

**SERVICE EMPLOYEES INTERNATIONAL
UNION, CTW, CLC
UNITED STATES DIVISION**

**CONSOLIDATED STATEMENT OF EXPENSES AND
ALLOCATION BETWEEN CHARGEABLE
EXPENSES AND NON-CHARGEABLE EXPENSES -
SERIES 3**

DECEMBER 31, 2007

**SERVICE EMPLOYEES INTERNATIONAL
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The Executive Board of the
Service Employees International Union, CTW, CLC

We have audited the accompanying Consolidated Statement of Expenses and Allocation Between Chargeable Expenses and Non-chargeable Expenses - Series 3 of the Service Employees International Union, CTW, CLC - United States Division (the International Union) for the year ended December 31, 2007. This consolidated statement is the responsibility of the International Union's management. Our responsibility is to express an opinion on this consolidated 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 an audit to obtain reasonable assurance about whether the financial statements are 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 International Union'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 statements, 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.

The total expenses reflected in Column A of the consolidated statement agree to the expenses in the audited consolidated financial statement of the International Union for the year ended December 31, 2007, as modified to remove from expenses the per capita tax rebates paid to local unions of \$10,020,407, political expenses paid from voluntary contributions of \$2,783,932, expenses associated with the convention amounting to \$134,565, expenses paid from the Legal Defense Fund of \$537,554, the SEIU Services Corp. expenses totaling \$2,050,469 and the SEIU-CC, LLC expenses totaling \$4,106,053. The allocation of 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 consolidated statement referred to above present fairly, in all material respects, the consolidated expenses of the Service Employees International Union, CTW, CLC - United States Division for the year ended December 31, 2007, modified as discussed in the preceding paragraph and the allocated consolidated 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 Service Employees International Union, CTW, CLC and its agency fee payers and is not intended to be and should not be used by anyone other than those specified parties.

Calibre CPA Group, PLLC

Washington, DC
September 3, 2008

SERVICE EMPLOYEES INTERNATIONAL UNION, CTW, CLC
UNITED STATES DIVISION

CONSOLIDATED STATEMENTS OF EXPENSE AND
ALLOCATION BETWEEN CHARGEABLE AND NON-CHARGEABLE EXPENSES
SERIES 3

YEAR ENDED DECEMBER 31, 2007

	<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	
	Total	Chargeable	Non-chargeable	Note
EXPENSES	<u>Expenses</u>	<u>Expenses</u>	<u>Expenses</u>	
Program expenses				
Representational:				
Collective bargaining and organizing	\$ 43,396,109	\$ 7,781,703	\$ 35,614,406	3a
Organizing campaign support	13,477,653	8,287,624	5,190,029	3a
Unity Fund Nondivisional	15,595,271	2,200,914	13,394,357	3b
Unity Fund Property Services Division	12,228,761	1,725,808	10,502,953	3b
Unity Fund Health Care Division	11,681,664	1,648,598	10,033,066	3b
Unity Fund Long Term Care Division	13,123,127	1,852,028	11,271,099	3b
Unity Fund Public Services Division	9,153,770	1,291,844	7,861,926	3b
Unity Fund South-Southwest Division	13,236,711	1,868,057	11,368,654	3b
Total representational expenses	<u>131,893,066</u>	<u>26,656,576</u>	<u>105,236,490</u>	
Politics, government and community	8,543,846	933,210	7,610,636	3h
Political education	23,772,503	-	23,772,503	3g
Committee on political education	2,783,932	-	2,783,932	3g
Union communications	9,501,068	3,075,496	6,425,572	3d
Legal defense fund	537,554	-	537,554	3j
Convention	134,565	134,565	-	3i
Strike and defense expense	6,059,916	6,059,916	-	3f
Leader support	17,138,820	6,833,248	10,305,572	3l
SEIU Services Corp.	2,050,469	2,050,469	-	3o
Affiliation fee assessments	10,493,026	-	10,493,026	3e
Total program expenses	<u>212,908,765</u>	<u>45,743,480</u>	<u>167,165,285</u>	
Financial and support services	11,374,282	9,447,319	1,926,963	3m
General and administrative	29,560,127	7,254,055	22,306,072	3n
Total administrative expenses	<u>40,934,409</u>	<u>16,701,374</u>	<u>24,233,035</u>	
Total expenses	253,843,174	62,444,854	191,398,320	
Less:				
Per Capita Tax Rebate Payments to Locals	(10,020,407)	(1,796,839)	(8,223,568)	3c
Political Expenses Paid From Voluntary Contributions	(2,783,932)	-	(2,783,932)	3g
Conference Fund Expenses	(134,565)	(134,565)	-	3i
Legal Defense Fund	(537,554)	-	(537,554)	3j
SEIU Services Corp.	(2,050,469)	(2,050,469)	-	3o
SEIU-CC, LLC	(4,106,053)	(1,007,625)	(3,098,428)	3k
Total expenses, as modified	<u>\$234,210,194</u>	<u>\$57,455,356</u>	<u>\$176,754,838</u>	
	<u>100.00%</u>	<u>24.53%</u>	<u>75.47%</u>	

See accompanying notes to statement.

