

UNION OF CALIFORNIA STATE WORKERS
S.E.I.U. LOCAL 1000
(DBA S.E.I.U. LOCAL 1000)

DECEMBER 31, 2006

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

**Union of California State Workers
S.E.I.U Local 1000 (dba S.E.I.U. Local 1000)**

**Independent Auditors' Report
and Financial Statements**

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Independent Auditors' Report

THE BOARD OF DIRECTORS
UNION OF CALIFORNIA STATE WORKERS
S.E.I.U. LOCAL 1000 (dba S.E.I.U. Local 1000)
Sacramento, California

We have audited the accompanying statement of financial position of the **UNION OF CALIFORNIA STATE WORKERS S.E.I.U. LOCAL 1000 (dba S.E.I.U. LOCAL 1000) (the Local)** as of December 31, 2006, and the related statements of activities, and cash flows for the year then ended. These financial statements are the responsibility of the Local's management. Our responsibility is to express an opinion on these financial statements 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Local as of December 31, 2006, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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June 15, 2007

**Union of California State Workers
S.E.I.U. Local 1000 (dba S.E.I.U. Local 1000)**

Statement of Financial Position

December 31, 2006

Assets

Current Assets:

Cash and cash equivalents	\$ 6,380,127
Accounts receivable	1,323,345
Travel advances	301,921
Due from CSEA	745,462
Prepaid expenses and deposits	173,360

Total current assets 8,924,215

Investment in Marketable Securities 4,262,155

Property and Equipment, net 415,217

Total assets \$ 13,601,587

Liabilities and Net Assets

Current Liabilities:

Accounts payable	\$ 1,915,633
Per capita taxes payable to labor affiliates	1,159,505
Due to CSEA	119,946
Accrued vacation reimbursable to CSEA	374,301
Accrued payroll	4,074
Capital lease obligations - current portion	44,641

Total current liabilities 3,618,100

Capital Lease Obligations - net of current portion 166,193

Total liabilities 3,784,293

Net Assets:

Unrestricted:

Non-board designated	4,651,400
Board designated (Note 5)	3,583,126

8,234,526

Temporarily restricted (Note 6) 1,582,768

Total net assets 9,817,294

Total liabilities and net assets \$ 13,601,587

**Union of California State Workers
S.E.I.U. Local 1000 (dba S.E.I.U. Local 1000)**

Statement of Activities

Year Ended December 31, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues:			
Dues and fees from members and fee payers (net of refunds)	\$ 43,695,797	\$ 348,671	\$ 44,044,468
Political action fund transfers	(5,396,876)	5,396,876	-
Member PAC contributions		422,722	422,722
DLC administration	(707,824)		(707,824)
DLC forfeitures (grants), net	21,552		21,552
Dues deduction processing fees	(123,551)		(123,551)
Net dues	37,489,098	6,168,269	43,657,367
International Union subsidies and rebates	5,239,021		5,239,021
Interest income	313,139	3,927	317,066
Net investment gain	15,360		15,360
Other	233,980		233,980
	43,290,598	6,172,196	49,462,794
Net assets released from restrictions	5,235,630	(5,235,630)	-
Total revenues	48,526,228	936,566	49,462,794
Expenses:			
Affiliation fees	14,377,848		14,377,848
Personnel costs	13,526,083		13,526,083
CSEA central support usage	3,590,669		3,590,669
Union leave expense (net of recoveries)	1,728,054		1,728,054
Rent, office expense, general and administrative	1,461,799		1,461,799
Travel, meetings, and conferences	1,341,810		1,341,810
Printing, postage, publications and advertising	2,612,694		2,612,694
Political Action Fund expense	4,883,032		4,883,032
Campaigns	688,287		688,287
Depreciation and amortization	91,539		91,539
Professional fees	648,419		648,419
Contributions and donations	521,992		521,992
Negotiations and arbitrations	566,976		566,976
General Council expense	31,158		31,158
Other expense	306,591		306,591
Total expenses	46,376,951	-	46,376,951
Increase in Net Assets	2,149,277	936,566	3,085,843
Net Assets - Beginning of Year	6,085,249	646,202	6,731,451
Net Assets - End of Year	\$ 8,234,526	\$ 1,582,768	\$ 9,817,294

