

DC 37 AUDITED FINANCIAL STATEMENT

Below is the audited financial statement of District Council 37
for the year that ended Dec. 31, 2006.*



INDEPENDENT AUDITORS REPORT

To the Executive Board of
New York City District Council 37,
American Federation of State, County
and Municipal Employees, AFL-CIO

We have audited the accompanying statements of financial position of New York City District Council 37, American Federation of State, County and Municipal Employees, AFL-CIO ("The District Council") as of December 31, 2006 and 2005, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the District Council's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide 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 New York City District Council 37, American Federation of State, County and Municipal Employees, AFL-CIO as of December 31, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

New York, NY
April 8, 2007

Certified Public Accountants

Berdon LLP
CPAs and Advisors

IAA International Association
of Practicing Accountants

Reply to: One Jericho Plaza
360 Madison Avenue Jericho, NY 11753
New York, NY 10017 Ph: 516.931.3100
Ph: 212.832.0400 Fax: 516.931.0034
Fax: 212.371.1159 www.BERDONLLP.com

NEW YORK CITY DISTRICT COUNCIL 37, AMERICAN FEDERATION OF STATE, COUNTY AND MUNICIPAL EMPLOYEES, AFL-CIO STATEMENT OF FINANCIAL POSITION DECEMBER 31, 2006 AND 2005

ASSETS		
	2006	2005
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,465,754	\$ 3,350,747
Certificates of participation	20,247,607	16,604,978
Per capita receivable	6,556,903	6,402,663
Accounts receivable from affiliates	1,707,219	1,552,741
Accounts receivable — other	669,329	370,909
Prepaid expenses and other current assets	506,298	579,288
	<u>33,153,110</u>	<u>28,861,326</u>
FIXED ASSETS — At cost		
Land, building and improvements	12,443,996	12,232,350
Furniture and equipment	7,191,795	6,927,771
	<u>19,635,791</u>	<u>19,160,121</u>
Accumulated depreciation	(12,218,445)	(10,808,255)
	<u>7,417,346</u>	<u>8,351,866</u>
OTHER ASSETS		
Deposits	136,873	70,607
TOTAL ASSETS	<u>\$40,707,329</u>	<u>37,283,799</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable, accrued expenses and sundry liabilities	\$ 1,743,569	\$ 1,660,579
Due to affiliates	1,082,108	991,512
Accrued postretirement benefits	774,363	785,097
	<u>3,600,040</u>	<u>3,437,188</u>
OTHER LIABILITIES		
Accumulated severance, vacation and sick pay	9,129,295	8,435,914
Accrued postretirement benefits, less current portion	15,796,908	14,306,598
	<u>24,926,203</u>	<u>22,742,512</u>
TOTAL LIABILITIES	<u>\$28,526,243</u>	<u>26,179,700</u>
NET ASSETS — UNRESTRICTED	<u>12,181,086</u>	<u>11,104,099</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$40,707,329</u>	<u>37,283,799</u>

NEW YORK CITY DISTRICT COUNCIL 37, AMERICAN FEDERATION OF STATE, COUNTY AND MUNICIPAL EMPLOYEES, AFL-CIO STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
UNRESTRICTED REVENUE		
Per capita		
Members	\$32,449,413	\$31,620,114
Agency fees	4,877,476	4,856,195
Investment income	871,166	491,383
Other income	—	3,724
	<u>38,198,055</u>	<u>36,971,416</u>
UNRESTRICTED EXPENSES		
Personnel	29,314,721	28,908,606
Operating	7,452,116	6,958,264
Administrative	5,623,012	5,098,078
Reimbursed costs from affiliates	(5,268,781)	(5,100,051)
	<u>37,121,068</u>	<u>35,864,897</u>
INCREASE IN NET ASSETS	1,076,987	1,106,519
NET ASSETS — BEGINNING OF YEAR	11,104,099	9,997,580
NET ASSETS — END OF YEAR	<u>\$12,181,086</u>	<u>\$11,104,099</u>

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**NEW YORK CITY DISTRICT COUNCIL 37, AMERICAN FEDERATION OF STATE, COUNTY AND MUNICIPAL EMPLOYEES, AFL-CIO
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: GENERAL

New York City District Council 37, American Federation of State, County and Municipal Employees, AFL-CIO (the "District Council") assists affiliated local unions in achieving their organizational, bargaining, legislative, and various other objectives. The members of the affiliated local unions are employed by New York City and its subsidiary units, from which the District Council derives its per capita revenue.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting.

(b) Accounting Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingencies, if any, at the date of the financial statements, and revenue and expenses during the reporting period. Actual results may differ from these estimates.

(c) Cash and Cash Equivalents

For purposes of the statement of cash flows, the District Council considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

(d) Accounts Receivable — Other

The District Council has written off all accounts deemed uncollectible at December 31, 2006 and 2005 and does not anticipate any additional material losses.

