To: Employees Represented Under Contracts Providing for Service Fee Payments

From: Maine State Employees Association,
Local 1989 of the Service Employees International Union
65 State St., Augusta, ME 04330-5126
207-622-3151 or 800-452-8794

Re: Notice Regarding Service Fee Payments Effective August 2016

Date: June 16, 2016

Please note — this notice applies to MSEA-SEIU represented employees of the following employers:

American Red Cross in Bangor
City of Auburn
City of Lewiston
Home Care for Maine
Maine Community College System Support and Supervisory Units
Maine Educational Center for the Deaf and Hard of Hearing/
   Governor Baxter School for the Deaf
Maine Maritime Academy
Maine Military Authority
Maine People’s Alliance
Maine Public Employees Retirement System
Maine Turnpike Authority
State of Maine Executive Branch
State of Maine Judicial Branch
Treats Falls House
York County
NOTICE OF RIGHTS AND OBLIGATIONS

The Maine State Employees Association, Local 1989 of the Service Employees International Union, ("MSEA-SEIU" or "Union") is recognized by your employer as your exclusive representative for purposes of collective bargaining. As such, MSEA-SEIU has the legal duty to represent you fairly, in a manner consistent with law, and to provide you with certain information regarding your right to join or not join the Union. MSEA-SEIU is providing this booklet to you because you may be covered by a contract that requires service fee payments to the Union. The booklet provides you with notice of your rights and obligations. (This notice replaces any prior notices you may have received from MSEA-SEIU on this subject.)

If you are not yet a member, we urge you to join the Union. You are not required to do so, however, and if you do become a Union member, you have the right to resign your membership. If you choose not to join the Union, or if you resign your Union membership, you may be obligated under MSEA-SEIU’s contract with your employer to pay a service fee to MSEA-SEIU to cover the cost of collective bargaining and related activities. Under some contracts, all employees must pay a service fee if they are not Union members. Other contracts require employees to pay a service fee if they are not Union members and were hired after the date specified in MSEA-SEIU’s contract with their employer. You must read the Union’s contract with your employer for a detailed description of your individual rights and obligations.

A copy of your contract, including the contract article on service fee payments, may be viewed on MSEA-SEIU’s website at www.mseaseiu.org (at the link for “Our Contracts” found on the right side of the website’s home page). Your employer may also post copies of your contract online. The contract article is called “Union Security”, “Check-Off” or “Maintenance of Membership”, depending on the contract. If you do not have access to the Internet, please call MSEA-SEIU at 1-800-452-8794 to request a copy of the relevant contract article. Please note that some contracts expire during 2016, and the relevant language may change in contracts that go into effect this year.

If you are required to pay a service fee, you have the right to challenge the amount of that fee, as initially determined by MSEA-SEIU, in a hearing before an impartial arbitrator. The procedures for challenging the amount of the fee are described at page 5 below.

As of the first pay period beginning on or after August 1, 2016, until thirty (30) days after you receive notice of a new service fee based on new audited financial information, nonmember employees who are obligated to pay a service fee to MSEA-SEIU must pay a fee that is 66% of membership dues. MSEA-SEIU dues are reduced for part-time employees, and all dues rates are set each year by the delegates to MSEA-SEIU’s annual meeting. Any change in the dues rate is effective January 1. Based on the current dues rate, the bi-weekly dues and service fee amounts in effect as of August 1, 2016, are as follows:
BIWEEKLY DUES AND FEE RATES IN EFFECT AUGUST 1, 2016*

<table>
<thead>
<tr>
<th></th>
<th>Full time (100%)</th>
<th>16-32 hours/week (60%)</th>
<th>less than 16 hours/week (30%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Membership dues</td>
<td>$21.60</td>
<td>$12.96</td>
<td>$6.48</td>
</tr>
<tr>
<td>Service fees (66% of membership dues)</td>
<td>$14.26</td>
<td>$8.55</td>
<td>$4.28</td>
</tr>
</tbody>
</table>

MSEA-SEIU recalculates its service fee every year, based on the ratio of chargeable and non-chargeable expenditures for the previous calendar year.

Currently, nonmembers obligated to pay a service fee may pay it in one of two ways: either through payroll deduction or by paying the fee directly to MSEA-SEIU on the same schedule. To pay the fee through payroll deduction, unless your contract provides for automatic service fee deduction, you must submit a written payroll deduction authorization form to MSEA-SEIU. Under most contracts, fees will be deducted automatically. Your contract (see website link above) may specify the periods when your employer will accept payroll deduction authorization forms. To pay the fee directly to MSEA-SEIU through periodic payments made by check, you must send the appropriate amount to MSEA-SEIU within ten (10) days of the receipt of each paycheck. If you are required to pay a service fee and you do not pay the fee by payroll deduction, MSEA-SEIU will send you billing information under separate cover. If you are paying the service fee pursuant to a written payroll deduction authorization form and want to terminate that authorization, you must provide written notice to MSEA-SEIU and your payroll clerk.