**Union of California State Workers
S.E.I.U. Local 1000 (dba S.E.I.U. Local 1000)**

Statement of Cash Flows

Year Ended December 31, 2006

Cash Flows Resulting from Operating Activities:	
Increase in net assets	\$ 3,085,843
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation and amortization	91,539
Net investment gain	(15,360)
Loss on disposal of fixed assets	2,406
	<u>3,164,428</u>
Change in operating assets and liabilities:	
Increase in accounts receivable	(396,282)
Increase in amount due from CSEA	(200,000)
Decrease in travel advances	21,864
Increase in prepaid expenses and deposits	(96,792)
Increase in accounts payable and accrued expenses	413,577
Decrease in amount due to CSEA	(1,183,638)
Decrease in per capita taxes due to labor affiliates	(99,977)
	<u>(1,541,248)</u>
Net cash provided by operating activities	<u>1,623,180</u>
Cash Flows Resulting from Investing Activities:	
Purchases of investments	(1,786,976)
Proceeds from sales of investments	1,610,000
Purchase of property and equipment	(112,519)
Net cash used by investing activities	<u>(289,495)</u>
Cash Flows Resulting from Financing Activities:	
Payments on capital leases	(35,769)
Net cash used by financing activities	<u>(35,769)</u>
Increase in Cash and Cash Equivalents	1,297,916
Cash and Cash Equivalents - Beginning of Year	5,082,211
Cash and Cash Equivalents - End of Year	<u>\$ 6,380,127</u>
Supplemental Disclosure of Cash Flow Information:	
Cash paid during the year for interest	\$ 41,889
Non-Cash Transactions:	
Fixed assets acquired under capital lease agreements	\$ 43,098

**Union of California State Workers
S.E.I.U. Local 1000 (dba S.E.I.U. Local 1000)**

Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies:

The significant accounting policies followed by the Union of California State Workers S.E.I.U. Local 1000 (the Local) are as follows:

a. Nature and Purpose of the Local

The Local's purpose is to represent certain civil service employees of the State of California in the following matters: salary, benefits and working conditions; assistance in filing and pursuing employee grievances; legal representation on both an individual and class basis; technical assistance in matters of job classification; and legislative advocacy in support of programs beneficial to state employees and retirees.

b. Affiliation

On January 23, 2004, the Local entered into an affiliation agreement with the Service Employees International Union. The Local has been designated as "Union of California State Workers, S.E.I.U. Local 1000."

c. Method of Accounting

The financial statement presentation follows Statement of Financial Accounting Standards No. 117, *Financial Statements of Not-for-Profit Organizations* (SFAS 117). Under SFAS 117, net assets are generally classified as unrestricted, temporarily restricted or permanently restricted. Net assets are generally reported as unrestricted unless assets are received from donors with explicit stipulations that limit the use of the assets for the reporting period. The Local does not have any permanently restricted net assets as of December 31, 2006.

d. Cash and Cash Equivalents

The Local considers short term investments with an original maturity of three months or less to be cash equivalents.

e. Investments in Marketable Securities

The Local accounts for investments under the provisions of SFAS 124, "Accounting for Certain Investments Held by Not-For-Profit Organizations." In accordance with the statement, the Local is valuing investments at fair market value, with realized and unrealized gains and losses reflected in the Statement of Activities.

