

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

DECEMBER 31, 2005



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**

Independent Auditors' Report	1
Financial Statements	
Statement of Financial Position - December 31, 2005	2
Statement of Activities - Year Ended December 31, 2005	3
Statement of Cash Flows - Year Ended December 31, 2005	4
Notes to Financial Statements	5 - 10



Independent Auditors' Report

THE LOCAL 1000 COUNCIL
 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, 2005, 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, 2005, 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.

Hood & Strong LLP

April 28, 2006

Consultants and

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

Statement of Financial Position

December 31, 2005

Assets

Current Assets:

Cash and cash equivalents	\$ 5,082,211
Accounts receivable	927,063
Travel advances	323,785
Due from CSEA	545,462
Prepaid expenses and deposits	76,568

Total current assets 6,955,089

Investment in Marketable Securities 4,069,819

Property and Equipment, net 353,545

Total assets \$ 11,378,453

Liabilities and Net Assets

Current Liabilities:

Accounts payable	\$ 1,590,283
Per capita taxes payable to labor affiliates	1,259,482
Due to CSEA	1,303,584
Accrued vacation reimbursable to CSEA	290,148
Capital lease obligations - current portion	32,783

Total current liabilities 4,476,280

Capital Lease Obligations - net of current portion 170,722

Total liabilities 4,647,002

Net Assets:

Unrestricted:

Non-board designated	4,228,095
Board designated (Note 5)	1,857,154

6,085,249

Temporarily restricted (Note 6) 646,202

Total net assets 6,731,451

Total liabilities and net assets \$ 11,378,453

**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, 2005

	Unrestricted	Temporarily Restricted	Total
Revenues:			
Dues and fees from members and fee payers (net of refunds)	\$ 36,162,312	\$ 864,162	\$ 37,026,474
Political action fund transfers	(4,440,736)	4,440,736	-
DLC administration	(727,102)		(727,102)
DLC forfeitures (grants), net	80,570		80,570
Dues deduction processing fees	(122,573)		(122,573)
Net dues	30,952,471	5,304,898	36,257,369
International Union subsidies and rebates	8,550,381		8,550,381
Interest income	262,195	2,408	264,603
Net investment loss	(15,522)		(15,522)
Other	17,464		17,464
	39,766,989	5,307,306	45,074,295
Net assets released from restrictions	4,661,104	(4,661,104)	0
Total revenues	44,428,093	646,202	45,074,295
Expenses:			
Affiliation fees	15,313,924		15,313,924
Personnel costs	10,491,223		10,491,223
CSEA central support usage	6,890,281		6,890,281
Union leave expense (net of recoveries)	1,926,734		1,926,734
Rent, office expense, general and administrative	1,410,095		1,410,095
Travel, meetings, and conferences	1,615,525		1,615,525
Printing, postage and publications	1,519,686		1,519,686
Political Action Fund expense	4,198,348		4,198,348
Campaigns	1,356,143		1,356,143
Depreciation and amortization	45,180		45,180
Professional fees	702,468		702,468
Contributions and donations	510,629		510,629
Negotiations and arbitrations	707,223		707,223
General Council expense	710,481		710,481
Other expense	381,971		381,971
Total expenses	47,779,911	0	47,779,911
Increase (Decrease) in Net Assets	(3,351,818)	646,202	(2,705,616)
Net Assets - Beginning of Year	9,437,067	0	9,437,067
Net Assets - End of Year	\$ 6,085,249	\$ 646,202	\$ 6,731,451