(e) Depreciation

Property assets are valued at cost, and are depreciated by the straight-line method over the following estimated useful lives:

Building and improvements	15-35 years
Furniture	10 years
Equipment	3-8 years

Maintenance and repairs are charged to operations and replacements and betterments are capitalized.

Depreciation expense for the years ended December 31, 2006 and 2005 totaled \$1,410,189 and \$976,756, respectively.

(f) SFAS No. 158 Adoption

In 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS 158). This statement requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in the funded status in the year in which the changes occur through changes in unrestricted assets. The District Council must adopt the recognition provisions of this statement in its 2007 fiscal year. The District Council plans to adopt the recognition provisions of this statement for its 2007 year-end. Management has not determined the effects that adoption of SFAS 158 will have on the financial statements.

NOTE 3: ACCOUNTS RECEIVABLE AND RELATED PARTY TRANSACTIONS

As discussed in Note 1, the District Council is affiliated with various local unions. Members of such local unions are also members of the District Council. Additionally, certain local union officers are officers of the District Council.

The District Council administers certain financial operations on behalf of certain local unions, such as the receipt and distribution of dues revenue, which amounted to \$15,156,955 and \$14,147,518 for the years ended December 31, 2006 and 2005, respectively. Payment of certain expenses for which the local unions are charged amounted to \$3,867,943 and \$2,872,204 for the years ended December 31, 2006 and 2005, respectively.

The District Council is also affiliated with District Council 37 Benefit Fund Trust ("BFT"), District Council 37 Health & Security Fund Trust ("H&S") and other trust funds established for the benefit of its members. Certain officers of the District Council are trustees of these trust

funds. During the years ended December 31, 2006 and 2005, the District Council was reimbursed by its affiliated trust funds for use of these departments and other services in the amount of \$5,268,781 and \$5,100,051, respectively.

In addition, the District Council pays certain administrative expenses for which the affiliated trust funds are charged. Such expenses amounted to \$1,668,872 and \$2,259,403 for the years ended December 31, 2006 and 2005, respectively.

The District Council has an ownership interest in real property with BFT. Expenses related to the operations of such real property are apportioned between the District Council and BFT on the ratio of space occupied by the respective organizations. The District Council's share of such building operating expenses amounted to \$3,128,650 for the year ended December 31, 2006 of which approximately \$70,000 is included in accounts payable, accrued expenses and sundry liabilities in the statement of financial position at December 31, 2006. The District Council's share of such building operating expenses amounted to \$2,489,094 for the year ended December 31, 2005.

In addition, the District Council reimbursed BFT in the amount of \$111,869 in 2005 for its share of building improvements of which \$90,433 is payable as of December 31, 2006 and is included in due to affiliates in the statement of financial position. The District Council reimbursed BFT in the amount of \$38,506 in 2005 for its share of building improvements.

NOTE 4: ACCUMULATED SEVERANCE, VACATION AND SICK PAY

Certain employees of the District Council accumulate rights to receive severance pay in the event of termination of their employment, and vacation and sick pay for unused earned absences during each year, based on specified criteria. As of December 31, 2006 and 2005, the District Council's liabilities for accumulated severance, vacation and sick pay were as follows:

	2006	2005
Severance	\$ 6,021,495	\$ 5,364,321
Vacation	1,951,000	1,684,562
Sick	463,419	418,498
	<u>\$ 8,435,914</u>	<u>\$ 7,467,381</u>

NOTE 5: RETIREMENT PLANS

The District Council makes contributions along with other employers to multiemployer pension plans. The Multiemployer Pension Plan Amendments Act of 1980 imposes certain liabilities upon employers associated with multiemployer pension plans who withdraw from such a plan or upon termination of said plan. The District Council has not received information from the plan's administrators to determine its share of unfunded vested benefits, if any. The District Council has not undertaken to terminate, withdraw, or partially withdraw from the plans. Contributions to such plans for the years ended December 31, 2006 and 2005 amounted to \$1,491,197 and \$1,443,875, respectively.

The District Council also made matching contributions on behalf of its employees to a 401(k) plan in the amounts of \$99,182 and \$94,770 for the years ended December 31, 2006 and 2005, respectively.

NOTE 6: TAX STATUS

The District Council is exempt from federal income taxes in accordance with Section 501(c)(5) of the Internal Revenue Code, under a group exemption granted to the American Federation of State, County and Municipal Employees, AFL-CIO ("AFSCME") and its subordinate bodies.