The Basis for the Service Fee Amount

As noted above, nonmembers may be required to pay a fee reflecting the pro-rata costs of the Union’s expenditures that are germane to its representational activities, as defined by applicable law. Those expenditures are referred to as “chargeable,” while non-germane or ideological expenditures are described as “non-chargeable.” The Union calculates the fee based on its audited financial records for the Union’s last fiscal year (which is the calendar year), applying its best interpretation of the existing law. An audit of the service fee calculation by independent accountants ensures that the Union’s underlying financial records and audited statements support the calculations. The auditors’ report may be found at pages 6 - 14 of this booklet. It was prepared by the certified public accounting firm of Runyon Kersteen Ouellette, 20 Long Creek Drive, South Portland, ME 04106, 207-773-2986.

In dividing chargeable from non-chargeable expenditures, the Union must rely on its analysis of the current law. In all cases, the focus of the analysis is on the money spent by the Union in the prior year, as a basis for calculating the ratio to be applied for the subsequent year. Generally speaking, when money is spent on activities germane to collective bargaining, those costs may be charged to nonmembers working in represented bargaining units. If money is spent on political or ideological activities, those costs are not charged to nonmembers. For purposes of this calculation, we treat our major categories of expenditures as follows:

- **Collective Bargaining and Contract Administration**: Expenditures related to bargaining and the administration or enforcement of union contracts are considered fully chargeable. This includes costs involved in the research and development of contract proposals, selection of bargaining committee

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*For those employees paid weekly, the weekly dues and service fee rates in effect August 1, 2016, are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Full time (100%)</th>
<th>16-32 hours/week (60%)</th>
<th>less than 16 hours/week (30%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Membership dues</td>
<td>$10.80</td>
<td>$6.48</td>
<td>$3.24</td>
</tr>
<tr>
<td>Service fees (66% of membership dues)</td>
<td>$7.13</td>
<td>$4.28</td>
<td>$2.14</td>
</tr>
</tbody>
</table>
and team members and their reimbursed expenses, communications with members about bargaining, the direct expenses of bargaining, and contract ratification. Once a contract is ratified, the Union also spends money recruiting and training stewards and other representatives, and processing or arbitrating grievances.

- **Affiliation**: MSEA-SEIU pays per capita affiliation fees to the Service Employees International Union (SEIU), and it sometimes pays affiliation fees to other organizations. SEIU performs its own analysis of its chargeable and non-chargeable expenditures, set forth in its audited Consolidated Statement of Expenses and Allocation Between Chargeable Expenses and Non-Chargeable Expenses, a copy of which is included in this booklet at pages 15 - 22. MSEA-SEIU uses the ratio of SEIU’s chargeable to non-chargeable expenses as calculated in the SEIU audit to determine the chargeable percentage of its per capita payments to SEIU. Affiliation fees paid to other organizations are treated as non-chargeable.

- **Communications and Publicity**: The Union communicates with members and others through various means, including its newspaper, the “Maine Stater.” The costs of these activities may be legally chargeable or non-chargeable, depending on the content of the communication. For example, a single issue of the “Stater” may include articles on non-chargeable political matters and chargeable information for stews concerning contract administration. The costs of publishing and mailing the “Stater” and other print communications are divided accordingly.

- **Legal Advice and Litigation**: Litigation or legal services related to matters that are germane to the Union’s representational activities (i.e., grievances, collective bargaining rights, etc.) are legally chargeable. Other litigation is treated as non-chargeable. MSEA-SEIU allocates legal expenditures based on cost centers, and determines chargeability by the activity involved. For example, if the General Counsel were to provide legal advice to the Union on campaign finance questions, he or she would report that work on a weekly basis as political work, and that portion of his or her time would be treated as non-chargeable.

- **Personnel Costs**: Personnel costs consist of salaries and wages, fringe benefits, payroll taxes, and reimbursed employee expenses. All personnel costs are determined by referring to weekly time sheets and expense vouchers that record the dollars spent, and hours or percentage of time devoted, to specific activity centers. With the exception of certain promotional costs paid to staff, personnel costs related to the following categories of activities are considered to be fully chargeable: governance, legislative activity or organizing that are germane to the union’s representational functions, grievance arbitration, negotiation, steward training and support, and legal services related to negotiations, contract administration or other representational work. Personnel costs associated with membership benefits, politics and non-germane legislative or organizing activity, are treated as non-chargeable. Personnel costs associated with administration are allocated as chargeable or non-chargeable as indicated in the description of that category of expenditures (see below, under Administrative Expenses).

- **Professional Fees and Expenses**: Professional fees and expenses are considered to be chargeable or non-chargeable based on the services performed by the consultant. Professional fees for consulting services in connection with politics and non-germane legislative activities are treated as non-chargeable.

- **Training and Education**: The Union trains its staff, members and activists in a variety of subjects, including steward skills, leadership, dispute resolution, and political skills. The costs of training events are allocated based on content. Training that helps the Union maintain its effectiveness at the bargaining table or in grievances, such as bargaining skills or steward advocacy, is considered chargeable. Training aimed at developing political skills or other ideological subjects is non-chargeable.

- **Contributions**: Contributions for charitable, civic, and labor-related purposes are considered to be fully non-chargeable.

