

SAN DIEGO MUNICIPAL EMPLOYEES ASSOCIATION

**SCHEDULE OF CASH DISBURSEMENTS AND
ALLOCATION BETWEEN CHARGEABLE CASH DISBURSEMENTS
AND NON-CHARGEABLE CASH DISBURSEMENTS**

YEAR ENDED JUNE 30, 2009

SAN DIEGO MUNICIPAL EMPLOYEES ASSOCIATION

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AND NON-CHARGEABLE CASH DISBURSEMENTS**

YEAR ENDED JUNE 30, 2009

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of
San Diego Municipal Employees Association

We have audited the accompanying schedule of cash disbursements and allocation between chargeable cash disbursements and non-chargeable cash disbursements of San Diego Municipal Employees Association (the Association) for the year ended June 30, 2009. This schedule is the responsibility of the Association's management. Our responsibility is to express an opinion on this schedule based on our audit.

We conducted our audit of this schedule 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 schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule. An audit also includes assessing the accounting principles used and significant estimates made by the Association's management, as well as evaluating the overall presentation of the schedule. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, this schedule was prepared using the cash receipts and disbursements basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

The total cash disbursements reflected in Column A of the schedule agree to the cash disbursements in the audited schedule of cash receipts and disbursements of the Association for the year ended June 30, 2009, as modified to remove the following disbursements: insurance premiums and administrative fees disbursed to insurance carriers of \$12,756,024 and \$146,055, respectively, which were paid from voluntary participant payroll withholdings; cost of tickets of \$87,975, which were paid from voluntary member ticket purchases; and repayable loan disbursements of \$28,011. This schedule is not intended to be a complete presentation of the Association's cash receipts and disbursements. The allocation of cash disbursements between chargeable (Column B) and non-chargeable (Column C) cash disbursements is based on the definitions and significant factors and assumptions described in Notes 2 and 3.

To the Board of Directors of
San Diego Municipal Employees Association
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In our opinion, the schedule referred to above presents fairly, in all material respects, the cash disbursements, as modified, of the Association for the year ended June 30, 2009, and the allocation between chargeable cash disbursements and non-chargeable cash disbursements on the basis of the definitions and significant factors and assumptions described in Notes 2 and 3 and on the basis of accounting described in Note 1.

This report is intended solely for the information and use of San Diego Municipal Employees Association and its fair share fee payers and is not intended to be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Lindquist LLP". The signature is written in a cursive, flowing style.

October 21, 2010

SAN DIEGO MUNICIPAL EMPLOYEES ASSOCIATION

**SCHEDULE OF CASH DISBURSEMENTS AND ALLOCATION BETWEEN
CHARGEABLE CASH DISBURSEMENTS AND NON-CHARGEABLE CASH DISBURSEMENTS**

YEAR ENDED JUNE 30, 2009

	<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	
	Total	Chargeable	Non-Chargeable	
	<u>Disbursements</u>	<u>Disbursements</u>	<u>Disbursements</u>	<u>Note</u>
Automobile costs	\$ 8,724	\$ 8,645	\$ 79	3a
Board meeting expenses	59,922	58,973	949	3c
Building maintenance and repairs	5,313	5,265	48	3b
Computer expenses	29,298	29,034	264	3b
Cost of tickets purchased	87,975	-	87,975	3d
Database administration	48,000	48,000	-	3c
Donations	17,755	-	17,755	3d
Employee benefits	198,023	196,241	1,782	3a
Events, awards, promotion and recognition	69,827	23,584	46,243	3f
General and administrative	95,296	92,475	2,821	3b
Insurance expense	20,091	19,910	181	3b
Interest expense	1,976	1,958	18	3b
Loans provided	28,011	-	28,011	3d
Lobbying expense	49,728	49,728	-	3c
Member and fee payer voluntary insurance premiums remitted	12,756,024	-	12,756,024	3d
Office rent	149,565	148,219	1,346	3b
Postage	9,239	8,811	428	3e
Principal payments on notes payable	28,536	28,279	257	3b
Printing and publications	24,632	21,905	2,727	3e
Professional fees	707,621	706,810	811	3c
Property and equipment purchases	13,090	12,972	118	3b
Public relations	41,843	41,466	377	3b
Recruitment costs	22,000	22,000	-	3c
Salaries and payroll taxes				
Regular	1,013,803	1,004,680	9,123	3a
Other compensation	74,246	73,578	668	3a
Supplies	27,302	27,102	200	3b
Telecommunications	32,950	32,653	297	3b
Voluntary insurance program administrative fees remitted	146,055	-	146,055	3d
Web site expense	4,888	4,844	44	3b
Total cash disbursements	<u>15,771,733</u>	<u>2,667,132</u>	<u>13,104,601</u>	
Less disbursements paid with other than member dues and fair share fees				
Voluntary insurance program administrative fees remitted	(146,055)	-	(146,055)	
Cost of tickets purchased	(87,975)	-	(87,975)	
Loans provided	(28,011)	-	(28,011)	
Member and fee payer voluntary insurance premiums remitted	(12,756,024)	-	(12,756,024)	
Total cash disbursements, as modified	<u>\$ 2,753,668</u>	<u>\$ 2,667,132</u>	<u>\$ 86,536</u>	
Chargeable and non-chargeable percentages		<u>96.86%</u>	<u>3.14%</u>	

See accompanying notes to the schedule.

