To: California Affiliated Locals and California Federation of Teachers

From: Lorretta Johnson, Secretary-Treasurer

Date: August 4, 2014

Subject: Agency Fees 2014-2015

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 nonchargeable (rebateable) to the agency fee payer.

This agency fee 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 attached AFT agency fee report includes the calculation of chargeable and nonchargeable expenses and related chargeable and nonchargeable percentages of the AFT and the report of the Independent Auditors, Calibre CPA Group, PLLC for the year ended April 30, 2014. Based on the allocation of total expenses for the year the AFT agency fee per capita for the 2014-2015 year is calculated as follows:

AFT Convention approved per capita rates effective 9/1/14 for the 2014-2015 year:

July 2014 through August 2014 2 months @ 17.78 = $ 35.56
September 2014 through June 2015 10 months @ 18.23 = $182.30

The chargeable fees for 2014-2015 are: $217.86 * 65.95% = $143.68
Therefore, nonchargeable fees for 2014-2015 are: $217.86 * 34.05% = $ 74.18

No expenses have been included in the AFT agency fee calculation 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's agency fee calculation as a chargeable expense.

This entire AFT calculation and the accompanying auditors report must be combined with your local and state federation reports as well as a copy of its challenge procedures and be provided to agency fee payers at least 30 days prior to the collection of the first agency fee for the 2014-2015 school year, or the number of days required by applicable state law.

JF-LJ
AMERICAN FEDERATION OF TEACHERS, AFL-CIO

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

YEAR ENDED APRIL 30, 2014
AMERICAN FEDERATION OF TEACHERS, AFL-CIO

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

YEAR ENDED APRIL 30, 2014

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REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying combined statement of General Fund, Militancy/Defense Fund and Solidarity 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, 2014, and the related notes to the combined statement.

Management’s Responsibility for the Combined Statement of General Fund, Militancy/Defense Fund and Solidarity Fund Expenses and Allocation Between Chargeable Expenses and Non-chargeable Expenses

Management is responsible for the preparation and fair presentation of this combined statement in accordance with the basis of accounting described in Note 1, 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 includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the combined statement that is free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on this combined statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined statement is free from material misstatement.

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

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

In our opinion, the 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, 2014 on the basis of accounting described in Note 1, 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.

Other Matter

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, 2014, 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. The accompanying combined statement was prepared for the purpose of determining the Fairshare cost of services rendered by the American Federation of Teachers, AFL-CIO for employees represented by, but not members of the Federation and its affiliated local unions. The accompanying statement is not intended to be complete presentation of the Federations financial statements.

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.

Bethesda, MD
August 1, 2014
# American Federation of Teachers, AFL-CIO

## Combined Statement of General Fund, Militancy/Defense Fund and Solidarity Fund Expenses and Allocation Between Chargeable Expenses and Non-Chargeable Expenses for the State of California

