



Based on Adopted Per Capita Effective September 1, 2008

TO: California Affiliated Locals and California Federation of Teachers

FROM: Antonia Cortese, Secretary-Treasurer *Antonia Cortese*

SUBJECT: Agency Fees 2008-2009

Date: August 4, 2008

Our concern with agency fee issues has resulted in extensive consultation with attorneys and auditors on the issue of the portion of the agency fee (fair share fee) that is chargeable and the amount that is nonchargeable (rebateable) to the agency fee payer.

The AFT report of the Independent Auditors from the firm, Calibre CPA Group, PLLC for these percentages is attached for the year ended April 30, 2008. Based on the chargeable and nonchargeable expenses for the year, we calculated the AFT agency fee per capita for the 2008-2009 year to be as follows:

AFT Convention approved per capita rates effective 9/1/08 for the 2008-2009 year - \$182.90

July 2008 through August 2008	2 months @ 14.70	\$ 29.40
September 2008 through June 2009	10 months @ 15.35	\$153.50

The estimated chargeable expenses for 2008-2009 are $\$182.90 * 52.81\% = \96.59
 Therefore, nonchargeable expenses for 2008-2009 are $\$182.90 * 47.19\% = \86.31

The nonchargeable percentage is derived by dividing the expenses that are nonchargeable by the total expenses incurred.

No chargeable expenses have been listed for the liability or accident insurance. If your local provides these insurances (one or both) to an agency fee payer, they should be listed on your local chargeable expense list.

This AFT audited report must be combined with your local and state federation reports and be provided to agency fee payers at least 30 days prior to the collection of the first agency fee for the school year 2008-2009, or the number of days required by applicable state law.

American Federation of Teachers, AFL-CIO

AFT Teachers
 AFT PSRP
 AFT Higher Education
 AFT Public Employees
 AFT Healthcare

555 New Jersey Ave. N.W.
 Washington, DC 20001
 202/879-4400
 www.aft.org

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AMERICAN FEDERATION OF TEACHERS, AFL-CIO

COMBINED STATEMENT OF GENERAL FUND AND
MILITANCY/DEFENSE FUND EXPENSES AND
ALLOCATION BETWEEN CHARGEABLE EXPENSES
AND NON-CHARGEABLE EXPENSES FOR THE
STATE OF CALIFORNIA

YEAR ENDED APRIL 30, 2008

AMERICAN FEDERATION OF TEACHERS, AFL-CIO

**COMBINED STATEMENT OF GENERAL FUND AND MILITANCY/DEFENSE
FUND EXPENSES AND ALLOCATION BETWEEN CHARGEABLE
EXPENSES AND NON-CHARGEABLE EXPENSES FOR THE
STATE OF CALIFORNIA**

YEAR ENDED APRIL 30, 2008

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CERTIFIED PUBLIC ACCOUNTANTS
AND BUSINESS ADVISORS

1850 K STREET, NW
SUITE 1050
WASHINGTON, DC 20006

202.331.9880 PHONE
202.331.9890 FAX

CIVIC OPERA BUILDING
20 NORTH WACKER DRIVE
SUITE 900
CHICAGO, IL 60606

312.920.9400 PHONE
312.920.9494 FAX

www.calibrecpa.com



REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying combined statement of General Fund and Militancy/Defense Fund expenses and allocation between chargeable expenses and non-chargeable expenses for the State of California of the American Federation of Teachers, AFL-CIO (the Federation) for the year ended April 30, 2008. This combined statement is the responsibility of the Federation's management. Our responsibility is to express an opinion on this combined statement based on our audit.

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

The total expenses reflected in Column A of the combined statement are based on the expenses of the Federation for the year ended April 30, 2008, as modified for the accounts and funds described in Note 1b. The allocation of combined expenses between chargeable (column B) and non-chargeable (column C) is based on the definitions and significant factors and assumptions described in Notes 2 and 3.

In our opinion, the combined statement referred to above presents fairly, in all material respects, the combined expenses of the American Federation of Teachers, AFL-CIO for the year ended April 30, 2008, as modified for the accounts and funds described in Note 1b, and the allocated combined expenses between chargeable and non-chargeable expenses, on the basis of the definitions and significant factors and assumptions described in Notes 2 and 3.

