

AFT PENNSYLVANIA

STATEMENT OF EXPENSES AND ALLOCATION BETWEEN  
CHARGEABLE EXPENSES AND NON-CHARGEABLE EXPENSES

YEAR ENDED MAY 31, 2007

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## INDEPENDENT AUDITORS' REPORT

To the Executive Board  
AFT Pennsylvania

We have audited the accompanying statement of expenses and allocation between chargeable expenses and non-chargeable expenses of the AFT Pennsylvania (the Federation) for the year ended May 31, 2007. This statement is the responsibility of the Federation's management. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit of this statement in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the statement. We believe that our audit provides a reasonable basis for our opinion.

The total expenses reflected in the accompanying statement are based on the expenses of the Federation for the year ended May 31, 2007, as modified for the account described in Note 1. The allocation of expenses between chargeable and non-chargeable is based on the definitions and significant factors and assumptions described in Notes 2 and 3.

In our opinion, the statement referred to above presents fairly, in all material respects, the expenses of the AFT Pennsylvania for the year ended May 31, 2007, as modified for the accounts described in Note 1, and the allocated 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 AFT Pennsylvania and its agency fee payers, and is not intended to be and should not be used by anyone other than these specified parties.

Philadelphia, Pennsylvania  
July 31, 2007

AFT PENNSYLVANIA  
STATEMENT OF EXPENSES AND ALLOCATION BETWEEN  
CHARGEABLE EXPENSES AND NON-CHARGEABLE EXPENSES  
YEAR ENDED MAY 31, 2007

	<u>Total Expenses</u>	<u>Chargeable Expenses</u>	<u>Non-Chargeable Expenses</u>
<b>Direct Expenses</b>			
Salaries	\$ 1,030,413	\$ 810,448	\$ 219,965
Employee Benefits and Payroll Taxes	435,891	340,829	95,062
Conferences, Conventions, and Committees	48,993	48,993	-
Contributions	7,000	-	7,000
Defense Grants	29,361	29,361	-
Executive Committee Meeting Expense	20,047	20,047	-
Legal Expense	86,018	86,018	-
Printing	90,102	39,539	50,563
Staff Expenses	87,070	62,272	24,798
<b>Total Direct Expenses</b>	<u>1,834,895</u>	<u>1,437,507</u>	<u>397,388</u>
<b>General, Administrative and Operating Expenses</b>			
Accounting	45,491	35,639	9,852
Depreciation	7,539	5,906	1,633
Insurance	20,970	16,428	4,542
Legal Expense	51,006	39,959	11,047
Office Supplies and Expense	66,313	51,951	14,362
Pension Administration Fee	3,128	2,451	677
Postage	36,677	28,734	7,943
Rent	103,523	81,103	22,420
Subscriptions and Publications	4,182	3,276	906
Telephone	8,170	6,401	1,769
<b>Total General, Administrative and Operating Expenses</b>	<u>346,999</u>	<u>271,848</u>	<u>75,151</u>
<b>TOTAL EXPENSES</b>	<u>\$ 2,181,894</u>	<u>\$ 1,709,355</u>	<u>\$ 472,539</u>
<b>ALLOCATION PERCENTAGE</b>	<u>100.00%</u>	<u>78.34%</u> <i>F15</i>	<u>21.66%</u> <i>F15</i>

The accompanying notes are an integral part of this statement.

AFT PENNSYLVANIA  
NOTES TO STATEMENT OF EXPENSES AND ALLOCATION BETWEEN  
CHARGEABLE EXPENSES AND NON-CHARGEABLE EXPENSES  
MAY 31, 2007

Note 1 - **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The accompanying statement was prepared for the purpose of determining the fair share cost of services rendered by the AFT Pennsylvania (the Federation) for employees represented by, but not members of, the Federation and its affiliated local unions. The accompanying 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.

**Combined Account**

The salary is offset by American Federation of Teachers staff assistance reimbursement programs to result in a net expense.

**Income Taxes**

The Federation is exempt from Federal income taxes under Section 501(c)(5) of the Internal Revenue Code.

**Pension and Retirement Plans**

The Federation contributes to a multi-employer defined contribution pension plan and annuity plan covering substantially all of its clerical employees.

The Federation contributes to an annuity plan covering substantially all professional and staff members. Contributions were based upon a percentage of salary. The Federation also contributes a fixed monthly dollar amount into a separate annuity for each employee covered in the plan.

**Depreciation**

Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

**Accumulated Vacation and Sick Pay**

The Federation accrues accumulated sick and vacation expense as it is earned by its employees under various contracts and agreements.

**Use of 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. Accordingly, actual results could differ from those estimates.

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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 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 cost 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 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 respecting 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 and 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; and public relations efforts designed to enhance the reputation of the teaching profession.

Note 3 - **SIGNIFICANT FACTORS AND ASSUMPTIONS USED IN THE ALLOCATION OF EXPENSES BETWEEN CHARGEABLE AND NON-CHARGEABLE**

**Salaries**

Salary expenses of offices and field staff have been allocated to chargeable and non-chargeable expenses based on time spent by personnel on chargeable and non-chargeable activities. The salaries of office and clerical personnel are allocated between chargeable and non-chargeable in the same percentage as their supervisors.

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

**Fringe Benefits, Payroll Taxes and Staff Expenses**

The expenses are allocated on the basis of salary expense allocations described above.

**Contributions and Donations**

Contributions and donations to all organizations are considered to be 100 percent non-chargeable.

**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 chargeable direct expenses to non-chargeable direct expenses.