- **Legislative Work and Politics**: The law permits the Union to charge for lobbying activities that are germane to the Union’s role as exclusive bargaining agent, including efforts to secure funding for unit positions, compensation and benefits, or the protection of collective bargaining rights. Non-chargeable expenses include the costs of publications, staff time, or leadership expenses incurred in mobilizing or training members to engage in electoral work, as well as those direct campaign contributions that can be made from Union funds.

- **Membership Benefits**: Benefits available only to members are non-chargeable. These include the costs
of certain discount programs. The Income Protection program is not funded through dues, but any costs to MSEA-SEIU associated with that program are reimbursed by the plan and are not charged to nonmembers.

- Organizing: The Union’s ability to deliver effective contracts depends on its ability to maintain and extend its influence in all the job markets that affect its members. For this reason, the Union invests in organizing new bargaining units. These expenditures substantially improve the Union’s bargaining leverage and representational efforts, and are critical to the long-term protection of Union members’ wages and benefits. Organizing expenditures that do not meet these standards are non-chargeable.

- Administrative Expenses: Administrative expenses include items such as rent, office supplies and expenses, investment expenses, equipment rental and maintenance, computer expenses, depreciation and amortization, printing, postage, telephone, subscriptions, insurance, and bad debt expense. The Union allocates these expenses as chargeable or non-chargeable based on the ratio of the Union’s other total chargeable costs to its combined total of other chargeable and non-chargeable costs (not including Affiliation costs).

- Union Governance: Without member involvement and internal democracy, this Union could not perform any of its representational activities. The costs of governing the Union, including costs associated with the annual meeting, the Board of Directors, and chapter or local union meetings, directly support the representational goals of MSEA-SEIU and are therefore considered legally chargeable. Accordingly, the Union treats governance costs as fully chargeable.

In sum, MSEA-SEIU applies these principles to distinguish chargeable from non-chargeable expenditures, as reflected in its audited financial records. The Union tracks the costs associated with these activities in functional departments or categories. For the purpose of this analysis, these activities have been grouped in the following categories: membership services, representational services, political and lobbying activities, affiliation, governance, and finance and administration. These departments implement the programs of MSEA-SEIU and provide services to the employees it represents. An independent auditor verified the Union’s expenditures and allocations, and the auditor’s findings are at pages 6 - 14 of this booklet.

**Procedures for Challenging the Amount of the Service Fee**

Nonmember employees who are obligated to pay a fee to MSEA-SEIU may challenge the amount of that fee, as initially determined by MSEA-SEIU. Your challenge to the amount of the fee must be in writing, must be signed, and must include your name, your address, and the name of your employer. You do not need to include any other information when submitting your challenge. Your challenge must be mailed or hand-delivered to MSEA-SEIU at 65 State Street, Augusta, ME 04330-5126. **To be timely and applicable for this service fee period, your written challenge must be received at the offices of MSEA-SEIU on or before Sept. 1, 2016, by mail or by hand delivery. (If you are a new employee and receive this notice too late to meet the Sept. 1, 2016, deadline, you may submit your written challenge on or before the thirtieth (30th) day after you receive this notice.)**

If you file a challenge to the amount of the fee, you will be given an opportunity to contest the amount of the fee during a hearing that will be held before an impartial arbitrator chosen by the American Arbitration Association (“AAA”). (If you are a new employee and you file a timely challenge after Sept. 1, 2016, you may join a challenge already in progress.) The selection of the impartial arbitrator and the conduct of the hearing will be governed by the AAA's Rules for Impartial Determination of Union Fees. Consistent with the AAA Rules, the Union will bear the costs of the arbitrator’s fees, as well as the administrative costs charged by the AAA.

If you file a challenge to the amount of the fee, during the period your challenge is pending you will be required to pay the fee in a timely manner, but the entire fee you pay will be held in an interest-bearing escrow account. Once the hearing is completed and the impartial arbitrator has rendered a decision, all amounts found by the arbitrator to be properly chargeable by MSEA-SEIU will be released from the escrow account to the Union. If you have paid into escrow any fees in excess of the amount determined to be properly chargeable, they will be returned to you with interest.

Thank you for your attention to these important matters.
MAINE STATE EMPLOYEES ASSOCIATION

Audited Statement of Expenses and Allocation Between Chargeable Expenses and Non-chargeable Expenses

December 31, 2015
MAINE STATE EMPLOYEES ASSOCIATION
Statement of Expenses and Allocation
Between Chargeable Expenses and
Non-chargeable Expenses
December 31, 2015

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Independent Auditor’s Report

Board of Directors
Maine State Employees Association
Augusta, Maine

We have audited the accompanying statement of expenses and allocation between chargeable expenses and non-chargeable expenses of the Maine State Employees Association for the year ended December 31, 2015, and the related notes to the statement.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this statement in accordance with significant accounting policies, definitions, factors and assumptions as defined by applicable law and as presented in notes to this statement. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on this 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 the audit to obtain reasonable assurance about whether the statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.
Opinion

In our opinion, the statement referred to above presents fairly, in all material respects, the statement of expenses of the Maine State Employees Association for the year ended December 31, 2015, and the allocated expenses between chargeable and non-chargeable expenses, in accordance with the definitions and significant factors and assumptions described in the footnotes.