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

Calibre CPA Group, PLLC

Washington, DC
July 31, 2008

AMERICAN FEDERATION OF TEACHERS, AFL-CIO

**COMBINED STATEMENT OF GENERAL FUND AND MILITANCY/DEFENSE FUND
EXPENSES AND ALLOCATION BETWEEN CHARGEABLE EXPENSES
AND NON-CHARGEABLE EXPENSES FOR THE
STATE OF CALIFORNIA**

YEAR ENDED APRIL 30, 2008

	<u>Column A</u> Total Expenses	<u>Column B</u> Chargeable Expenses	<u>Column C</u> Non-chargeable Expenses	Notes
DIRECT EXPENSES				
Salaries	\$ 31,087,329	\$ 21,775,270	\$ 9,312,059	3a
Fringe benefits	23,645,374	16,440,340	7,205,034	3b
Payroll and other taxes	2,278,310	1,626,713	651,597	3b
Severance and vacation pay	951,535	658,036	293,499	3b
Travel and related expenses	6,221,976	3,603,794	2,618,182	3b
Dues, donations, and membership fees	4,180,115	-	4,180,115	3c
Publications:				
<u>American Teacher</u>	1,533,300	712,291	821,009	3d
<u>American Educator</u>	1,491,055	969,253	521,802	3d
<u>Health Wire</u>	151,647	64,516	87,131	3d
<u>Public Employee Advocate</u>	181,825	54,638	127,187	3d
<u>On Campus</u>	310,638	62,784	247,854	3d
<u>PSRP Reporter</u>	400,968	180,326	220,642	3d
Mass and electronic media information services	307,722	198,729	108,993	3e
AFT-COPE and related activities	5,196,922	-	5,196,922	3f
Affiliation fees	10,914,185	-	10,914,185	3g
Educational training programs	472,235	266,753	205,482	3h
Regional conferences and training	1,588,012	1,588,012	-	3h
QuEST conference	502,147	502,147	-	3h
Assistance and collective bargaining	24,886,466	12,184,732	12,701,734	3i
State federation rebates	1,942,627	1,942,627	-	3j
Militancy Fund	1,343	-	1,343	3k
Defense Fund	5,505,221	3,982,844	1,522,377	3l
Solidarity Fund - National	3,622,081	175,000	3,447,081	3m
Solidarity Fund - State Federations	2,976,214	2,976,214	-	3m
Legal, audit, and consulting expenses	4,641,228	3,038,461	1,602,767	3n
Legal, audit, and consulting expenses - agency shop	137,072	137,072	-	3n
Legislative activities	721,736	-	721,736	3o
Public affairs activities	315,876	-	315,876	3o
Member benefits activities	1,551,875	-	1,551,875	3o
International affairs activities	364,604	-	364,604	3o
Convention and executive council meetings	613,102	613,102	-	3p
Departmental meetings	6,905,635	3,043,668	3,861,967	3q
Regional offices	330,698	269,821	60,877	3r
Total direct expenses	\$ 145,931,073	\$ 77,067,143	\$ 68,863,930	

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

AMERICAN FEDERATION OF TEACHERS, AFL-CIO

**COMBINED STATEMENT OF GENERAL FUND AND MILITANCY/DEFENSE FUND
EXPENSES AND ALLOCATION BETWEEN CHARGEABLE EXPENSES
AND NON-CHARGEABLE EXPENSES FOR THE
STATE OF CALIFORNIA**

