PUBLIC EMPLOYEES FEDERATION
MEMBERSHIP BENEFITS PROGRAM

FINANCIAL STATEMENTS

MAY 31, 2018 AND 2017

PUBLIC EMPLOYEES FEDERATION
MEMBERSHIP BENEFITS PROGRAM

FINANCIAL STATEMENTS WITH SUPPLEMENTAL INFORMATION

MAY 31, 2018 AND 2017

CONTENTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the
Public Employees Federation Membership Benefits Program

Report on the Financial Statements

I have audited the accompanying financial statements of the Public Employees Federation Membership Benefits Program (the Program), which comprise the statements of net assets available for benefits and benefit obligations as of May 31, 2018 and 2017, and the related statements of changes in net assets available for benefits and benefit obligations for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

The Program's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Program's preparation and fair presentation of the financial statements 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 Program's internal control. Accordingly, I 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 financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Program as of May 31, 2018 and 2017, and the changes in its financial status for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplemental Information

My audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules of Administrative Expenses, together referred to as "supplemental information," are presented for the purpose of additional analysis and are not a required part of the financial statements. Such information is the responsibility of the Program's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

De Carlo

April 5, 2019
Brooklyn, New York

Public Employees Federation
Membership Benefits Program

Statements of Net Assets Available for Benefits
and Benefit Obligations

May 31, 2018 and 2017

	2018	2017
Net Assets Available for Benefits		
Assets		
Investments - at fair value		
Common stock	$ 8,883,426	$ 9,209,205
United States Government and Government Agency obligations	7,136,105	7,017,947
Corporate obligations	2,148,022	2,410,237
Limited partnership	1,946,115	1,760,705
Cash - interest bearing	1,273,399	1,630,732
Short-term investment fund	418,470	526,267
Total investments	21,805,537	22,555,093
Receivables		
Participant contributions	782,497	790,275
Accounts receivable	96,042	130,569
Accrued dividends and interest	55,028	58,656
Security deposit	14,315	14,315
Total receivables	947,882	993,815
Cash - non-interest bearing	509,742	318,838
Inventory	696,501	676,591
Property assets - net	270,149	194,106
Equity interest in PEF Travel, Corp.	114,137	115,643
Prepaid expenses	60,850	117,628
Total assets	24,404,798	24,971,714

See accompanying notes to financial statements.

	2018	2017
Liabilities		
Accounts payable	$ 784,595	$ 734,824
Due to PEF	513,205	976,092
Deferred revenue	376,511	364,788
Due to vendor for PEF Retirees dental program	205,141	139,442
Sick benefits payable	119,815	117,213
Vacation benefits payable	114,328	104,596
Inventory held on consignment	80,885	77,206
Due to PEF Travel, Corp.	32,222	41,289
Due to NYS Retirees PEF	8,966	1,491
Total liabilities	2,235,668	2,556,941
Net assets available for benefits	22,169,130	22,414,773
Benefit Obligations		
Insurance premiums payable	5,078,427	5,349,516
Estimated waiver of premium benefits	699,000	818,000
Benefits payable	92,276	73,128
ATAC claims incurred but not reported	21,500	12,000
HEIP reimbursement incurred but not reported	-	600
Total benefit obligations	5,891,203	6,253,244
Excess of Net Assets Available for Benefits over Benefit Obligations	$ 16,277,927	$ 16,161,529

See accompanying notes to financial statements.

Public Employees Federation
Membership Benefits Program

Statements of Changes in Net Assets Available for Benefits
and Benefit Obligations

Years Ended May 31, 2018 and 2017

	2018	2017
Net Change in Net Assets Available for Benefits		
Additions		
Investment income		
Dividends and interest	$ 401,770	$ 402,039
Unrealized appreciation (depreciation) in fair value of investments	(73,563)	681,829
Realized gain (loss) on sales of investments	1,025,981	661,898
Limited partnership income	62,923	81,585
Equity in earnings of PEF Travel, Corp.	(1,506)	27,431
	1,415,605	1,854,782
Less investment expenses	(114,159)	(114,188)
Investment income - net	1,301,446	1,740,594
Participant contributions	23,656,608	24,017,597
Credit card rebates	45,307	37,118
Gain (loss) on sale of property assets	(7,156)	-
Other income	586	317
Total additions	24,996,791	25,795,626
Deductions		
Cost of benefits		
Group life and disability insurance premiums paid	20,100,797	19,541,331
Ticket subsidies	720,082	849,247
Justice Center/legal defense benefit	216,101	231,053
PEF Travel, Corp.	187,200	162,000
Financial planning consultant	154,879	154,213
Exam fee reimbursement	144,565	51,745
Accidental death and dismemberment premiums paid	127,903	138,791
Funding for Director of Retiree Program	116,145	127,346
Legal service plan	99,898	100,253
Assault, Trauma, and Captivity claims	55,000	35,000
Driver safety training	13,448	14,154
HEIP tuition and book reimbursement	1,200	1,785
Health and Safety conference	-	34,253
Administrative expenses - net	3,305,216	3,353,240
Total deductions	25,242,434	24,794,411
Net increase (decrease) in net assets available for benefits	(245,643)	1,001,215

See accompanying notes to financial statements.