SAN DIEGO MUNICIPAL EMPLOYEES ASSOCIATION

NOTES TO SCHEDULE OF CASH DISBURSEMENTS AND ALLOCATION BETWEEN CHARGEABLE CASH DISBURSEMENTS AND NON-CHARGEABLE CASH DISBURSEMENTS

YEAR ENDED JUNE 30, 2009

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying schedule was prepared for the purpose of determining the fair share cost of services rendered by the Association for employees represented by, but not members of, the Association. The accompanying schedule is not intended to be a complete presentation of the Association's cash receipts and disbursements in accordance with the cash receipts and disbursements basis of accounting.

Method of Accounting - The accompanying schedule has been prepared using the cash receipts and disbursements basis of accounting. Expenses are recognized when paid rather than when the obligation is incurred.

Income Taxes - The Association is exempt from federal income taxes under Section 501(c)(5) of the Internal Revenue Code and Section 23701(a) of the Revenue and Taxation Code of the State of California.

Use of Estimates - The preparation of the accompanying schedule 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.

NOTE 2. DEFINITIONS

The following definitions of chargeable and non-chargeable disbursements are based on existing law and the Association's interpretation of relevant court cases.

Chargeable Disbursements - Chargeable disbursements are those incurred by the Association that reflect the share of the costs of operation of the Association that are considered necessarily and reasonably incurred for the purpose of performing the Association's duty 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 agreement; settling grievances and disputes by mutual agreement, or in arbitration, court or otherwise; attendance at City Council meetings to monitor labor-management issues affecting employees in the bargaining unit; activities and

NOTE 2. DEFINITIONS (CONT'D)

undertakings normally and reasonably employed to implement the duties of the Association as representative of the employees in the bargaining unit; and maintenance of the Association's existence.

The following are examples of disbursements classified as chargeable: preparation for and negotiation 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 Association's position on work-related matters; promotion of the Association; and providing legal, economic, and technical expertise on behalf of employees in all work-related matters.

Non-Chargeable Disbursements - Non-chargeable disbursements are those of an ideological or political nature and those that are not germane to the 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 that the Association may take. The term "ideological" is defined as support for or against certain positions that the Association may take, which are not work related.

The following disbursements 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; organizing; charitable activities and member-only activities.

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

(a) Automobile Costs; Employee Benefits; and Salaries and Payroll Taxes - These expenses relating to Association officers, management and other employees are allocated between chargeable and non-chargeable based on an analysis of time sheets prepared by individual employees recording time spent on chargeable and non-chargeable activities.

(b) Building Maintenance and Repairs; Computer Expenses; General and Administrative; Insurance Expense; Interest Expense; Office Rent; Principal Payments on Notes Payable; Property and Equipment Purchases; Public Relations; Supplies; Telecommunications; and Web Site Expense - These overhead disbursements are allocated between chargeable and non-chargeable disbursements in the same percentage as the Association's salary disbursement

NOTE 3. SIGNIFICANT FACTORS AND ASSUMPTIONS USED IN THE ALLOCATION OF DISBURSEMENTS BETWEEN CHARGEABLE AND NON-CHARGEABLE (CONT'D)

allocation described in 3(a) above, except for any portion thereof deemed to be of a political, non-representational nature or for member-only activities, which are 100% non-chargeable.

- (c) Board Meeting Expenses; Database Administration; Lobbying Expense; Professional Fees; and Recruitment Costs** - These disbursements are considered 100% chargeable as they relate to the institutional maintenance of the Association, except for any portion thereof deemed to be of a political, non-representational nature or for member-only activities, which are 100% non-chargeable.
- (d) Cost of Tickets Purchased; Donations; Loans Provided; Member and Fee Payer Voluntary Insurance Premiums Remitted; and Voluntary Insurance Program Administrative Fees Remitted** - These disbursements are all considered to be 100% non-chargeable because they were for member-only activities, charitable activities, non-representational in nature, or funded by voluntary participant payroll withholdings.
- (e) Postage; and Printing and Publications** - Direct printing, publishing and postage disbursements for the Association's newsletter, which relate to political activities, member-only activities, or charitable activities, are considered 100% non-chargeable. All other printing and postage costs are allocated on the basis of the salary allocation described in 3(a) above.
- (f) Events, Awards, Promotion and Recognition** - These disbursements are allocated between chargeable and non-chargeable disbursements based on a detailed analysis of the underlying activities.