YEAR ENDED APRIL 30, 2008

	<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	
	Total	Chargeable	Non-chargeable	
	<u>Expenses</u>	<u>Expenses</u>	<u>Expenses</u>	<u>Notes</u>
GENERAL, ADMINISTRATIVE, AND OPERATING EXPENSES				3s
National office and equipment rental	\$ 1,644,174	\$ 868,299	\$ 775,875	
Depreciation and amortization	1,467,349	774,916	692,433	
Repairs and maintenance	425,844	224,891	200,953	
Information technology	91,656	48,404	43,252	
Computer implementation/AFTECH	114,646	60,545	54,101	
General insurance	582,498	307,621	274,877	
General legal, audit, and consulting expenses	1,423,814	751,925	671,889	
Postage, express and delivery, and telephone	364,052	192,258	171,794	
Office supplies, subscriptions, books, and other expenses	<u>1,713,291</u>	<u>904,800</u>	<u>808,491</u>	
Total general, administrative, and operating expenses	<u>7,827,324</u>	<u>4,133,660</u>	<u>3,693,664</u>	
Total expenses	<u>\$ 153,758,397</u>	<u>\$ 81,200,803</u>	<u>\$ 72,557,594</u>	
	<u>100.00%</u>	<u>52.81%</u>	<u>47.19%</u>	

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

AMERICAN FEDERATION OF TEACHERS, AFL-CIO

**NOTES TO COMBINED STATEMENT OF GENERAL FUND AND MILITANCY/
DEFENSE FUND EXPENSES AND ALLOCATION BETWEEN CHARGEABLE
EXPENSES AND NON-CHARGEABLE EXPENSES FOR THE
STATE OF CALIFORNIA**

YEAR ENDED APRIL 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. **Basis of Presentation** - The accompanying combined statement was prepared for the purpose of determining the fair share cost of services rendered by the American Federation of Teachers, AFL-CIO (the Federation) for employees represented by, but not members of, the Federation and its affiliated local unions in the State of California. The accompanying combined statement is not intended to be a complete presentation of the Federation's financial position, changes in its net assets, or its cash flows in accordance with generally accepted accounting principles.
- b. **Accounts and Funds Excluded from the Combined Statement** - The expense of providing accident and liability insurance to members and agency fee payers is recovered through premium charges to locals and has been excluded from the combined expense statement. Rent and various other operating expenses associated with the subletting operations of the Federation, which are accounted for in the Federation's Building Fund, have been excluded from the combined expense statement.
- c. **Income Taxes** - The Federation is exempt from federal income taxes under Section 501(c)(5) of the Internal Revenue Code, except on net income from unrelated business activities.
- d. **Retirement Plans** - The Federation contributes a percentage of eligible employees' salaries to retirement plans. The Federation follows the practice of recording as expense its required contributions under such plans in each fiscal year. During the year ended April 30, 2008, the Federation adopted Statement of Financial Accounting Standards No. 158, *Employers Accounting for Defined Pension and Other Postretirement Plans* (SFAS 158) which requires an employer to recognize the underfunded status of a defined benefit postretirement plan as a liability in its statement of financial position and in changes in unrestricted net assets.
- e. **Severance and Accumulated Vacation** - The Federation accrues accumulated severance and vacation expense as it is earned by its employees under various contracts and agreements.
- f. **Depreciation and Amortization** - Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- g. **Leases** - The Federation occupies office space in a building which is owned by a limited partnership of which the Federation, through its wholly owned subsidiary, 555 New Jersey Avenue, N.W., Inc., is the controlling partner. Annual rental payments were approximately \$1,572,000 of which 97 percent or approximately \$1,525,000, is charged to the General Fund based on the space occupied by the Federation.
- h. **Estimates** - The preparation of financial statements requires management to make estimates and assumptions that affect the reported expenses during the reporting period and the allocation of expenses between chargeable and non-chargeable. Actual results could differ from those estimates.

NOTE 2. DEFINITIONS

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

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

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

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

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

NOTE 2. DEFINITIONS (CONTINUED)