Basis of Presentation

We draw attention to the notes to the statement, which describe the basis of presentation. The total expenses reflected in the first column of the statement agree to the expenses in the audited financial statements of the Maine State Employees Association and its Affiliates for the year ended December 31, 2015. The allocation of expenses between chargeable and non-chargeable is based on the definitions and significant factors and assumptions described in the footnotes. The statement is not intended to be presented in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

We have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated financial statements of the Maine State Employees Association and its Affiliates as of, and for the year ended, December 31, 2015, and in our report thereon dated June 10, 2016, we expressed an unmodified opinion on those financial statements.

Restriction on Use

Our report is intended solely for the information and use of the Board of Directors and management of the Maine State Employees Association and is not intended to be and should not be used by anyone other than these specified parties.

June 10, 2016
South Portland, Maine
### MAINE STATE EMPLOYEES ASSOCIATION

**Statement of Expenses and Allocation Between Chargeable Expenses and Non-chargeable Expenses**

**December 31, 2015**

<table>
<thead>
<tr>
<th>Membership services</th>
<th>Expenses as reported by department</th>
<th>Percentage of total expenses</th>
<th>Percentage of total non-chargeable expenses</th>
<th>Personnel costs distributed by cost center</th>
<th>Percentage of total expenses</th>
<th>Percentage of total non-chargeable expenses</th>
<th>Total expenses allocable</th>
<th>Inverse Current Year vacation &amp; personal adjustment</th>
<th>Total expenses allocable</th>
<th>Less non-allocable expenses</th>
<th>Total expenses allocable</th>
<th>Non-chargeable expenses</th>
<th>Total chargeable expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communications and training</td>
<td>373,052</td>
<td>(125,113)</td>
<td>11.9%</td>
<td>11.9%</td>
<td>115,503</td>
<td>(11,613)</td>
<td>11,613</td>
<td>1,331</td>
<td>173,089</td>
<td>660</td>
<td>-</td>
<td>173,089</td>
<td>170,221</td>
</tr>
<tr>
<td>Income protection</td>
<td>185,925</td>
<td>(111,895)</td>
<td>11.9%</td>
<td>11.9%</td>
<td>114,176</td>
<td>(11,137)</td>
<td>11,137</td>
<td>1,270</td>
<td>165,289</td>
<td>573</td>
<td>-</td>
<td>165,289</td>
<td>153,158</td>
</tr>
<tr>
<td>Organizing</td>
<td>120,195</td>
<td>(172,190)</td>
<td>11.9%</td>
<td>11.9%</td>
<td>121,744</td>
<td>(17,599)</td>
<td>17,599</td>
<td>1,492</td>
<td>129,169</td>
<td>12,749</td>
<td>-</td>
<td>129,169</td>
<td>119,122</td>
</tr>
<tr>
<td>Total membership services</td>
<td>479,172</td>
<td>(416,398)</td>
<td>11.9%</td>
<td>11.9%</td>
<td>326,925</td>
<td>(10,419)</td>
<td>10,419</td>
<td>4,073</td>
<td>467,598</td>
<td>13,522</td>
<td>-</td>
<td>467,598</td>
<td>455,704</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Representational services</th>
<th>Expenses as reported by department</th>
<th>Percentage of total expenses</th>
<th>Percentage of total non-chargeable expenses</th>
<th>Personnel costs distributed by cost center</th>
<th>Percentage of total expenses</th>
<th>Percentage of total non-chargeable expenses</th>
<th>Total expenses allocable</th>
<th>Inverse Current Year vacation &amp; personal adjustment</th>
<th>Total expenses allocable</th>
<th>Less non-allocable expenses</th>
<th>Total expenses allocable</th>
<th>Non-chargeable expenses</th>
<th>Total chargeable expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Negotiation</td>
<td>80,928</td>
<td>(2,202)</td>
<td>11.9%</td>
<td>11.9%</td>
<td>51,134</td>
<td>11,376</td>
<td>11,376</td>
<td>2,781</td>
<td>53,916</td>
<td>19</td>
<td>-</td>
<td>53,916</td>
<td>52,967</td>
</tr>
<tr>
<td>Legal services</td>
<td>11,028</td>
<td>-</td>
<td>11.9%</td>
<td>11.9%</td>
<td>15,744</td>
<td>(3,644)</td>
<td>3,644</td>
<td>558</td>
<td>16,302</td>
<td>-</td>
<td>-</td>
<td>16,302</td>
<td>16,302</td>
</tr>
<tr>
<td>Steward program</td>
<td>20,882</td>
<td>-</td>
<td>11.9%</td>
<td>11.9%</td>
<td>71,476</td>
<td>(10,129)</td>
<td>10,129</td>
<td>2,127</td>
<td>73,603</td>
<td>-</td>
<td>-</td>
<td>73,603</td>
<td>73,603</td>
</tr>
<tr>
<td>Field representatives</td>
<td>1,289,675</td>
<td>(507,862)</td>
<td>11.9%</td>
<td>11.9%</td>
<td>931,239</td>
<td>1,299,192</td>
<td>1,299,192</td>
<td>2,854</td>
<td>1,302,049</td>
<td>(16,994)</td>
<td>-</td>
<td>1,302,049</td>
<td>1,285,055</td>
</tr>
<tr>
<td>Total representational services</td>
<td>1,400,013</td>
<td>(509,754)</td>
<td>11.9%</td>
<td>11.9%</td>
<td>1,059,659</td>
<td>1,427,948</td>
<td>1,427,948</td>
<td>3,707</td>
<td>1,431,655</td>
<td>(16,994)</td>
<td>-</td>
<td>1,431,655</td>
<td>1,414,661</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Political and lobbying activities</th>
<th>Expenses as reported by department</th>
<th>Percentage of total expenses</th>
<th>Percentage of total non-chargeable expenses</th>
<th>Personnel costs distributed by cost center</th>
<th>Percentage of total expenses</th>
<th>Percentage of total non-chargeable expenses</th>
<th>Total expenses allocable</th>
<th>Inverse Current Year vacation &amp; personal adjustment</th>
<th>Total expenses allocable</th>
<th>Less non-allocable expenses</th>
<th>Total expenses allocable</th>
<th>Non-chargeable expenses</th>
<th>Total chargeable expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Affiliation</td>
<td>1,485,111</td>
<td>-</td>
<td>11.9%</td>
<td>11.9%</td>
<td>1,485,111</td>
<td>1,485,111</td>
<td>1,485,111</td>
<td>2,701</td>
<td>1,487,812</td>
<td>-</td>
<td>-</td>
<td>1,487,812</td>
<td>1,487,812</td>
</tr>
<tr>
<td>Finance and administration</td>
<td>1,057,712</td>
<td>(765,156)</td>
<td>11.9%</td>
<td>11.9%</td>
<td>207,501</td>
<td>1,000,063</td>
<td>(177,655)</td>
<td>5,480</td>
<td>1,020,543</td>
<td>(1,133)</td>
<td>-</td>
<td>1,020,543</td>
<td>989,412</td>
</tr>
<tr>
<td>Governance</td>
<td>920,808</td>
<td>(25,844)</td>
<td>11.9%</td>
<td>11.9%</td>
<td>92,899</td>
<td>498,253</td>
<td>521</td>
<td>285</td>
<td>448,538</td>
<td>511</td>
<td>(29,296)</td>
<td>448,538</td>
<td>419,242</td>
</tr>
<tr>
<td>Depreciation expense</td>
<td>28,197</td>
<td>-</td>
<td>11.9%</td>
<td>11.9%</td>
<td>-</td>
<td>28,197</td>
<td>28,197</td>
<td>2,127</td>
<td>30,324</td>
<td>-</td>
<td>-</td>
<td>30,324</td>
<td>30,324</td>
</tr>
<tr>
<td>Total expenses</td>
<td>5,125,047</td>
<td>(2,489,342)</td>
<td>11.9%</td>
<td>11.9%</td>
<td>2,489,342</td>
<td>5,125,047</td>
<td>5,125,047</td>
<td>(1,089)</td>
<td>5,126,136</td>
<td>(184,994)</td>
<td>-</td>
<td>5,126,136</td>
<td>5,107,140</td>
</tr>
</tbody>
</table>