**Union of California State Workers
S.E.I.U. Local 1000 (dba S.E.I.U. Local 1000)**

Notes to Financial Statements

f. Property and Equipment

Property and equipment is stated at cost and is depreciated over estimated useful lives, ranging from five to twenty years, using the straight-line method. Tenant improvements are stated at cost and are amortized over the useful life or lease term, whichever is shorter, using the straight-line method.

g. Revenues

The Local's principal revenue sources are monthly dues and fees received from members and fair share fee payers. These dues and fees are established under the formulas prescribed by the Local's bylaws and approved by the membership. A portion of the dues and fees is remitted to the Local's District Labor Councils (DLCs). Dues, interest income, and other income are recognized when earned.

h. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Note 2 - Investment in Marketable Securities:

Investments in marketable securities consisted of the following as of December 31, 2006:

US Treasury/Agency Securities	\$ 450,000
Money Market	3,812,255
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	\$ 4,262,155

Investment income from marketable securities consisted of the following for the year ended December 31, 2006:

Interest and Dividends	\$ 176,976
Realized Losses	(6,062)
Unrealized Gains	21,422
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	\$ 192,336

**Union of California State Workers
S.E.I.U. Local 1000 (dba S.E.I.U. Local 1000)**

Notes to Financial Statements

Note 3 - Property and Equipment:

Property and equipment held by the Local at December 31, 2006 is as follows:

Tenant improvements	\$	79,415
Furniture and equipment		291,954
Computer equipment & software		182,560
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Total property and equipment		553,929
Less: accumulated depreciation and amortization		(138,712)
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Property and equipment, net	\$	415,217

Depreciation and amortization expense was \$91,539 for the year ended December 31, 2006.

Property and equipment includes equipment acquired under capital leases, which has a net book value of \$187,769 at December 31, 2006, and which is pledged as collateral on the capital lease obligations discussed in Note 4.

Note 4 - Capital Lease Obligations:

Future minimum lease payments at December 31, 2006 related to equipment acquired under capital lease obligations is summarized as follows:

Year ending December 31,		
2006	\$	82,911
2007		82,911
2008		82,911
2009		45,590
2010		5,253
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Total future minimum lease payments		299,576
Less: amount representing interest		(88,742)
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Present value of minimum lease payments		210,834
Less: current portion		(44,641)
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	\$	166,193

**Union of California State Workers
S.E.I.U. Local 1000 (dba S.E.I.U. Local 1000)**

Notes to Financial Statements

As discussed in Note 3, certain equipment serves as collateral on the above capital lease obligations.

Note 5 - Board Designated Net Assets:

Included in the Local's net assets as of December 31, 2006 is \$3,583,126 which has been designated by the Local's Board of Directors to be used for the following:

Fight Back Fund	\$ 1,509,071
Strike Fund	1,003,528
Capital Acquisitions Fund	840,813
DLC Grants Fund	179,714
Facilities Reserve	50,000
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Total Board Designated Net Assets	\$ 3,583,126

Note 6 - Temporarily Restricted Net Assets and Net Assets Released from Restriction:

Individual Fair Share Fee Payers may challenge the amount of fees they are required to pay. Based on the U.S. Supreme Court decision, *Teachers vs. Hudson*, disputed fees must be escrowed pending the resolution of such challenges. There were no amounts required to be in escrow as of December 31, 2006, as the Local obtained a favorable arbitration decision in December 2006. During the year ended December 31, 2006, \$352,598 was released from restriction as a result of this arbitration.

The Local has established separate segregated political action committees for political candidates and political issues. The use of these funds is restricted by law to political purposes. Included in the Local's net assets as of December 31, 2006 are net assets of these political action committees amounting to \$1,582,768. During the year ended December 31, 2006, \$4,883,032 was released from restriction by incurring expenses satisfying the restricted purpose.

**Union of California State Workers
S.E.I.U. Local 1000 (dba S.E.I.U. Local 1000)**

Notes to Financial Statements

Note 7 - Tax Status:

No provision has been made for income taxes, as the Local is organized pursuant to the General Non-Profit Law of the State of California and is exempt from Federal and California income taxes under Section 501(c)(5) of the Internal Revenue Code and the applicable California Revenue and Taxation Code sections.

To the extent that the Local's Political Action Committees are engaged in the support for election to office, the lower of their share of net investment income or the expenditures for political activity is subject to Federal and State income tax at the rates of 35% and 8.84%, respectively.