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

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

- a. **Salaries** - Salary expenses of the Committee on Political Education (COPE), legislative, public affairs, international affairs, and member benefits departments have been determined to be 100 percent non-chargeable. Salary expenses of executives, editorial department editors and administrative staff, as well as salary expenses for personnel responsible for the library, office management, finance, travel and meetings, and the print shop have been allocated between chargeable and non-chargeable activities based on time spent by personnel on such activities. The salaries of office and clerical personnel are allocated between chargeable and non-chargeable in the same percentage as their supervisors.
- b. **Fringe Benefits, Payroll and Other Taxes, Severance and Vacation Pay, and Travel and Related Expenses** - These expenses are allocated on the basis of salary expense allocations described in Note 3a above.
- c. **Dues, Donations, and Membership Fees** - Dues, donations, and membership fees to all organizations are considered to be 100 percent non-chargeable.
- d. **Publications** - Direct printing and publishing expenses of the publications are allocated based on the specific content of articles in the publications as determined by the Federation's editorial department. Expenses allocable to articles considered political or ideological in nature are deemed not to benefit nonmembers and are non-chargeable. Expenses allocable to reporting on legislative and lobbying activities, litigation activities, public relations activities, illegal strike activities, and articles relating to enhancement of the reputation of the teaching profession as a whole are non-chargeable. The content of articles deemed chargeable was reviewed by editorial staff and are directly related to issues in collective bargaining, contract administration, and grievance matters. Chargeable articles include topics such as collective bargaining contracts negotiated by locals throughout the country and arbitrations won by the Federation's locals. Chargeable articles also include topics such as salary and fringe benefit improvements, health and welfare areas such as asbestos removal, etc. Other chargeable articles deal with specific topics like class size and educational reform issues on new and advanced methods of classroom instruction. Expenses allocable to advertising, net of advertising revenue, are considered non-chargeable.

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

- e. **Mass and Electronic Media Information Services** - Mass and electronic media information services promote the union and provide a method of disseminating information on union activities in areas of collective bargaining, contract administration, and grievance matters. Media is also used to explain the Federation's positions in educational reform on such issues as educational changes in the profession, class size, modern methods of teaching and school structure, financial improvements, educational accountability issues, and educational restructuring of schools. These expenses are considered to be 100 percent chargeable. Publicity and public relations on the subject of enhancing the reputation of the teaching profession as a whole are non-chargeable.
- f. **AFT-COPE and Related Activities** - Contributions to the Federation's Committee on Political Education (COPE) Fund and related expenses are considered to be 100 percent non-chargeable.
- g. **Affiliation Fees** - Affiliation fees are considered to be 100 percent non-chargeable.
- h. **Educational Training Programs and Conferences** - Educational training programs and conferences are for local, state, and national staff and are to enhance staff skills in collective bargaining, grievance handling, and contract administration. These educational training programs and conferences are considered to be 100 percent chargeable, except that items related to organizing activities in new areas, or of a political or public relations nature contained within the programs are non-chargeable.

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

- i. **Assistance and Collective Bargaining** - Expenses of organizing, collective bargaining, assistance to local unions, grievance handling, contract administration, etc. are 100 percent chargeable; however, expenses relating to organizing activities in new areas, including campaigns for collective bargaining where AFT is not the agent, preparation of literature and workers meetings, are 100 percent non-chargeable.
- j. **State Federation Rebates** - State federation rebates are required by the Federation's constitution and are therefore 100 percent chargeable. These funds are to be used to hire staff at the state and local level, to negotiate collective bargaining agreements, and to enforce contract administration. Also, funds are used to service members directly.
- k. **Militancy Fund** - The Militancy Fund supports members and locals involved in strikes. These expenses are considered to be 100 percent non-chargeable.

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

- l. **Defense Fund** - The Defense Fund is a legal defense fund available to members and nonmembers which grants assistance to local and state bodies to help protect the rights of teachers, career service personnel, and other educational workers, as well as health care and federal, state, and local employees. Matters involving contract administration, grievance handling, and litigation involving the defense of the Federation are considered to be chargeable. Expenses of litigation unrelated to an objecting employee's unit and not germane to the Federation's duties as exclusive bargaining representative are not considered to be chargeable as defined in Lehnert v. Ferris Faculty Association (1991). This fund is administered through a committee comprised of Vice Presidents, the Secretary-Treasurer and the General Counsel, all of the Federation.

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

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

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

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

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

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

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

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

- r. **Regional Offices** - Regional offices expenses are allocated based on the chargeable percentages of the regional office directors.
- s. **General, Administrative, and Operating Expenses** - General, administrative, and operating expenses have been allocated to chargeable and non-chargeable expenses based on the same ratio as total direct expenses.