\[ e + e = 100.00\% \]
\[ a + b + c = 14.00\% \]
\[ d = 66.00\% \]

See accompanying auditors report and notes to statement.
NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - The Maine State Employees Association (MSEA) is a nonprofit labor organization whose purpose is to promote goodwill and fellowship and to negotiate the advancement of career employment privileges and benefits to the betterment of all employees of the State of Maine or other employers with which MSEA has, or is seeking to establish, a collective bargaining relationship. It serves as the local Maine chapter of the national Service Employees International Union (SEIU).

Income Tax Exemption - Maine State Employees Association has been granted exemption from federal income tax under Section 501(c)(5) of the Internal Revenue Code.

MSEA follows the provisions of FASB ASC 740-10 Income Taxes, which clarifies the criteria that an individual tax position must satisfy for some or all of the benefits of that position to be recognized in an entity's financial statements. It also prescribes a recognition threshold of more likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. There was no cumulative effect on MSEA's financial statements or this statement of expenses related to following these provisions, and no interest or penalties related to uncertain tax positions were accrued. MSEA is currently open to audit under the statute of limitations by the Internal Revenue Service and state taxing authorities for the years ended December 31, 2012 through 2015.

Basis of Accounting - MSEA prepares their statement of expenses in accordance with accounting principles generally accepted in the United States of America, which involves the application of accrual accounting.

Basis of Presentation - The accompanying statement of expenses and allocation between chargeable expenses and non-chargeable expenses was prepared for the purpose of determining the fair share cost of services rendered by the Maine State Employees Association for employees represented by, but not members of, the Maine State Employees Association. This statement is not intended to be a complete presentation of MSEA's financial position, or changes in its net assets and its cash flows in accordance with accounting principles generally accepted in the United States of America.