**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, 2005

Cash Flows Resulting from Operating Activities:	
Decrease in net assets	\$ (2,705,616)
Adjustments to reconcile decrease in net assets to net cash used by operating activities:	
Depreciation and amortization	45,180
Net investment loss	15,522
	<u>(2,644,914)</u>
Change in operating assets and liabilities:	
Increase in accounts receivable	(536,876)
Decrease in amount due from CSEA	990,379
Increase in travel advances	(141,822)
Increase in prepaid expenses and deposits	(30,903)
Increase in accounts payable and accrued expenses	194,324
Increase in amount due to CSEA	1,303,584
Increase in per capita taxes due to labor affiliates	131,846
	<u>1,910,532</u>
Net cash used by operating activities	<u>(734,382)</u>
Cash Flows Resulting from Investing Activities:	
Purchases of investments	(4,130,920)
Proceeds from sales of investments	4,008,319
Loan to SEIU affiliated local union	(1,000,000)
Repayment of loan to SEIU affiliated local union	1,000,000
Purchase of property and equipment	(108,936)
Net cash used by investing activities	<u>(231,537)</u>
Cash Flows Resulting from Financing Activities:	
Payments on capital leases	(15,419)
Net cash used by financing activities	<u>(15,419)</u>
Decrease in Cash and Cash Equivalents	<u>(981,338)</u>
Cash and Cash Equivalents - Beginning of Year	<u>6,063,549</u>
Cash and Cash Equivalents - End of Year	<u>\$ 5,082,211</u>
Supplemental Disclosure of Cash Flow Information:	
Cash paid during the year for interest	\$ 20,370
Non-Cash Transactions:	
Fixed assets acquired under capital lease agreements	\$ 218,924

The accompanying notes are an integral part of this statement. 4

**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, 2005.

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, 2005:

US Treasury/Agency Securities	\$ 1,945,285
Certificates of Deposit	99,355
Money Market	2,025,179
	\$ 4,069,819

Investment income from marketable securities consisted of the following for the year ended December 31, 2005:

Interest and Dividends	\$ 122,600
Realized Gains	4,542
Unrealized Losses	(20,064)
	\$ 107,078

**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, 2005 is as follows:

Tenant improvements	\$	79,415
Furniture and equipment		322,966
		402,381
Total property and equipment		402,381
Less: accumulated depreciation and amortization		(48,836)
		353,545
Property and equipment, net	\$	353,545

Depreciation and amortization expense was \$45,180 for the year ended December 31, 2005.

Property and equipment includes equipment acquired under capital leases, which has a net book value of \$194,942 at December 31, 2005, 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, 2005 related to equipment acquired under capital lease obligations is summarized as follows:

Year ending December 31,		
2006	\$	66,450
2007		66,450
2008		66,450
2009		66,450
2010		30,660
		296,460
Total future minimum lease payments		296,460
Less: amount representing interest		(92,955)
		203,505
Present value of minimum lease payments		203,505
Less: current portion		(32,783)
		170,722
		\$ 170,722

**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, 2005 is \$1,628,758 which has been designated by the Local's Board of Directors to be used for the following:

Strike Fund	\$ 1,003,528
Capital Acquisitions Fund	645,465
DLC Grants Fund	158,161
Facilities Reserve	50,000
<hr/>	
Total Board Designated Net Assets	\$ 1,857,154

Note 6 - Temporarily Restricted Net Assets:

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, 2005, as the Local obtained a favorable arbitration decision in December 2005.

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, 2005 are net assets of these political action committees amounting to \$646,202.

**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 September 2010. Rent expense under these leases for the year ended December 31, 2005 was approximately \$369,000.

Future minimum lease payments under these non-cancelable leases as of December 31, 2005 are approximately as follows:

Year ending December 31,	
2006	\$ 423,000
2007	379,000
2008	390,000
2009	366,000
2010	116,000
	\$ 1,674,000

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, 2005 was approximately \$4,850,000.

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

Notes to Financial Statements

Note 10 - Commitments and Contingencies:

Litigation

The Local is a party to pending claims and litigation related to operations, including certain matters related to an affiliate, the California State Employees Association. Management of the Local, based upon discussions with legal counsel, is of the opinion that the eventual resolution of these matters will not result in any material adverse effect on the Local's financial statements. No provision has been made in the financial statements for any liability that may result.

Note 11 - Affiliates:

The Local has a service agreement with the California State Employees Association (CSEA) to receive support services including administration, 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 \$6,890,281 for 2005. The Local also reimburses CSEA for payroll costs, related overhead items, and any other Local costs paid by CSEA. These reimbursements totaled \$11,412,040 for 2005. At December 31, 2005, the Local owed CSEA \$1,303,584 for CSEA central support and Local cost reimbursements, and \$290,148 for unbilled accrued vacation expense. At December 31, 2005, 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. There were no such charges for 2005. The Local also charges CSEA's affiliates for services it provides to them. Total charges to the affiliates were \$22,578 for 2005.