

MUNICIPAL ATTORNEYS ASSOCIATION OF SAN FRANCISCO

AUDITED FINANCIAL STATEMENTS
(with supplemental information)

YEARS ENDED JUNE 30, 2003 AND 2002

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INDEPENDENT AUDITORS' REPORT


To the Board of Directors of
Municipal Attorneys Association of San Francisco
San Francisco, California

We have audited the accompanying statements of financial position of the Municipal Attorneys Association of San Francisco as of June 30, 2003 and 2002, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 the Association's 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 the Municipal Attorneys Association of San Francisco as of June 30, 2003 and 2002, and the results of its activities and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedules of chargeable and nonchargeable expenses are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


San Francisco, California
August 8, 2003

MUNICIPAL ATTORNEYS ASSOCIATION OF SAN FRANCISCO

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2003 AND 2002

	2003 UNRESTRICTED	2002 UNRESTRICTED
REVENUE		
Member dues	\$ 197,856	\$ 151,752
Nonmember agency fees	8,943	11,402
Interest	1,012	514
Miscellaneous	-	686
 Total Revenue	 <u>207,811</u>	 <u>164,354</u>
 EXPENSES		
Accounting fees	30,424	12,569
Arbitration fees	-	9,675
Depreciation	1,694	985
Directors insurance	2,214	1,881
Expert fees	7,400	-
Legal fees	112,867	96,805
Meetings and travel	4,097	3,035
Office	2,456	1,147
Printing	-	2,503
Union promotion	5,000	5,000
 Total Expenses	 <u>166,152</u>	 <u>133,600</u>
 Increase In Net Assets	 41,659	 30,754
 Net Assets, beginning of year	 179,172	 148,418
 Net Assets, end of year	 <u>\$ 220,831</u>	 <u>\$ 179,172</u>

The accompanying notes are an integral part of these financial statements.

MUNICIPAL ATTORNEYS ASSOCIATION OF SAN FRANCISCO

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2003 AND 2002

ASSETS

	2003	2002
CURRENT ASSETS		
Cash	\$ 216,661	\$ 168,919
Member dues receivable	11,457	15,425
Nonmember agency fees receivable	524	1,095
Prepaid directors insurance	578	481
	<u>229,220</u>	<u>185,920</u>
Total Current Assets		
Office equipment	7,460	7,460
Less accumulated depreciation	4,921	3,227
	<u>2,539</u>	<u>4,233</u>
Net Office Equipment		
Total Assets	<u>\$ 231,759</u>	<u>\$ 190,153</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accrued expenses	<u>10,928</u>	<u>10,981</u>
Total Liabilities	<u>10,928</u>	<u>10,981</u>
NET ASSETS		
Unrestricted	220,831	179,172
Temporarily restricted	-	-
Permanently restricted	-	-
	<u>220,831</u>	<u>179,172</u>
Total Net Assets		
Total Liabilities And Net Assets	<u>\$ 231,759</u>	<u>\$ 190,153</u>

The accompanying notes are an integral part of these financial statements.

MUNICIPAL ATTORNEYS ASSOCIATION OF SAN FRANCISCO

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2003 AND 2002

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 41,659	\$ 30,754
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,694	985
(Increase)decrease in current assets:		
Member dues receivable	3,968	(7,492)
Nonmember agency fees receivable	571	(506)
Prepaid expenses	(97)	(44)
Increase(decrease) in current liabilities:		
Accrued expenses	(53)	(70,324)
Net Cash Provided(Used) by Operating Activities	<u>47,742</u>	<u>(46,627)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of office equipment	-	(3,149)
Net Cash Used by Investing Activities	<u>-</u>	<u>(3,149)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
	<u>-</u>	<u>-</u>
Net Increase(Decrease) in Cash and Cash Equivalents	47,742	(49,776)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	168,919	218,695
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>216,661</u>	<u>\$ 168,919</u>
SUPPLEMENTAL DISCLOSURES		
Interest paid	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

MUNICIPAL ATTORNEYS ASSOCIATION OF SAN FRANCISCO

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003 AND 2002

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The operations of the Municipal Attorneys Association of San Francisco ("Association") consist primarily of labor union activities on behalf of over 400 members and nonmembers employed by the City and County of San Francisco, within the meaning of Section 23701a of the California Revenue and Taxation Code. These activities include the negotiation and administration of collective bargaining agreements. The Association's main source of revenue is member dues and nonmember agency fees.