	2018	2017
NET CHANGE IN BENEFIT OBLIGATIONS		
(INCREASE) DECREASE DURING THE YEAR ATTRIBUTABLE TO		
Insurance premiums payable	$ 271,089	$ (635,169)
Estimated waiver of premium benefits	119,000	51,000
Benefits payable	(19,148)	33,656
ATAC claims incurred but not reported	(9,500)	(1,000)
HEIP reimbursement incurred but not reported	600	585
NET (INCREASE) DECREASE IN BENEFIT OBLIGATIONS	362,041	(550,928)
NET ASSETS AVAILABLE FOR BENEFITS OVER BENEFIT OBLIGATIONS		
NET INCREASE (DECREASE)	116,398	450,287
EXCESS		
Beginning of year	16,161,529	15,711,242
End of year	$ 16,277,927	$ 16,161,529

See accompanying notes to financial statements.

NOTE 1. DESCRIPTION OF PROGRAM

The following description of the Public Employees Federation Membership Benefits Program (the Program) provides only general information. Members should refer to the various benefit booklets available from the Program for more complete information on Program benefits.

The Program was established by the New York State Public Employees Federation, AFL-CIO (PEF) under the terms of an Agreement and Declaration of Trust. The Program provides members of PEF who voluntarily choose to participate, with a variety of benefits including group life and disability insurance, and Assault, Trauma and Captivity insurance. The Program is funded entirely by contributions from participating members and investment income.

NOTE 2. SUMMARY OF ACCOUNTING POLICIES

The Program has also issued consolidating financial statements with its wholly owned subsidiary, PEF Travel, Corp. Such consolidating financial statements are the general purpose financial statements of the Program.

Method of Accounting – The accompanying financial statements are prepared using the accrual basis of accounting.

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 certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Investment Valuation and Income Recognition – Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation includes the Program's gains and losses on investments bought and sold as well as held during the year.

NOTE 2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Property Assets – Property assets are stated at cost, net of accumulated depreciation. Such assets are capitalized based upon consideration of the asset's acquisition cost and nature. Depreciation is computed to amortize the cost of the assets over their estimated useful life on a straight-line basis, as follows.

	Years
Equipment	3
Furniture and fixtures	5
Leasehold improvements	5
Automobile	5
Telephone	7

Vacation and Sick Benefits Payable – The Program recognizes a liability to its employees for unused earned vacation time based upon their current rate of pay. Unused earned sick time may be used by Program employees to purchase health insurance upon their retirement if certain eligibility criteria are satisfied. The value of unused earned sick time for employees who have yet to meet the eligibility criteria for retirement amounted to approximately $180,220 and $165,700 as of May 31, 2018 and 2017, respectively.

Estimated Waiver of Premium Benefits – The Program self-insures the waiver of group term life insurance premium for certain members who become disabled. The benefit obligation represents management's estimate of the present value of premiums due during the expected period of disability for such members.

Assault, Trauma and Captivity Insurance – The Program self-insures the assault, trauma and captivity insurance benefit subject to certain specified limits per incident, with an annual maximum liability to the Program of $300,000 per calendar year.

Higher Education Incentive Program (HEIP) – The Program provides a tuition reimbursement and book allowance to PEF members that meet certain criteria. HEIP claims incurred but not reported represent an estimate of claims paid subsequent to May 31, 2018 and applicable to school terms occurring during the fiscal year.

Subsequent Events – The Program has evaluated subsequent events through February 8, 2019, the date the financial statements were available to be issued.

NOTE 3. PRIORITIES UPON TERMINATION

In the event of termination, the Program's Trustees shall apply the money and property of the Program to pay or provide for the payment of any and all of its obligations. Any remaining surplus shall be distributed in a manner that best effectuates the purposes of the Program. No part of the corpus or income of the Program may be used for purposes other than for the exclusive benefit of the members, or for the administrative expenses of the Program.

NOTE 4. TAX STATUS

The Internal Revenue Service has advised the Program, in a letter dated June 19, 1992, that the Program is exempt from federal income taxes under the provisions of Section 501(c)(5) of the Internal Revenue Code.

NOTE 5. FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Program has the ability to access.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from, or corroborated by, observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at May 31, 2018 and 2017.

Common stock – Valued at the closing price reported on the active market on which the individual securities are traded.

Cash – interest bearing and Short-term investment funds – Valued at cost, which approximates fair value.