Note 8 - Lease Commitments:

The Local has operating lease agreements for certain office facilities and office equipment which expire at various dates through May 2017. Rent expense under these leases for the year ended December 31, 2006 was approximately \$424,000.

Future minimum lease payments under these non-cancelable leases as of December 31, 2006 are approximately as follows:

Year ending December 31,	
2007	\$ 734,000
2008	1,047,000
2009	1,044,000
2010	815,000
2011	720,000
Thereafter	4,259,000
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	\$ 8,619,000

Note 9 - Concentration of Credit Risk:

The Local maintains its demand deposits at various financial institutions; the amount in excess of federal insurance at December 31, 2006 was approximately \$6,180,000.

**Union of California State Workers
S.E.I.U. Local 1000 (dba S.E.I.U. Local 1000)**

Notes to Financial Statements

Note 10 - Affiliates:

The Local has a service agreement with the California State Employees Association (CSEA) to receive support services including administration, accounting services, legal services, communications, member benefits, governmental relations, and access to the CSEA print shop. The Local reimburses CSEA for its usage of these support services. The service agreement also requires the Local to pay its allocated share of the above services when such services are for the benefit of CSEA. These services are known as "CSEA central support". CSEA central support costs incurred by the Local totaled \$3,590,669 for 2006. The Local also reimburses CSEA for payroll costs, related overhead items, and any other Local costs paid by CSEA. These reimbursements totaled \$12,744,426 for 2006. CSEA also charges the Local for services provided by the CSEA print shop. These charges totaled \$1,392,019 for 2006. At December 31, 2006, the Local owed CSEA \$119,946 for CSEA central support, CSEA print shop charges and Local cost reimbursements, and \$374,301 for unbilled accrued vacation expense. At December 31, 2006, the Local maintained a one-month central support reserve of \$545,462 with CSEA (as required by the service agreement). On the Local's statement of financial position, this amount is accounted for in the "Due from CSEA" account.

The Local reimburses affiliates of CSEA for services performed on the Local's behalf. Total reimbursements to affiliates were \$873 for 2006. The Local also charges CSEA's affiliates for services it provides to them. Total charges to the affiliates were \$34,399 for 2006.

The following schedule provides a detail of the charges to the Local for "CSEA central support":

Program review and policy development	\$ 286,803
General administration	884,752
Legal	223,125
Communications	317,195
Government relations	241,075
Administrative services	1,642,076
Member benefits	774,781
Central support equipment acquisitions	97,459
Computer services equipment purchases	128,605
Member benefits income	(774,781)
Interest income	(39,730)
Other income	(190,691)
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	\$ 3,590,669

**Union of California State Workers
S.E.I.U. Local 1000 (dba S.E.I.U. Local 1000)**

Notes to Financial Statements

On August 2, 2006, the Local entered into an agreement with CSEA under a mediated settlement where the Local will pay CSEA \$40,000 per month for 17 months. The Local understands that these funds will be refunded by CSEA, if not used. However, CSEA believes that the agreement specifically states that the funds can be used to build up reserves. The Local has requested that its legal counsel take all actions necessary to ensure the return of any unused funds. As of December 31, 2006, \$200,000, the amount actually paid in 2006, is reflected in the "Due from CSEA" account on the statement of financial position.

Note 11 - CSEA Defined Benefit Pension Plan:

As discussed in Note 10, the Local entered into a service agreement with CSEA and pays its share of Central Support charges and direct billing. Included in the Central Support charge and the direct billing is the Local's share of CSEA's annual defined benefit pension plan payment. The Plan is not fully funded, but there are no requirements to pay as of yet. All payments have been made as directed by the CSEA fiscal and pension committees as recommended by the Plan's actuary. Accordingly, the Local will reimburse CSEA as future payments are made. The following is a schedule of estimated future pension related payments that will be reimbursed by the Local through Central Support and direct billing in order to bring the Plan to a fully funded status:

Year ending	
December 31,	
2007	\$ 4,330,000
2008	4,624,000
2009	4,852,000
2010	5,129,000
2011	5,200,000
Thereafter	24,906,000
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	\$ 49,041,000