DEFINITIONS

The following definitions of chargeable and non-chargeable expenses are based on MSEA's interpretation of existing law:

- **Chargeable Expenses** - Chargeable expenses are those incurred by MSEA that are germane to its function as the exclusive bargaining agent of the employees working in the bargaining units it represents. These include costs associated with collective bargaining, contract administration, governance, legislative work aimed at funding unit jobs or benefits, or organizing units for employees where such activities will have an impact on the bargaining rights or leverage of unit employees. These expenditures may be properly charged to objecting non-members as a pro-rata share of the full dues rate. Objecting non-members may be required to pay a percentage of the applicable full dues rate that is equal to the ratio of chargeable expenditures to total expenditures for the prior year.
MAINE STATE EMPLOYEES ASSOCIATION
Notes to Statement of Expenses and Allocation
Between Chargeable Expenses and
Non-chargeable Expenses, Continued

DEFINITIONS, CONTINUED

- **Non-chargeable Expenses** - Non-chargeable expenses are those expenses incurred by MSEA which are not considered germane to the Union’s function as the exclusive bargaining agent. These include such expenditures as benefits that accrue only to Union members, electoral or legislative costs incurred in work that is not germane to the Union’s function as exclusive bargaining agent, or organizing employees into the Union where such work will not affect existing unit members. These expenditures are generally not included in the pro-rata costs charged to objecting non-members.

FUNCTIONAL DEPARTMENTS OF THE MAINE STATE EMPLOYEES ASSOCIATION

MSEA tracks all personnel activities and expenditures through cost centers or functional departments. These cost centers reflect the activities and expenditures of MSEA in providing services to employees of the State of Maine or other employers with which MSEA has, or is seeking to establish, a collective bargaining relationship.

**Representational Services** - Representational services include expenditures involved in negotiating, administering, and enforcing collective bargaining contracts, settling grievances either through arbitration or legal proceedings, and dealing with a variety of issues affecting both members and non-members of the Union within the scope of the Union’s role as exclusive bargaining agent. These expenditures are generally fully chargeable.

**Political and Lobbying Activities** - Expenditures relating to legislative efforts to fund contracts or unit positions, or which are otherwise related to job security, compensation, benefits or rights of the unit employees, are considered chargeable. Expenditures on other legislative or political matters, including any expenditures related to electoral work or member political education, are considered non-chargeable.

**Organizing** - Organizing expenditures include costs associated with organizing new bargaining units, as well as organizing new members in existing bargaining units. These costs are considered chargeable where the work has a demonstrable impact on the bargaining leverage, labor market density, or the terms and conditions of employment, of existing bargaining unit members. Otherwise, these activities are treated as non-chargeable.

**Affiliation** - Affiliation is the cost center that tracks all per capita tax and subsidy payments to such affiliated labor organizations as the national Service Employees International Union and regional Labor Councils of the Maine AFL-CIO. All AFL-CIO affiliation costs are treated as non-chargeable. Per capita taxes and assessments paid to the national SEIU are allocated based on the "Audit Consolidated Statements of Expenses and Allocation between Chargeable and Non-chargeable Expenses" issued by that organization, dated for the year ended December 31, 2014.

**Membership Services** - Membership services include expenditures for benefits that accrue to members only, and except for publications and media relations discussed later in these footnotes, are non-chargeable.
MAINE STATE EMPLOYEES ASSOCIATION
Notes to Statement of Expenses and Allocation
Between Chargeable Expenses and
Non-chargeable Expenses, Continued

FUNCTIONAL DEPARTMENTS OF THE MAINE STATE EMPLOYEES ASSOCIATION, CONTINUED

Finance and Administration - This cost center tracks the general operating costs of the MSEA and includes such items as rent, office supplies and expenses, printing, postage, telephone, insurance, and other similar types of expenses. Costs charged to finance and administration are allocated based on a calculation of the ratio of total chargeable expenditures to the total expenditures in all other cost centers, excluding affiliation.

Governance - Governance includes all expenses for service to local chapters, attending meetings or conventions of the MSEA or affiliated organizations, and the expenses related to the MSEA’s Board of Directors. Costs allocated to governance are generally treated as fully chargeable.

OTHER SIGNIFICANT FACTORS AND ASSUMPTIONS USED IN THE ALLOCATION OF EXPENSES BETWEEN CHARGEABLE AND NON-CHARGEABLE

Personnel Costs - Personnel costs consist of salaries and wages, fringe benefits, payroll taxes, and reimbursed employee expenses. With the exception of certain promotional costs paid to staff, personnel costs are considered to be fully chargeable for the following cost centers: agency fee, grievance arbitration, legal services, negotiation, steward program, and field representatives. Personnel costs are considered to be fully non-chargeable for the following cost centers: membership benefits, organizing, politics, and legislative activity not related to contract funding. Personnel costs for finance and administration or governance are allocated as chargeable and non-chargeable in the same way as other finance and administration and governance expenditures (see above). Personnel costs are assigned to cost centers based on reporting by individual employees as to the hours or percentage of time they spend on work associated with those cost centers.

Professional Fees and Expenses - Professional fees and expenses are considered to be chargeable or non-chargeable based on the services performed, except that accounting and auditing fees and expenses (which are considered fully chargeable) are allocated as chargeable and non-chargeable in the same way as other finance and administration expenditures (see above).