Non-Profit Organization Status

The Association is organized as a tax-exempt non-profit organization under Internal Revenue Code Section 501 (c) (5). Accordingly, the Association is not subject to federal and California income taxes. It is subject to certain filing fees levied by the State of California.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Net Assets

Unrestricted net assets represent unrestricted resources available to support the Association's operations.

Temporarily restricted net assets represent contributions that are limited in use by the Association in accordance with temporary donor imposed stipulations. These stipulations may expire with time or may be satisfied and removed by the actions of the Association according to the terms of the contribution. Additionally, net assets that are to be refunded to members or nonmembers (fair share fee payers) or that are being challenged or in dispute by nonmember fair share fee payers, are considered as temporarily restricted.

MUNICIPAL ATTORNEYS ASSOCIATION OF SAN FRANCISCO

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003 AND 2002

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
(CONTINUED)

Based on the Supreme Court of the United States decision, *Teachers vs. Hudson*, fair share fee payers may challenge the amount of fees they are required to pay. Disputed nonmember fair share fees are required to be segregated (temporarily restricted) pending the resolution of this challenge. At June 30, 2003 and 2002, the Association had no temporarily restricted net assets.

As indicated in Note 5, the Association paid two political contributions in the amount of \$5,000 each, which represented 3% and 3.74% of the Association's total expenses for the fiscal years ended June 30, 2003 and 2002 respectively. Since the political contribution made for the fiscal year ended June 30, 2003 was considered a chargeable expense, fair share fee payers have the right to object to their fees paid in connection with this expense, within 30 days from the date the Association issues its "Hudson Notice" for the fiscal year ended June 30, 2003. The amount the fair share fee payers can object to is calculated based on their total fees paid for the calendar year ended December 31, 2003, multiplied by the ratio of the Association's political contribution expense to total expenses for the fiscal year ended June 30, 2003 (3%). Any applicable fees objected by fair share fee payers will be refunded at the time such objection is filed. The political contribution made for the fiscal year ended June 30, 2002 was considered a non-chargeable expense. The Association, without going through the normal objection procedure, agreed to refund to fair share fee payers an amount equal to their total fees paid for the calendar year ended December 31, 2002, multiplied by the ratio of the Association's political contribution expense to total expenses for the fiscal year ended June 30, 2002 (3.74%).

Fair share fee payers also have the right to object, within 30 days from the date the Association issues its "Hudson Notice," to expenditures that the Association considers to be deemed chargeable. Any applicable fees disputed by fair share fee payers for expenses that are deemed to be chargeable expenses will become temporarily restricted at the time such dispute begins and throughout the objection period. In the event that a fair share fee payer perfects his or her objection, the disputed fees, including appropriate interest, will be paid and will

MUNICIPAL ATTORNEYS ASSOCIATION OF SAN FRANCISCO

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003 AND 2002

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
(CONTINUED)

reduce the balance in the temporarily restricted net asset account. Any disputed fees that are not perfected by a fair share fee payer will become unrestricted and, therefore, will be transferred to the unrestricted net asset account.

Permanently restricted net assets represent contributions to be held as investments in perpetuity as directed by the original donor. The income from these contributions is primarily available to support activities of the Association as directed by the donors. At June 30, 2003 and 2002, the Association had no permanently restricted net assets.

Office Equipment

Office Equipment is capitalized at cost, and the Association follows the practice of capitalizing all expenditures for office equipment in excess of \$300. Depreciation is computed using the double declining method, which is a tax basis depreciation method, over the estimated useful lives of the assets.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Donated Services

No amounts have been reflected in the statements for donated services since no objective basis is available to measure the value of such services. Nevertheless, the Association is operated entirely by volunteers who donate significant amount of their time in the Association's program services.

MUNICIPAL ATTORNEYS ASSOCIATION OF SAN FRANCISCO

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003 AND 2002

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
(CONTINUED)**

Cash

At June 30, 2003 and 2002, and at various times throughout the fiscal years ended June 30, 2003 and 2002, the Association maintained bank balances in excess of federally insured limits.

NOTE 2 - MEMBER DUES COLLECTION PROCEDURE

The collective bargaining agreements provide for the collection of member dues by withholding 0.5% of each member's gross wages directly from each member's paycheck (by payroll deduction). The dues withheld are remitted directly to the Association on a biweekly basis.

NOTE 3 - NONMEMBER AGENCY FEES COLLECTION PROCEDURE

The collective bargaining agreements provide for the collection of nonmember agency fees by withholding 0.475% of each nonmember's gross wages directly from each nonmember's paycheck (by payroll deduction). The agency fees withheld are remitted directly to the Association on a biweekly basis.