United States Government and Government Agency obligations – Valued using pricing models maximizing the use of observable inputs for similar securities.

NOTE 5. FAIR VALUE MEASUREMENTS (CONTINUED)

Corporate obligations – Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks or a broker quote if available.

Limited partnership – Valued at appraised value net of an outstanding mortgage on the underlying real property.

The following table sets forth by level, within the fair value hierarchy, the Program's assets at fair value as of May 31, 2018 and 2017.

	2018	2017
Level 1		
Common stock	$ 8,883,426	$ 9,209,205
Cash – interest bearing	1,273,399	1,630,732
Short-term investments funds	418,470	526,267
	10,575,295	11,366,204
Level 2		
United States Government and Government Agency obligations	7,136,105	7,017,947
Corporate obligations	2,148,022	2,410,237
	9,284,127	9,428,184
Level 3		
Limited partnership	1,946,115	1,760,705
Total	$ 21,805,537	$ 22,555,093

The following table sets forth a summary of changes in the fair value of the Program's level 3 assets for the year ended May 31, 2018.

	2018
Limited partnership:	
Balance, beginning of year	$ 1,760,705
Purchases	-
Sales	-
Partnership income	62,923
Distributions	-
Unrealized gains (losses) relating to assets still held at the reporting date	122,487
Balance, end of year	$ 1,946,115

Note 5. Fair Value Measurements (continued)

The amount of total gains or losses for the year included in changes in net assets attributable to the change in unrealized gains or losses relating to assets still held at the reporting date totaled $122,487. Gains and losses, both realized and unrealized, included in changes in net assets for the year above are reported in net appreciation (depreciation) in fair value of investments in the statement of changes in net assets available for benefits.

Limited Partnership – In October 1993, the Program invested $450,000 as a 50 percent limited partner in a limited partnership with the British American Development Corporation, which is the general partner. The purpose of the limited partnership is to acquire, develop, improve, lease, operate and hold certain real property located in Colonie, New York. The property, which now consists of approximately 5.16 acres of land and one office building, was appraised at a value of $6,370,000 in June 2018 and $6,190,000 in June 2017.

Note 6. Risks and Uncertainties

The Program invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of net assets available for benefits.

Note 7. Equity Interest in PEF Travel, Corp.

The Program is the sole shareholder of the PEF Travel, Corp. (the Corporation), which was acquired to provide additional benefits to members of PEF in the form of travel arrangement assistance and discounts. The Program accounts for its interest in the Corporation under the equity method. Summary financial information for the Corporation is as follows:

	May 31, 2018	May 31, 2017
Total assets	$ 151,657	$ 149,199
Total liabilities	(37,520)	(33,556)
Total stockholders' equity (accumulated deficit)	$ 114,137	$ 115,643

NOTE 7. EQUITY INTEREST IN PEF TRAVEL, CORP. (CONTINUED)

	Years Ended May 31,	
	2018	2017
Revenue	$ 419,646	$ 442,410
Expenses	(421,152)	(414,979)
Net income (loss)	$ (1,506)	$ 27,431

NOTE 8. PROPERTY AND EQUIPMENT

Property and equipment, at cost, consist of the following:

	May 31,	
	2018	2017
Computer equipment	$ 744,963	$ 1,050,188
Furniture, fixtures, and equipment	149,584	443,452
Leasehold improvements	43,207	118,060
Automobile	37,850	34,829
	975,604	1,646,529
Less accumulated depreciation and amortization	(705,455)	(1,452,423)
Property and equipment - net	$ 270,149	$ 194,106

Depreciation expense totaled $117,960 for 2018 and $138,452 for 2017.

NOTE 9. RELATED PARTY TRANSACTIONS

The Program operates collectively with PEF. Certain administrative expenses, such as payroll, payroll taxes, employee benefits, and service fees for shared employees, are paid for by PEF and are then either charged directly to the Program or are allocated to the Program based upon estimates made by management. Such administrative expenses totaled approximately $2,916,700 in 2018 and $3,171,400 in 2017. The Program also reimbursed PEF for purchases made on its behalf totaling approximately $3,475,250 in 2018 and $4,745,500 in 2017.

The Program is party to a fee for service arrangement with the Corporation. Under such arrangement the Corporation provides travel services to the Program for a negotiated fee, which totaled $187,200 in 2018 and $162,000 in 2017. The Corporation is dependent upon such fee revenue in order to continue as a going concern.

NOTE 9. RELATED PARTY TRANSACTIONS (CONTINUED)

The Program provided administrative support to the Corporation in the form of bookkeeping and management services. The Program charged the Corporation $19,680 in 2018 and $18,360 in 2017 for such services.