**Year Ended April 30, 2014**

<table>
<thead>
<tr>
<th>Direct Expenses</th>
<th>Column A Total Expenses</th>
<th>Column B Chargeable Expenses</th>
<th>Column C Non-chargeable Expenses</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>$ 38,877,246</td>
<td>$ 31,298,109</td>
<td>$ 7,579,137</td>
<td>3a</td>
</tr>
<tr>
<td>Fringe benefits</td>
<td>14,533,177</td>
<td>11,844,979</td>
<td>2,688,198</td>
<td>3b</td>
</tr>
<tr>
<td>Payroll and other taxes</td>
<td>2,931,227</td>
<td>2,357,060</td>
<td>574,167</td>
<td>3b</td>
</tr>
<tr>
<td>Severance and vacation pay</td>
<td>1,474,263</td>
<td>1,185,485</td>
<td>288,778</td>
<td>3b</td>
</tr>
<tr>
<td>Travel and related expenses</td>
<td>4,690,778</td>
<td>3,296,841</td>
<td>1,393,937</td>
<td>3b</td>
</tr>
<tr>
<td>Dues, donations, and membership fees</td>
<td>5,938,950</td>
<td>-</td>
<td>5,938,950</td>
<td>3c</td>
</tr>
<tr>
<td>Publications:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>American Teacher</td>
<td>38,717</td>
<td>14,170</td>
<td>24,547</td>
<td>3d</td>
</tr>
<tr>
<td>American Educator</td>
<td>1,141,638</td>
<td>474,122</td>
<td>667,516</td>
<td>3d</td>
</tr>
<tr>
<td>Health Wire</td>
<td>90,557</td>
<td>47,416</td>
<td>43,141</td>
<td>3d</td>
</tr>
<tr>
<td>Public Employee Advocate</td>
<td>98,065</td>
<td>41,756</td>
<td>56,309</td>
<td>3d</td>
</tr>
<tr>
<td>On Campus</td>
<td>267,302</td>
<td>84,655</td>
<td>182,647</td>
<td>3d</td>
</tr>
<tr>
<td>PSRP Reporter</td>
<td>212,061</td>
<td>113,262</td>
<td>98,799</td>
<td>3d</td>
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<tr>
<td>AFT-COPE and related activities</td>
<td>6,478,451</td>
<td>-</td>
<td>6,478,451</td>
<td>3e</td>
</tr>
<tr>
<td>Affiliation fees</td>
<td>10,731,061</td>
<td>-</td>
<td>10,731,061</td>
<td>3f</td>
</tr>
<tr>
<td>Educational training programs</td>
<td>965,581</td>
<td>667,709</td>
<td>297,872</td>
<td>3g</td>
</tr>
<tr>
<td>Regional conferences and training</td>
<td>2,691,229</td>
<td>2,691,229</td>
<td>-</td>
<td>3g</td>
</tr>
<tr>
<td>AFT Teach conference</td>
<td>1,152,823</td>
<td>1,152,823</td>
<td>-</td>
<td>3g</td>
</tr>
<tr>
<td>Assistance and collective bargaining</td>
<td>29,969,005</td>
<td>25,482,229</td>
<td>4,486,776</td>
<td>3h</td>
</tr>
<tr>
<td>State federation rebates</td>
<td>2,274,309</td>
<td>2,274,309</td>
<td>-</td>
<td>3i</td>
</tr>
<tr>
<td>Militancy Fund</td>
<td>53,101</td>
<td>-</td>
<td>53,101</td>
<td>3j</td>
</tr>
<tr>
<td>Defense Fund</td>
<td>11,010,978</td>
<td>11,010,978</td>
<td>-</td>
<td>3k</td>
</tr>
<tr>
<td>Solidarity Fund - National</td>
<td>5,304,907</td>
<td>100,000</td>
<td>5,204,907</td>
<td>3l</td>
</tr>
<tr>
<td>Solidarity Fund - State Federations</td>
<td>8,925,321</td>
<td>8,925,321</td>
<td>-</td>
<td>3l</td>
</tr>
<tr>
<td>Legal, audit, and consulting</td>
<td>1,531,009</td>
<td>690,650</td>
<td>840,359</td>
<td>3m</td>
</tr>
<tr>
<td>Legal, audit, and consulting - agency shop</td>
<td>148,961</td>
<td>148,961</td>
<td>-</td>
<td>3m</td>
</tr>
<tr>
<td>Legislative activities (non-collective bargaining)</td>
<td>1,561,390</td>
<td>-</td>
<td>1,561,390</td>
<td>3n</td>
</tr>
<tr>
<td>Member benefits activities</td>
<td>1,900,494</td>
<td>-</td>
<td>1,900,494</td>
<td>3n</td>
</tr>
<tr>
<td>International affairs activities</td>
<td>391,642</td>
<td>-</td>
<td>391,642</td>
<td>3n</td>
</tr>
<tr>
<td>Convention and executive council meetings</td>
<td>634,209</td>
<td>634,209</td>
<td>-</td>
<td>3o</td>
</tr>
<tr>
<td>Departmental meetings and projects</td>
<td>10,885,853</td>
<td>3,279,517</td>
<td>7,606,336</td>
<td>3p</td>
</tr>
<tr>
<td>Funding Our Priorities</td>
<td>12,499,545</td>
<td>10,453,923</td>
<td>2,045,622</td>
<td>3q</td>
</tr>
<tr>
<td>Regional offices</td>
<td>278,301</td>
<td>221,765</td>
<td>56,536</td>
<td>3r</td>
</tr>
</tbody>
</table>

**Total direct expenses**  
$ 179,682,151  
$ 118,491,478  
$ 61,190,673

See report of independent auditors and accompanying notes to combined statement.
AMERICAN FEDERATION OF TEACHERS, AFL-CIO

COMBINED STATEMENT OF GENERAL FUND, MILITANCY/DEFENSE FUND AND SOLIDARITY FUND EXPENSES AND ALLOCATION BETWEEN CHARGEABLE EXPENSES AND NON-CHARGEABLE EXPENSES FOR THE STATE OF CALIFORNIA (CONTINUED)