NOTE 4 - CHARGEABLE AND NONCHARGEABLE EXPENSES

The Association is required to provide nonmembers with an audited financial statement that identifies the major categories of expenses, classified as chargeable and nonchargeable expenses. The nonmember agency fee is, in part, determined by the proportionate share of member dues that represent certain chargeable expenses incurred in collective bargaining and administrative activities. Nonchargeable expenses are those involving expenditures unrelated to the allowed activities.

MUNICIPAL ATTORNEYS ASSOCIATION OF SAN FRANCISCO

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003 AND 2002

NOTE 4 - CHARGEABLE AND NONCHARGEABLE EXPENSES -
(CONTINUED)

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

Expenses associated with the following activities are fully chargeable:

1. Gathering information in preparation for the negotiation of collective bargaining agreements, including all expenses incurred in the preparation for contract negotiation. These expenses include, but are not limited to, research, surveys, employee education expenses, and expenses incurred in formulating goals, drafting proposals, development of supporting data, and conducting meetings in anticipation of negotiations.
2. Negotiating collective bargaining agreements, including actual negotiation of contracts and all related activities. In addition, economic, collective, and solidarity activities in support of contract negotiations and labor-management disputes are chargeable.
3. Administration of ballot procedures on the ratification of negotiated agreements.
4. Public advertising of the Association's positions on the negotiation, ratification, or implementation of collective bargaining agreements.
5. Grievances adjustment and arbitration pursuant to the provisions of collective bargaining agreements. These expenses include, but are not limited to, handling employees' questions and complaints about working conditions and benefits, attendance at stewards' meetings and all grievance committee work, meetings and discussions with employer and/or Local Association representatives relevant to contract meaning or grievances, facts investigation and development of data bases in support of grievance adjustment or arbitration, including all related research, technical assistance and staff support, and all involvement in arbitration proceedings, including preparation, representation, and post-arbitration efforts to secure compliance, and all associated costs.

MUNICIPAL ATTORNEYS ASSOCIATION OF SAN FRANCISCO

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003 AND 2002

NOTE 4 - CHARGEABLE AND NONCHARGEABLE EXPENSES -
(CONTINUED)

6. Unit membership services and other activities related to collective bargaining and representational duties. These expenses include but are not limited to, social activities, benefits the Association makes available to all represented members, solidarity building efforts directed primarily towards represented members, including conferences, educational programs, and the production and distribution of related materials concerning representational matters, all communications of the Association's policy and bargaining positions to represented members regarding representational issues, all assistance and information provided to represented members concerning employment related and community and governmental services to which they are entitled with respect to their employment in the bargaining unit.
7. Purchasing publications used in negotiation and administering collective bargaining agreements.
8. Training and education expenses regarding representational matters, including all educational, training-program, and conference expenses (including preparation and support work) related to representational activities.
9. Lobbying activities that are limited solely to contract ratification and implementation.
10. All activities to elicit outside support as to bargaining or representational matters if they directly concern the Association's bargaining or other representational matters germane to the collective bargaining process, or are designed to elicit support for the Association's collective bargaining positions or other representational matters.
11. All activities designed to strengthen and preserve established bargaining unit rights and support, including all activities related to increasing or preserving the support of the Association's represented members as to bargaining and representational

MUNICIPAL ATTORNEYS ASSOCIATION OF SAN FRANCISCO

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003 AND 2002

NOTE 4 - CHARGEABLE AND NONCHARGEABLE EXPENSES -
(CONTINUED)

matters as well as activities designed to preserve or expand the jurisdiction of established bargaining units whereby member work opportunity or job security is protected or improved, excluding activities related to converting agency fee and nonunion bargaining unit members to membership.

12. All activities related to administrative and legal proceedings that concern bargaining, representational matters, and contract disputes that could otherwise be subject to arbitration, such as responding to legal discovery requests, preparation for and attendance at hearings, consultation with legal counsel, and all meetings and correspondence regarding such proceedings.

Expenses associated with the following activities are not chargeable:

1. Training in voter registration, get-out-the-vote, and political campaign techniques unless they are related to the negotiation, ratification, or implementation of a collective bargaining agreement.
2. Lobbying expenses and expenses for supporting and contributing to charitable organizations, political organizations, candidates for public office and initiative measures, ideological causes, and international affairs unless they are related to the negotiation, ratification, or implementation of a collective bargaining agreement.
3. All of the Association's organizing expenses. However, it is the legal position of the Association that all organizing activities may lawfully be chargeable to agency fee payers, especially where organizing efforts have the direct effect of securing and improving the wages, benefits, and working conditions of established bargaining unit members.
4. Any activity designed to acquire new members or obtain new representation rights. However, activities designed to increase or preserve the support of members already represented by the Association, as described in category 11 above, are chargeable.