**SERVICE EMPLOYEES INTERNATIONAL
UNION, CTW, CLC
UNITED STATES DIVISION**

NOTES TO CONSOLIDATED STATEMENT OF EXPENSES AND
ALLOCATION BETWEEN CHARGEABLE
EXPENSES AND NON-CHARGEABLE EXPENSES -
SERIES 3

DECEMBER 31, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting - The financial statement has been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Basis of Presentation - The accompanying consolidated statement of expenses and allocation between chargeable and non-chargeable expenses was prepared for the purpose of determining the fair share cost of services rendered by the Service Employees International Union, CTW, CLC - United States Division (the International Union) for employees represented by, but not members of, the International Union and its affiliated local unions. This statement is not intended to be a complete presentation of the International Union's financial position, or changes in its net assets and its cash flows in accordance with generally accepted accounting principles. Under this allocation, organizing expenses are considered to be non-chargeable.

Consolidation- The accompanying consolidated financial statements include the accounts of the United States Division; 1313 L Street, N.W., Inc. ("1313 L Street"), a not-for-profit corporation formed to be a title-holding corporation for the International Union's former headquarters building; 1800 Massachusetts Avenue Corporation, a not-for-profit corporation formed to be a title-holding corporation for the International Union's existing headquarters building; SEIU-CC, LLC ("Communications Center") (successor to the SEIU Communications Center, Inc.), a for-profit corporation established to provide communications, polling, production, and conferencing services and facilities; and SEIU Service Corp., a not-for-profit corporation established to serve as a national member resource center (collectively "SEIU"). All significant intercompany balances have been eliminated in consolidation.

Financial Statement Presentation- The International Union records its transactions in various funds, each a self-balancing group of accounts. Each fund reflects only those transactions applicable to its designated functional area. The following fund designations are established by the International Union's Constitution or determined by management:

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation (continued)

- General Fund

Records all activity not accounted for in the other funds and includes the general operations of the International Union - U.S. Division, the operations of 1313 L Street, N. W., Inc. (1313 L Street) and 1800 Massachusetts Avenue Corporation, formed to be title holding corporations for the International Union's headquarters building. The General Fund includes the consolidated accounts of 1313 L Street and 1800 Massachusetts Avenue Corporation. All significant inter-company account balances have been eliminated in consolidation.

- Strike and Defense Funds

Funds established to financially assist local unions involved in legitimate strikes and lockouts, and to provide financial assistance for educational programs including newspaper advertisements, leaflets, handbills, and other media-based messages concerning contract ratification. In accordance with the International Union's constitution, local unions may request payments from the Strike and Defense Fund after one year of making per capita payments.

- Political Education and Action Funds (PEA)

Records all activities for political education and political action disbursed from per capita tax allocations.

- Committee on Political Education

Records all activities for political contributions disbursed from net assets received with donor imposed restrictions.

- Unity Fund

The Unity Fund is a segregated fund financed from local union per capita payments that is used to finance breakthrough campaigns, coordinated bargaining, and other activities designed to increase density in SEIU's core industries. The Unity Fund is divided among the Property Services, Health Systems, Long Term Care, and Public Services Divisions and a non-divisional fund.

- Convention Fund

Records all activities for the convention of the International Union which meets every four years.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation (continued)

- Other Funds

Funds established to account for assets which have been internally segregated for specific purposes as determined by the Executive Board.

Tax Status - The International Union is exempt from federal income taxes, except on net income, if any, from unrelated business activities, under Section 501(c)(5) of the Internal Revenue Code. 1313 L Street, NW, Inc. and 1800 Massachusetts Avenue Corporation are exempt from income tax, except on net income, if any, from unrelated business activities, under Section 501(c)(2) of the Internal Revenue Code.

