Shop Fee Payers in CSEA fiscal year 2023-24. Using this percentage will lower increase Union Shop Fee Payers fee by \$10 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 2023, these locals had total expenses of approximately \$17 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 19, 2024 to July 19, 2024. 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 41.47%. 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 19, 2024. 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, 2024, CSEA shall escrow an amount equal to all Fees paid by challengers, less any advance rebate, from October 1, 2024 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, 2023

INDEPENDENT AUDITOR'S REPORT

June 3, 2024

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 (financial schedule) of The Civil Service Employees Association, Inc. ("CSEA", the "Union") for the year ended September 30, 2023, and the related notes to the financial schedule.

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, 2023, in accordance with the basis of the definitions and significant factors and assumptions described in Notes 2, 3, and 4.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Schedule of Expenses and Allocation between Chargeable and Nonchargeable Expenses section of our report. We are required to be independent of The Civil Service Employees Association, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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. As a result, the financial schedule may not be suitable for another purpose. 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.

Responsibilities of Management 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 Responsibilities for the Audit of the Schedule of Expenses and Allocation between Chargeable and Nonchargeable Expenses

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

that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial schedule.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial schedule, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial schedule.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Civil Service Employees Association, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial schedule.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Civil Service Employees Association, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

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 For The Year Ended September 30, 2023

	Total Expenses	Chargeable Expenses	Non-Chargeable Expenses
Expenses			
Program departments - headquarters:			
Education	\$ 1,011,070	\$ 1,008,992	\$ 2,078
Executive	1,426,589	1,400,124	26,465
Safety	1,416,287	1,416,287	-
Membership	2,514,882	2,217,300	297,582
Field and member services	1,799,417	1,756,998	42,419
Communications	3,274,429	34,938	3,239,491
Organizing	2,936,985	41,414	2,895,571
Legal	5,137,615	5,137,601	14
State operations	2,852,654	2,852,654	-
Building maintenance - headquarters	1,141,601	940,162	201,439
Program departments - field services	20,215,969	19,205,171	1,010,798
Administrative departments - Union wide:			
Administrative	(4,295,390)	(4,326,078)	30,688
Central files	415,258	341,984	73,274
Print shop/mail room	386,119	317,987	68,132
Internal operations	2,438,166	2,007,944	430,222
Human resources	1,675,951	1,380,224	295,727
Finance	1,910,345	1,573,258	337,087
Information technology	5,029,345	4,141,901	887,444
Membership enrollment & administration	2,049,107	1,687,535	361,572
Contingency fund income/expense	33,773	27,814	5,959
Insurance fund income/expense	4,065,814	-	4,065,814
Insurance	637,989	-	637,989
Member Benefits	1,075,058	-	1,075,058
Dues and financial core fees refunded to local and regional unions	17,189,881	12,544,374	4,645,507
Affiliation dues	28,061,438	7,422,250	20,639,188
Political action provisions	3,468,311	-	3,468,311
Total operating expenses	\$ 107,868,663	\$ 63,130,834	\$ 44,737,829
Overall union allocation rates	100.00%	58.53%	41.47%

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, 2023

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.

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

The following definitions of chargeable and nonchargeable expenses are based on existing law and the Union's interpretation of relevant court cases as applicable.

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 expense 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.

For the purposes of this schedule 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 Policies and Procedures

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 generally 100% nonchargeable based on program codes and the nature of the work performed. Any chargeable expense incurred outside normal activities 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 82.35% chargeable and 17.65% 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 (82.35%) and non-chargeable (17.65%) expenses based upon the calculated allocation rates associated with total program departments located at the Union for the year ended September 30, 2023.

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 72.98% chargeable based upon an overall CSEA Union allocation rate, exclusive of affiliation, dues, and political action provisions for the year ended December 31, 2022.

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 (26.45%) and nonchargeable (73.55%) expense reported on AFSCME's Schedule of Expenses and Allocation between Chargeable and Nonchargeable Expenses (audited) for the year ended September 30, 2023.

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 (58.53%) and nonchargeable expenses (41.47%) applied in determining dues rates for core members. Using these percentages will increase core dues for full time members by approximately \$10 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, 2023.

Total operating expenses	\$ 70,929,619
Dues and financial core fees refundable to local and regional unions	17,189,881
Affiliation dues	28,061,438
Political action provisions	<u>3,468,311</u>
	119,649,249
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	(288,386)
New York State supported services	<u>(11,492,200)</u>
Total expenses included on the schedule of expenses and allocation between chargeable and nonchargeable expenses	<u>\$107,868,663</u>

6. Subsequent Events

Subsequent events have been evaluated through June 3, 2024, 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 Statement of Expenses and Allocation Between Chargeable Expenses and Nonchargeable Expenses
For the Year Ended December 31, 2022

INDEPENDENT AUDITORS REPORT

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

Opinion

We have audited the revised consolidated statement of expenses and allocation between chargeable and nonchargeable expenses (the "statement") of the American Federation of State, County and Municipal Employees, AFL-CIO ("AFSCME") for the year ended December 31, 2022, and the related notes to the statement.