Contributions - Contributions for charitable, civic, and community organizations or events, and which are not germane to the Union's representational functions are considered to be fully non-chargeable.

Conferences and Meetings - Expenses for conferences and meetings are allocated between chargeable expenses and non-chargeable expenses based on the purposes of and topics discussed at the meetings. Items of a political or legislative nature are considered to be non-chargeable, except for lobbying related to contract funding. For example, educational training programs and conferences for local, state, and national staff, which are to enhance skills in collective bargaining, grievance handling, and contract administration, are considered fully chargeable since they pertain to matters which are germane to collective bargaining. Expenses associated with the annual meeting (convention) and meetings of MSEA’s Executive Board are considered fully chargeable.

Publications and Media Relations - Direct printing and publishing expenses of publications are allocated based on the specific content of articles in the publications. Expenses allocable to articles considered to be political or ideological in nature are considered to be non-chargeable. Expenses allocable to reporting on legislative and lobbying activities not germane to representational activities, and articles relating to enhancing the reputation of MSEA as a whole are considered to be non-chargeable. Articles related to such issues as collective bargaining, contract administration, and grievance matters are deemed chargeable.
OTHER SIGNIFICANT FACTORS AND ASSUMPTIONS USED IN THE ALLOCATION OF EXPENSES BETWEEN CHARGEABLE AND NON-CHARGEABLE, CONTINUED

Promotional Expenses - Promotional expenses are incurred for the purpose of promoting the reputation of MSEA. These items are treated as fully non-chargeable.

Special Projects - Special projects are considered to be chargeable or non-chargeable based on an analysis of the nature of the special project conducted.

Non-Allocable Expenses - Certain expenses associated with affiliated organizations such as the Northern New England Council and Income Protection Plan and Trust are not considered allocable and are excluded from the allocation between chargeable and non-chargeable expenses.
Service Employees International Union, CTW, CLC

Consolidated Statement of Expenses and Allocation Between Chargeable Expenses and Nonchargeable Expenses Series 2

For the Year Ended December 31, 2014
# SERVICE EMPLOYEES INTERNATIONAL UNION, CTW, CLC
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# FOR THE YEAR ENDED DECEMBER 31, 2014

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REPORT OF INDEPENDENT AUDITORS

To the Executive Board
Service Employees International Union, CTW,
   CLC

Report on the Financial Statement

We have audited the accompanying consolidated statement of expenses and allocation between chargeable expenses and nonchargeable expenses series 2 of Service Employees International Union, CTW, CLC for the year ended December 31, 2014, and the related notes to the statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this statement in accordance with the significant accounting policies presented in Note 1 to the statement, the definitions presented in Note 2 to the statement and the significant factors and assumptions described in Note 3 to the statement; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the 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 the audit to obtain reasonable assurance about whether the statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.
REPORT OF INDEPENDENT AUDITORS

Opinion

In our opinion, the consolidated statement of expenses and allocation between chargeable expenses and nonchargeable expenses series 2 presents fairly, in all material respects, the expenses of Service Employees International Union, CTW, CLC for the year ended December 31, 2014 and the allocation of those expenses between chargeable expenses and nonchargeable expenses on the basis of the definitions in Note 2 to the statement and the significant factors and assumptions described in Note 3 to the statement.

Basis of Accounting

We draw attention to the notes in the statement, which describe the basis of presentation. The total operating expenses reflected in the total expenses column in the statement agree to the expenses reflected in the audited consolidated financial statements of Service Employees International Union, CTW, CLC (the International Union) for the year ended December 31, 2014. Notes 2 and 3 to the statement describe the definitions of chargeable expenses and nonchargeable expenses and the significant factors and assumptions used in the allocation of expenses between chargeable and nonchargeable, which are used for the purpose of determining the fair share cost of services rendered by the International Union chargeable to agency fee payers. Our opinion is not modified with respect to that matter.

Other Matter

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Service Employees International Union, CTW, CLC as of and for the year ended December 31, 2014, and our report thereon dated April 28, 2014 expressed an unmodified opinion on those financial statements.

Restriction on Use

This report is intended solely for the information and use of the Executive Boards and management of the Service Employees International Union, CTW, CLC, and its Local Unions and their agency fee payers, and is not intended to be and should not be used by anyone other than these specified parties.

