



A Union of Professionals

Memorandum

American Federation
of Teachers, AFL-CIO

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

To: California Affiliated Locals and California Federation of Teachers

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

Date: July 27, 2009

Subject: Agency Fees 2009-2010

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The American Federation of Teachers has engaged 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 non-chargeable (rebateable) to the agency fee payer.

This report reflects the changes that were made to conform with the arbitrators' decision between the United Teachers – Los Angeles and the Agency Fee Objectors dated May 27, 1992.

The AFT report of the Independent Auditors, Calibre CPA Group, PLLC is attached for the chargeable and non-chargeable percentages for the year ended April 30, 2009. Based on the allocation of expenses for the year, we calculated the AFT agency fee per capita for the 2009-2010 year to be as follows:

AFT Convention approved per capita rates effective 9/1/09 for the 2009-2010 year—
\$190.70

July 2009 through August 2009	2 months @ 15.35	\$ 30.70
September 2009 through June 2010	10 months @ 16.00	\$160.00

The estimated chargeable expenses for 2009-2010 are $\$190.70 * 54.83\% = \104.56
Therefore, non-chargeable expenses for 2009-2010 are $\$190.70 * 45.17\% = \$ 86.14$

The non-chargeable percentage is derived by dividing the expenses that are non-chargeable by the total expenses incurred.

No chargeable expenses have been listed for the occupational liability or AD&D 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 report, as well as a copy of the local's challenge procedures, and be provided to agency fee payers at least 30 days prior to the collection of the first agency fee for the 2009-2010 school year, or the number of days required by applicable state law.

MB:TC:dw

Enclosure

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, 2009

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, 2009

CONTENTS

	PAGE
Report of Independent Auditors	1
Combined Statement of General Fund and Militancy/Defense Fund Expenses and Allocation Between Chargeable Expenses and Non-chargeable Expenses for the State of California	2
Notes to Combined Statement	4

REPORT OF INDEPENDENT AUDITORS



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

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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, 2009. This combined statement is the responsibility of the Federation's management. Our responsibility is to express an opinion on this combined statement based on our audit.

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

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

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

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

Washington, DC
July 21, 2009

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, 2009

	<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	
	Total	Chargeable	Non-chargeable	
	Expenses	Expenses	Expenses	Notes
DIRECT EXPENSES				
Salaries	\$ 33,670,310	\$ 23,179,394	\$ 10,490,916	3a
Fringe benefits	12,019,641	8,296,316	3,723,325	3b
Payroll and other taxes	2,644,558	1,888,214	756,344	3b
Severance and vacation pay	1,210,280	816,478	393,802	3b
Travel and related expenses	6,427,561	4,120,910	2,306,651	3b
Dues, donations, and membership fees	4,637,522	-	4,637,522	3c
Publications:				-
<u>American Teacher</u>	1,982,037	327,586	1,654,451	3d
<u>American Educator</u>	1,602,592	1,113,019	489,573	3d
<u>Health Wire</u>	153,758	42,280	111,478	3d
<u>Public Employee Advocate</u>	199,671	37,542	162,129	3d
<u>On Campus</u>	416,979	98,559	318,420	3d
<u>PSRP Reporter</u>	402,933	87,330	315,603	3d
Mass and electronic media				
information services	151,634	151,634	-	3e
AFT-COPE and related activities	5,833,903	-	5,833,903	3f
Affiliation fees	11,599,147	-	11,599,147	3g
Educational training programs	572,104	226,027	346,077	3h
Regional conferences and training	2,580,686	2,580,686	-	3h
QuEST conference	659	659	-	3h
Assistance and collective bargaining	27,599,162	20,870,515	6,728,647	3i
State federation rebates	1,976,188	1,976,188	-	3j
Militancy Fund	-	-	-	3k
Defense Fund	5,425,268	5,425,268	-	3l
Solidarity Fund - National	10,783,408	575,000	10,208,408	3m
Solidarity Fund - State Federations	3,984,171	3,984,171	-	3m
Legal, audit, and consulting expenses	5,332,238	3,643,295	1,688,943	3n
Legal, audit, and consulting				
expenses - agency shop	135,874	135,874	-	3n
Legislative activities	1,095,302	-	1,095,302	3o
Public affairs activities	787,099	-	787,099	3o
Member benefits activities	1,307,704	-	1,307,704	3o
International affairs activities	181,703	-	181,703	3o
Convention and executive council meetings	2,254,618	2,254,618	-	3p
Departmental meetings	6,117,421	2,030,605	4,086,816	3q
Regional offices	299,868	237,095	62,773	3r
	<u>\$ 153,385,999</u>	<u>\$ 84,099,263</u>	<u>\$ 69,286,736</u>	
Total direct expenses	\$ 153,385,999	\$ 84,099,263	\$ 69,286,736	

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, 2009

	Column A Total Expenses	Column B Chargeable Expenses	Column C Non-chargeable Expenses	Notes
GENERAL, ADMINISTRATIVE, AND OPERATING EXPENSES				3s
National office and equipment rental	\$ 2,039,308	\$ 1,118,122	\$ 921,186	
Depreciation and amortization	1,584,773	868,907	715,866	
Repairs and maintenance	475,349	260,627	214,722	
Information technology	54,188	29,710	24,478	
Computer implementation/AFTECH	214,070	117,371	96,699	
General insurance	470,580	258,012	212,568	
General legal, audit, and consulting expenses	2,065,801	1,132,648	933,153	
Postage, express and delivery, and telephone	423,805	232,366	191,439	
Office supplies, subscriptions, books, and other expenses	2,415,795	1,324,544	1,091,251	
Total general, administrative, and operating expenses	9,743,669	5,342,309	4,401,360	
Total expenses	\$ 163,129,668	\$ 89,441,572	\$ 73,688,096	
	100.00%	54.83%	45.17%	

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, 2009

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. **Basis of Presentation** - The accompanying combined statement was prepared for the purpose of determining the fair share cost of services rendered by the American Federation of Teachers, AFL-CIO (the Federation) for employees represented by, but not members of, the Federation and its affiliated local unions 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 \$1,808,000 of which 97 percent or approximately \$1,753,000, is charged to the General Fund based on the space occupied by the Federation.
- h. **Estimates** - The preparation of financial statements requires management to make estimates and assumptions that affect the reported expenses during the reporting period and the allocation of expenses between chargeable and non-chargeable. Actual results could differ from those estimates.

NOTE 2. DEFINITIONS

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

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

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

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

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

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)

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

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

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

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

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

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

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

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

- 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.
- 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.