In our opinion, the accompanying revised consolidated statement of expenses and allocation between chargeable expenses and nonchargeable expenses presents fairly, in all material respects, the expenses of American Federation of State, County and Municipal Employees, AFL-CIO for the year ended December 31, 2022 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 for Opinion

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Statement section of our report. We are required to be independent of AFSCME and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2022. 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. Our opinion is not modified with respect to this matter.

Other Matter - December 31, 2022 Audited Consolidated Financial Statements of AFSCME

We have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated financial statements of American Federation of State, County and Municipal Employees, AFL-CIO as of and for the year ended December 31, 2022, and our report thereon dated June 1, 2023 expressed an unmodified opinion on those consolidated financial statements.

Responsibilities of Management for the Statement

Management is responsible for the preparation and fair presentation of the statement in accordance with the significant accounting principles presented in Note 2 to the statement, the definitions presented in Note 3 to the statement and the significant factors and methodologies 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. In preparing the statement, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about AFSCME's ability to continue as a going concern for one year after the date that the statement is available to be issued.

Auditor's Responsibilities for the Audit of the Statement

Our objectives are to obtain reasonable assurance about whether this statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they in performing an audit in accordance with GAAS, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the statement.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the AFSCME's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used as the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the statement.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about AFSCME's ability to continue as a going concern for a reasonable period of time.

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

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 its councils and local unions, affiliates, and their agency fee payers, and is not intended to be and should not be used by anyone other than these specified parties.

William Smith + Brown, PC

November 8, 2023

AMERICAN FEDERATION OF STATE, COUNTY AND MUNICIPAL EMPLOYEES, AFL-CIO
Revised Consolidated Statement of Expenses and Allocation Between Chargeable Expenses and Nonchargeable Expenses
For the year ended December 31, 2022

	<u>Total Expenses</u>	<u>Chargeable Expenses</u>	<u>Non-Chargeable Expenses</u>
EXPENSES			
Assistance to Affiliates	\$ 3,401,468	\$ 3,301,468	\$ 100,000
Communications	8,767,553	2,866,691	5,930,862
Conference and travel services	1,677,081	540,020	1,137,061
Convention	10,658,967	10,658,967	-
Data and analytics	7,156,585	2,304,420	4,852,165
Education	3,337,615	1,825,851	1,511,764
Executive board	739,014	739,014	-
Federal government affairs	2,035,983	438,857	1,597,126
Field Services	30,060,434	7,001,580	23,058,854
Financial services	7,481,148	2,408,930	5,072,218
General counsel	3,726,821	2,917,983	808,838
General operating and building services	5,317,805	5,317,805	-
Human resources	4,777,009	1,538,197	3,238,812
Information systems	3,042,782	979,776	2,063,006
Inter-union affiliations	17,567,935	-	17,567,935
International relations	119,994	-	119,994
Judicial panel	873,933	873,933	-
Political action	59,219,371	(595,583)	59,814,755
Postretirement benefit liability change	(21,542,000)	(6,936,524)	(14,605,476)
President's office	3,538,669	1,025,463	2,513,206
Research	5,426,509	4,398,609	1,027,900
Retirees	2,297,671	583,527	1,714,144
Secretary - Treasurer's office	955,592	307,701	647,891
TOTALS	<u>\$ 160,667,939</u>	<u>\$ 42,496,884</u>	<u>\$ 118,171,055</u>
PERCENTAGE	<u>100.000 %</u>	<u>26.450 %</u>	<u>73.550%</u>

The Notes to the Revised Consolidated Statement of Expenses and Allocation Between Chargeable Expenses and Nonchargeable Expenses are an integral part of this 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, 2022

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 consolidated financial position, or changes in its net assets and their cash flows in accordance accounting principles generally accepted in the United States of America.

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 statement. Per capita rebates of \$6,060,453, 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, 2022 for potential recognition or disclosure in the statement. These events and transactions were evaluated through November 8, 2023, 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:

- 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.

- 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 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.

- 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.
- For the purpose of allocating personnel costs, it is assumed that employees work 7 hours per day and 229 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.
- 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.
- 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 publications.
- 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, 2022, \$3,782,626 of headquarters and field general operating and building services costs have been allocated to nonchargeable expenses in the programmatic departments.
- Assistance to AFSCME affiliates are individually analyzed and allocated on the basis of their chargeable content.
- Contributions and participations are individually analyzed and allocated on the basis of their chargeable content.
- Affiliation payments to other labor organizations are treated as nonchargeable expenses in this revised calculation.

- The expenses of the Executive Board and the Judicial Panel are determined to be fully chargeable.

- 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, 2022, AFSCME experienced a decrease in the accrued postretirement benefit cost liability of \$21,542,000. This amount is separately shown on the revised consolidated statement of expenses and allocation between chargeable expenses 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: CONTINGENCIES

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.

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