NOTE 2. DEFINITIONS

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

- a. **Chargeable Expenses** - Chargeable expenses are those incurred by the International Union that reflect the share of the costs of operations of the International Union which are considered necessarily and reasonably incurred for the purpose of assisting local unions 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 as representative of the employees in the bargaining unit; and the maintenance of the International Union's and local unions' 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; and providing legal, economic, and technical expertise on behalf of employees in all work-related matters.
- b. **Non-Chargeable Expenses** - Non-chargeable expenses are those expenses incurred by the International Union for the benefit and advancement of represented employees and their union which are not considered representational activities for non-members. Non-chargeable activities include those services that are ideological or political in nature; those that are exclusively for the benefit of full union members; and those that otherwise are not considered germane to the collective bargaining process.

NOTE 2. DEFINITIONS (CONTINUED)

Activities that are classified as non-chargeable include the following: organizing; legislative and government activities outside the limited context of contract ratification or implementation; public relations and other efforts directed towards functional activities that are not considered germane to representing non-members in the collective bargaining process; political activity expenses which include support at the Federal, state, or local level; donations; affiliation fees paid to a labor organization; and the cost of benefits that are not available to non-members.

NOTE 3. SIGNIFICANT FACTORS AND ASSUMPTIONS USED IN THE ALLOCATION OF CONSOLIDATED EXPENSES BETWEEN CHARGEABLE AND NON-CHARGEABLE

- a. Representational expenses – Representational expenses are comprised primarily of personnel costs. These expenses are allocated to chargeable and non-chargeable expenses based on the allocation of personnel costs in which have been determined through a time study.
- b. Unity Fund - Expenses of the Unity Fund include financial assistance to local unions involved in breakthrough campaigns to increase union membership. A majority of these expenses are personnel costs. These expenses are allocated to chargeable and non-chargeable expenses based on the allocation of Unity Fund personnel costs which have been determined through a time study.
- c. Payments to Locals - Payments to locals which represent subsidies for organizing are considered to be fully chargeable. Payments to locals which represent reimbursements for operating expenses are considered to be fully chargeable. The total expenses as reported in the audited consolidated financial statement have been modified to remove from expenses the per capita tax rebates paid to local unions.
- d. Union Communications - The expenses relating to the maintenance of the International Union's website have been allocated between chargeable and non-chargeable based on the nature of the work performed throughout the year. For example, expenses related to political or ideological activities are non-chargeable, and expenses related to collective bargaining and contract administration are chargeable.
- e. Affiliation Fees and Assessments - Per capita taxes and assessments paid to Change to Win federation and affiliated labor organizations are considered to be fully non-chargeable.
- f. Strike and Defense Funds - Expenses of the strike and defense funds include financial assistance to local unions involved in legitimate strikes and lockouts, in addition to providing financial assistance for educational programs including newspaper advertisements, leaflets, handbills, and other media-based messages concerning contract ratification. All expenses of the strike and defense funds are considered to be fully chargeable.

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

- g. Politics, government and community– These expenses are comprised primarily of personnel costs. These expenses are allocated to chargeable and non-chargeable expenses based on the allocation of personnel costs in which have been determined through a time study.
- h. Political Education and Action Funds - Expenses incurred by the Committee on Political Education and the Political Education and Action Funds relate entirely to political and legislative activities and are considered to be fully non-chargeable. The total expenses as reported in the audited consolidated financial statement have been modified to remove from expenses the political expenses paid from voluntary contributions.
- i. Convention Fund - Expenses for the International Union’s convention are considered to be fully chargeable.
- j. Legal Defense Fund - Expenses incurred by the Legal Defense Fund are removed from the total expenses, as they are paid solely from court awarded cost reimbursements from lawsuits.
- k. SEIU-CC, LLC - Expenses incurred by the Center, a wholly-owned subsidiary of SEIU, are removed from the total expenses, as they are paid solely from the Center’s earned income.
- l. Leader Support - These expenses are allocated to chargeable and non-chargeable expenses based on the allocation of personnel costs in which have been determined through a time study.
- m. Financial Support - These expenses are comprised primarily of personnel costs. These expenses are allocated to chargeable and non-chargeable expenses based on the allocation of personnel costs in which have been determined through a time study.
- n. General and administrative - These expenses are allocated to chargeable and non-chargeable expenses based on the chargeable and non-chargeable percentages of the program expenses and financial support expense.
- o. SEIU Services Corp - Expenses incurred by the Service Corp., a wholly-owned subsidiary of SEIU, are removed from the total expenses, as they are paid by the local unions who utilize the Service Corp. and not by per-capita taxes.