MUNICIPAL ATTORNEYS ASSOCIATION OF SAN FRANCISCO

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003 AND 2002

NOTE 4 - CHARGEABLE AND NONCHARGEABLE EXPENSES -
(CONTINUED)

5. Public advertising and relations activities, such as media events, meetings, conferences, lectures, speeches, etc., primarily directed to persons not represented by the Association, or to outside organizations where those activities are unrelated to furthering the Association's particular bargaining or contract disputes.
6. All education, training programs, and conferences (including preparation and support work) regarding predominantly nonrepresentational matters.
7. All litigation-related activities if the litigation relates to nonrepresentational matters or relates to a bargaining unit other than that of the particular objector.
8. Activities and meetings with labor councils and other unions regarding matters not directly related to furthering the Association's particular bargaining or contract disputes.

Other Expenses:

1. Union literature expenses are only chargeable if they are related to matters concerning chargeable activities.
2. Direct and indirect overhead expenses are allocated based on the time spent by such personnel on chargeable and non-chargeable activities respectively. These expenses include, but are not limited to, insurance, automobile, office equipment, telephone, postage, and other office expenses.
3. Legal, accounting, and other professional fees are allocated based on the time spent by such professionals on chargeable and non-chargeable activities respectively (i.e., professional fees paid on representational and nonrepresentational matters).
4. Per capita payments by the Association are allocated as chargeable and non-chargeable in accordance with its audited report.

MUNICIPAL ATTORNEYS ASSOCIATION OF SAN FRANCISCO

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003 AND 2002

NOTE 4 - CHARGEABLE AND NONCHARGEABLE EXPENSES -
(CONTINUED)

5. All payments and dues or contributions to other unions, labor councils and non-labor groups are designated as 100% non-chargeable.

NOTE 5 - ALLOCATION OF EXPENSES BETWEEN CHARGEABLE AND
NONCHARGEABLE

Administration (Overhead expenses) - All of the Association's expenses, other than accounting, legal, arbitration, expert fees, and union promotion expenses, for the fiscal years ended June 30, 2003 and 2002 were considered administrative expenses. These expenses were considered entirely chargeable because they were all related to chargeable activities.

Accounting, Legal, Arbitration, and Expert Fees - All of these expenses incurred by the Association for the fiscal years ended June 30, 2003 and 2002 were in connection with chargeable activities and, therefore, were all chargeable expenses.

Union Promotion - The union promotion expenses consisted of two political contributions made on February 4, 2003 and December 19, 2001 to the California Prosecutor's Association for \$5,000 each. Both contributions were made to increase retirement benefits for the Association's members and nonmembers.

The political contribution made on December 19, 2001 was considered a non-chargeable expenditure, as it would normally be considered according to the definitions of chargeable and non-chargeable expenses indicated in Note 4. However, the political contribution made on February 4, 2003 was considered a chargeable expenditure based on the benefit the Association's members and nonmembers derived from it. The political contribution was made in support of legislation which passed. As a direct result, public defenders, district attorneys, and those in county counsels and city attorney offices now have the opportunity to become participants of the Public Employee Retirement System (PERS).

SUPPLEMENTAL INFORMATION

MUNICIPAL ATTORNEYS ASSOCIATION OF SAN FRANCISCO
 SCHEDULES OF CHARGEABLE AND NONCHARGEABLE EXPENSES

YEARS ENDED JUNE 30, 2003 AND 2002

EXPENSES	2003		2002	
	TOTAL CHARGEABLE EXPENSES	NON-CHARGEABLE EXPENSES	TOTAL CHARGEABLE EXPENSES	NON-CHARGEABLE EXPENSES
Accounting fees	\$ 30,424	\$ -	12,569	\$ 12,569
Arbitration fees	-	-	9,675	9,675
Depreciation	1,694	1,694	985	985
Directors insurance	2,214	2,214	1,881	1,881
Expert fees	7,400	7,400	96,805	96,805
Legal fees	112,867	112,867	3,035	3,035
Meetings and travel	4,097	4,097	-	-
Office expenses	2,456	2,456	1,147	1,147
Printing	-	-	2,503	2,503
Union promotion	5,000	5,000	-	-
Total Expenses	\$ 166,152	\$ -	\$ 133,600	\$ 128,600
	100%	100%	100%	96.26%
				3.74%

The accompanying notes are an integral part of these financial statements.