NOTE 7: ACCUMULATED POSTRETIREMENT BENEFIT OBLIGATION

The District Council provides medical and other benefits to eligible retired employees and their spouses. The accumulated postretirement benefit obligation represents the actuarial present value of these benefits attributable to the service eligible employees have rendered. This obligation is determined by the District Council's consulting actuary and is that amount that results from applying actuarial assumptions to adjust the accumulated postretirement benefit obligation to reflect the time value of money (through discounts for interest), the probability of payment (by means of decrements such as mortality, turnover, early retirement, etc.) and the amount and timing of future benefit payments (utilizing per capita claims cost by age and sex, health care cost trend rates, etc.).

The following table summarizes the benefit obligations, the fair value of plan assets and the funded status as of December 31, 2006 and 2005:

	2006	2005
Accumulated postretirement benefit obligation (APBO)	\$21,910,222	\$22,332,643
Fair value of plan assets	—	—
Funded status	<u>\$(21,910,222)</u>	<u>\$(22,332,643)</u>

The following table provides the amounts recognized in the statement of financial position as of December 31, 2006 and 2005:

	2006	2005
APBO	\$21,910,222	\$22,332,643
Unrecognized net actuarial (loss)	(6,571,274)	(8,693,722)
Unrecognized prior service cost	1,232,323	1,452,774
Accrued benefit cost recognized in the statements of financial position	<u>\$16,571,271</u>	<u>\$15,091,695</u>

(Continued at right)

The following tables provide additional information relating to the postretirement benefit costs as reflected in the financial statements as of and for the years ended December 31, 2006 and 2005.

	2006	2005
Service cost	\$ 737,040	\$ 682,685
Interest cost	1,214,336	1,203,849
Amount of prior service cost recognized	(220,451)	(220,451)
Amount of (loss) recognized	<u>523,014</u>	<u>576,969</u>
Net periodic benefit cost recognized	<u>\$ 2,253,939</u>	<u>\$ 2,243,052</u>
Employer contributions	<u>\$ 774,363</u>	<u>\$ 785,097</u>
Weighted-average discount rate	6.00%	5.75%

Estimated future benefits payments are as follows:

2007	\$ 822,053
2008	\$ 909,824
2009	\$ 987,635
2010	\$1,069,971
2011	\$1,148,885
2012-2016	\$7,099,758

The expected employer contributions for the year ending December 31, 2007 are \$822,053.

For measurement purposes of trends in health cost, the actual rate of increase was used for each of the years ending December 31, 2006 and 2005. For measurement purpose, the projected trends of annual increases in covered health care cost are as follows:

Year Ending Dec. 31	Pre-65 Medical and Hospital	Post-65 Medical and Hospital	Pre-scription Drugs	Part D Subsidy
2007	8.0%	8.0%	11.0%	11.0%
2008	7.0%	7.0%	10.0%	10.0%
2009	6.0%	6.0%	9.0%	9.0%
2010	5.0%	5.0%	8.0%	8.0%
2011	5.0%	5.0%	7.0%	7.0%
2012	5.0%	5.0%	6.0%	6.0%
2013 and later	5.0%	5.0%	5.0%	5.0%

It is the plan actuary's understanding that the plan has been determined to be actuarially equivalent to the Medicare Part D Standard Benefit and has applied for the federal subsidy. Therefore, the expense calculations in 2006 and 2005 and disclosure figures as of December 31, 2006 and 2005 shown above have included an estimate for retiree prescription drug plan federal subsidies that the District Council may be eligible to receive under the Medicare Prescription Drug, Improvement and Modernization Act of 2003 for plan years beginning in 2006. The effects of subsidy which resulted in a reduction of APBO and net periodic benefit cost are included in the expense calculation and disclosure

figures for the year ended December 31, 2006 and 2005. The estimated annual Part D subsidy that the plan is expected to receive starting in 2006 is approximately \$594 per eligible person.

A one-percentage point increase in the assumed health care trend rates would have increased the APBO by \$3,453,421 at December 31, 2006 and the aggregate service and interest cost components of benefit cost for 2006 by \$367,459. A one-percentage point decrease would have decreased the APBO by \$2,816,051 at December 31, 2006 and aggregate service and interest cost components of benefit cost for 2006 by \$292,562.

Effective August 1, 2004, the District Council has changed its co-pay provisions of its prescription drug benefits. These changes affecting APBO and net periodic benefit cost are \$1,673,255 and \$220,451, respectively, for the year ended December 31, 2005.

NOTE 8: LITIGATION

The District Council is currently a defendant in several lawsuits alleging breach of duty of fair representation. The District Council's legal counsel is unable to form an opinion as to the outcome of these cases or to estimate any potential loss, if any, to the District Council. Accordingly, no such contingencies are reflected in these financial statements.

NOTE 9: CONCENTRATION OF CREDIT RISK

The District Council maintains cash deposits in financial institutions in excess of the insurance limit provided by the Federal Deposit Insurance Corporation.

** Condensed from full report*

Public Employee Press, September 2007