YEAR ENDED APRIL 30, 2014

<table>
<thead>
<tr>
<th>General, administrative, and operating expenses</th>
<th>Column A</th>
<th>Column B</th>
<th>Column C</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Chargeable</td>
<td>Non-chargeable</td>
</tr>
<tr>
<td>National office and equipment rental</td>
<td>$ 1,046,107</td>
<td>$ 689,856</td>
<td>$ 356,251</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>1,230,602</td>
<td>811,521</td>
<td>419,081</td>
</tr>
<tr>
<td>Repairs and maintenance</td>
<td>456,765</td>
<td>301,214</td>
<td>155,551</td>
</tr>
<tr>
<td>Information technology</td>
<td>34,275</td>
<td>22,603</td>
<td>11,672</td>
</tr>
<tr>
<td>Computer implementation</td>
<td>394,215</td>
<td>259,965</td>
<td>134,250</td>
</tr>
<tr>
<td>General insurance</td>
<td>728,696</td>
<td>480,539</td>
<td>248,157</td>
</tr>
<tr>
<td>General legal, audit, and consulting</td>
<td>2,933,009</td>
<td>1,934,174</td>
<td>998,835</td>
</tr>
<tr>
<td>Postage, express and delivery, and telephone</td>
<td>587,733</td>
<td>387,581</td>
<td>200,152</td>
</tr>
<tr>
<td>Office supplies, subscriptions, books, and other</td>
<td>2,132,196</td>
<td>1,406,078</td>
<td>726,118</td>
</tr>
<tr>
<td>Total general, administrative, and operating expenses</td>
<td>9,543,598</td>
<td>6,293,530</td>
<td>3,250,068</td>
</tr>
<tr>
<td>Total expenses</td>
<td>$ 189,225,749</td>
<td>$ 124,785,008</td>
<td>$ 64,440,741</td>
</tr>
</tbody>
</table>

100.00%  65.95%  34.05%

See report of independent auditors and accompanying notes to combined statement.
AMERICAN FEDERATION OF TEACHERS, AFL-CIO

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

YEAR ENDED APRIL 30, 2014

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 amount of the contribution is included in net
periodic pension expense. The adjustment required as a result of the change in the
liability to recognize the underfunded status of the Plan is not reflected in these
statements.

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 $4,525,000 of which 96 percent or approximately $4,354,000, 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.
NOTE 2.  DEFINITIONS (CONTINUED)

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

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

The following expenses are classified as non-chargeable: lobbying, electoral or political activities outside the limited context of contract ratification or implementation; litigation expenses that do not concern the objecting employees' bargaining unit; 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 executives, editorial department editors and administrative staff, as well as salary expenses for personnel responsible for office management, finance, travel and meetings 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, except for those related to collective bargaining. The contents of articles deemed chargeable were reviewed by editorial staff and are directly related to issues in collective bargaining, contract administration, and grievance matters. Chargeable articles include topics such as collective bargaining contracts negotiated by locals throughout the country and arbitrations won by the Federation's locals. Chargeable articles also include topics such as salary and fringe benefit
NOTE 3. **Significant Factors and Assumptions Used in the Allocation of Combined Expenses Between Chargeable and Non-Chargeable (continued)**

improvements, health and welfare areas such as asbestos removal, etc. Other chargeable articles deal with specific topics like class size and educational reform issues on new and advanced methods of classroom instruction. Expenses allocable to advertising, net of advertising revenue, are considered non-chargeable.

e. **AFT-COPE and Related Activities** - Expenses related to the Federation's Committee on Political Education (COPE) Fund are considered to be 100 percent non-chargeable.

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

g. **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 AFT Teach 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.

h. **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.

i. **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.

j. **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)

k. 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). However, based on Locke v. Karass, U.S. Supreme Court, January 21, 2009, 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. This fund is administered through a committee comprised of Vice Presidents, the Secretary-Treasurer and the General Counsel, all of the Federation.

l. Solidarity Funds - Solidarity Fund - National expenses consist of payments made 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).

Solidarity Fund - State - State expenses consist of payments made to AFT State Federation Solidarity Fund as required by the Federation’s Constitution and are considered 100 percent chargeable.

m. 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.

n. Legislative Activities (non-collective bargaining), Member Benefits Activities and International Affairs Activities - Activities related to legislative (non-collective bargaining), public affairs, member benefits, and International affairs expenses are generally 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)**

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.

p. **Departmental Meetings** - Departmental meeting 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.

q. **Funding Our Priorities** - Funding Our Priorities expenses are allocated based on the chargeability or non-chargeability of each project.

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.

NOTE 4. **Subsequent Events Review**

Subsequent events have been evaluated through August 1, 2014, which is the date the financial statements were available to be issued. This review and evaluation revealed no new material event or transaction which would require an additional adjustment to or disclosure in the accompanying financial statement.