Brad Beba
A Professional Corporation
Bethesda, MD
August 19, 2015
## Service Employees International Union, CTW, CLC
### Consolidated Statement of Expenses and Allocation Between Chargeable Expenses and Nonchargeable Expenses Series 2
#### For the Year Ended December 31, 2014

<table>
<thead>
<tr>
<th>Operating Expenses</th>
<th>Total Expenses</th>
<th>Chargeable Expenses</th>
<th>Non-Chargeable Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>$55,102,961</td>
<td>$30,774,881</td>
<td>$24,328,080</td>
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<tr>
<td>Benefits</td>
<td>24,762,674</td>
<td>14,065,674</td>
<td>10,709,000</td>
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<tr>
<td>Employee expenses</td>
<td>13,990,571</td>
<td>6,965,087</td>
<td>7,026,474</td>
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<tr>
<td>Professional fees</td>
<td>28,698,536</td>
<td>14,421,988</td>
<td>14,476,548</td>
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<tr>
<td>Non-employee generated expenses</td>
<td>4,734,391</td>
<td>1,813,322</td>
<td>2,921,069</td>
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<tr>
<td>Rent, utilities and building maintenance</td>
<td>3,966,444</td>
<td>3,794,881</td>
<td>71,563</td>
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<tr>
<td>Administrative expenses</td>
<td>15,188,726</td>
<td>13,740,602</td>
<td>1,448,124</td>
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<td>Contributions</td>
<td>27,674,342</td>
<td>767,179</td>
<td>26,907,163</td>
</tr>
<tr>
<td>Subsidies, payments and withdrawals</td>
<td>65,418,987</td>
<td>23,691,583</td>
<td>41,727,404</td>
</tr>
<tr>
<td>Other Union expenses</td>
<td>36,512,069</td>
<td>8,561,806</td>
<td>27,950,263</td>
</tr>
<tr>
<td><strong>Total Operating Expenses</strong></td>
<td><strong>278,149,701</strong></td>
<td><strong>118,556,013</strong></td>
<td><strong>159,564,688</strong></td>
</tr>
</tbody>
</table>

Less
- Canadian expenses paid directly from Canadian per-capita taxes $(8,593,381) $(8,593,381) -
- Political expenses paid from voluntary contributions $(24,899,962) $(24,899,962)

**$242,556,358** **$109,891,632** **$132,664,726**

**Percentage**
- 100.000 %
- 45.306 %
- 54.694 %
SERVICE EMPLOYEES INTERNATIONAL UNION, CTW, CLC
NOTES TO CONSOLIDATED STATEMENT OF EXPENSES AND ALLOCATION BETWEEN
CHARGEABLE EXPENSES AND NONCHARGEABLE EXPENSES SERIES 2
FOR THE YEAR ENDED DECEMBER 31, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting
The consolidated statement of expenses and allocation between chargeable expenses and nonchargeable expenses series 2 has been prepared on the accrual basis of accounting.

Basis of Presentation
The consolidated statement of expenses and allocation between chargeable expenses and nonchargeable expenses series 2 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) chargeable to agency fee payers. 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.

Principle of Consolidation
The accompanying consolidated statement of expenses and allocation between chargeable expenses and nonchargeable expenses series 2 includes the accounts of the United States Division, the Canadian Division, Political Education and Action Fund (PEA International), the Committee on Political Education (COPE) and 1800 Massachusetts Avenue Corporation, a not-for-profit corporation formed to be a title-holding corporation for the International Union's existing headquarters building. All significant intercompany balances and transactions have been eliminated in consolidation.

Accounting Estimates
The preparation of this financial statement requires management to make estimates and assumptions that affect the reported amounts of expenses during the reported period. Actual results could differ from those estimates.

Subsequent Events
In preparing this statement, management of the International Union has evaluated events and transactions that occurred after December 31, 2014 for potential recognition or disclosure in the statement. These events and transactions were evaluated through August 19, 2015, the date that the statement was available to be issued.

NOTE 2: DEFINITIONS

Chargeable Expenses
Chargeable expenses 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 employers 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
- Maintenance of the International Union's and local unions' existence.
NOTE 2: DEFINITIONS - continued

The following are examples of expenses 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
- Providing legal, economic and technical expertise on behalf of employees in all work-related matters
- Organizing employees of employers in competitive markets where SEIU already represents employers in the same market

Nonchargeable 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.

The following are examples of expenses classified as nonchargeable:

- 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 the collective bargaining process
- Political activity expenses which include support at the Federal, state, or local level
- Contributions to political and charitable organization, for community service activities, or for organizing in new markets.
- Per capita tax fees paid to a labor organization
- Organizing employees of units of government, and employees of employers in markets where SEIU does not already represent employees
- Cost of benefits that are not available to non-members
NOTE 3: SIGNIFICANT FACTORS AND ASSUMPTIONS RELATING TO THE ALLOCATION OF EXPENSES BETWEEN CHARGEABLE EXPENSES AND NONCHARGEABLE EXPENSES SERIES 2

Significant factors and assumptions underlying the allocation of expenses between chargeable and nonchargeable amounts are summarized as follows:

Personnel expenses are allocated to chargeable and nonchargeable based on the allocation of personnel costs as determined through a time study. The following are considered personnel expenses:

- Salaries
- Benefits
- Employee expenses

Non-personnel expenses are allocated to chargeable and nonchargeable based on the nature of the expense as determined when the expense is incurred. The following are considered non-personnel expenses:

- Professional fees
- Non-employee generated expenses
- Rent, utilities and building maintenance
- Administrative expenses
- Contributions
- Subsidies, payments and withdrawals
- Other Union expenses

SEIU Canada - Expenses incurred by the SEIU Canadian Division are considered to be fully chargeable. Canadian expenses paid directly from Canadian per capita taxes are deducted from total expenses and total chargeable expenses.
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