The Program assists the New York State Retirees Public Employees Federation, AFL-CIO (the PEF Retirees) in the administration of its dental and vision benefit programs. The Program receives a vendor reimbursement from the dental and vision providers, which it shares with the PEF Retirees. The PEF Retirees' portion of the vendor reimbursement totaled approximately $80,175 in 2018 and $80,425 in 2017 for dental and $18,780 in 2018 and $16,100 in 2017 for vision. The Program also paid the PEF Retirees approximately $1,890 in 2018 and $1,100 in 2017 to make presentations at Retirees' Chapter meetings.

NOTE 10. LEASE COMMITMENTS

The Program rented 1,560 square feet of office space from PEF under a non-cancelable operating lease that began on October 1, 2013 and was scheduled to expire on September 30, 2018 at the monthly rate of $1,560. Such lease required the payment of utility charges totaling $3,750 for the first year of the lease, and 5 percent of actual utility charges thereafter. There were no provisions for a security deposit or for the payment of escalation charges. The lease also contained an automatic five year renewal provision under the same terms and conditions. The Program and PEF agreed to terminate the lease effective November 30, 2017 without penalty.

The Program rents 2,906 square feet of office space from an unrelated party under an operating lease that is cancellable upon notice after 36 months, which ended on October 31, 2016, at the monthly rate of $4,298. Such lease was extended for the period beginning November 1, 2016 and ending October 31, 2021 at the monthly rate of $4,335. The lease contains provisions for a security deposit in the amount of $4,298 and for the payment of annual escalation charges for the increase in various operating expenses over the amount of operating expenses incurred during the base year of the lease, which is 2012, the lease's first year. Minimum future rentals are as follows:

2019	$ 52,020
2020	52,020
2021	21,675
Total	$ 125,715

NOTE 10. LEASE COMMITMENTS (CONTINUED)

The Program rents 7,780 square feet of office space from an unrelated party under a non-cancelable operating lease beginning November 1, 2017 and ending October 31, 2022, at the monthly rate of $10,017. The lease contains provisions for a security deposit in the amount of $10,017 and for the payment of annual escalation charges for the increase in various operating expenses over the amount of operating expenses incurred during the base year of the lease, which is 2017, the lease's first year. The lease requires the payment of actual electricity charges and pro-rata natural gas charges. Minimum future rentals are as follows:

2019	$	120,200
2020		120,200
2021		121,560
2022		122,540
2023		51,060
Total	$	535,560

Rent expense under these leases, excluding utility charges, amounted to $116,362 in 2018 and $71,846 in 2017.

NOTE 11. PENSION PLANS

Employees of the Program participate in the SEIU Affiliates Officers and Employees Pension Plan (EIN 52-0182348), a multiemployer defined benefit pension plan. The Plan's Pension Protection Act "zone status" for 2017 and 2016 was "green." The Program made contributions to the Plan on behalf of its employees at the rate of 20 percent of salary effective January 1, 2015, which increased to 21 percent on January 1, 2018. Contributions totaled $231,915 in 2018 and $262,498 in 2017, neither of which represents more than 5 percent of total contributions received by the Plan.

Employees of the Program participate in a defined contribution pension plan. The Program makes contributions to the Plan on behalf of its employees at the rate of either 5 percent or 3 percent of salary, depending upon the classification of the employee. Contributions totaled $45,419 in 2018 and $44,011 in 2017.

SUPPLEMENTAL INFORMATION

Public Employees Federation
Membership Benefits Program

Schedules of Administrative Expenses

Years Ended May 31, 2018 and 2017

	2018	2017
Payroll	$ 1,314,535	$ 1,350,044
Employee benefits - other	615,795	491,946
Management Information Systems services	356,004	356,004
Employee benefits - pension	277,334	306,509
Rent and occupancy	132,069	86,595
Promotional	129,517	134,775
Depreciation and amortization	117,960	138,452
Credit card processing fees	112,910	120,105
Payroll taxes	98,675	105,230
Conferences and conventions	78,787	34,265
Legal fees	75,600	75,000
Postage	63,457	75,921
Accounting and Human Resources services	60,714	60,714
Printing	59,611	79,950
Mailroom services	56,808	56,808
Actuarial and benefits consulting fees	50,000	50,000
Equipment repairs and maintenance	46,148	31,305
Telecommunications	37,389	40,928
Insurance	32,688	30,332
Meetings	29,880	11,469
Office supplies and expenses	29,847	20,626
Travel	29,068	28,229
Unrelated business income tax	26,366	18,441
Information technology	17,236	35,889
Provision for vacation benefits	9,732	(3,989)
Accounting fees	7,000	14,000
Provision for sick benefits	2,602	117,064
Appraisal fees	1,500	1,500
Advertising	1,382	34,904
	3,870,614	3,903,016
Less vendor reimbursements	(565,398)	(549,776)
Total administrative expenses - net	$ 3,305,216	$ 3,353,240