

July 12, 2010

**TO:** ALL AFT/CFT LOCAL PRESIDENTS AND TREASURERS

**FROM:** Dennis Smith, Secretary Treasurer  
California Federation of Teachers, AFT, AFL-CIO

**RE:** **Agency Fee (Fair Share) Audits for 2009**

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Our concern with the U.S. Supreme Court decision in the Hudson case has resulted in extensive consultation with attorneys and auditors on this issue of the portion of the agency fee (fair share fee) that is chargeable and the amount that is non-chargeable (rebateable) to the agency fee payer.

The American Federation of Teachers agency fee audit for fiscal year ending April 30, 2010 is not yet available. The agency fee audit for fiscal year ending April 30, 2009 is available online at: [http://www.aft.org/pdfs/financial/AgencyFee09\\_CA.pdf](http://www.aft.org/pdfs/financial/AgencyFee09_CA.pdf)  
The chargeable percentage for the AFT per capita from that document is 54.83% and the non-chargeable percentage is 45.17%.

The California Federation of Teachers report of the Independent Auditor from the firm, Miller, Kaplan, Arase & Co., LLP for these percentages is attached for the year ending December 2009. Based on the chargeable and nonchargeable expenses for the year, we calculated the chargeable percentage for the CFT per capita for 2010-2011 year to be as follows:

The CFT estimated chargeable expenses are 83.08%.

The CFT estimated nonchargeable expenses are 16.92%.

The nonchargeable percentage is derived by dividing the expenses that are nonchargeable by the total expenses incurred.

The CFT audit report must be combined with your local and the National AFT reports and should be provided to agency fee payers at least 30 days prior to the collection of the first agency fee of the school year 2010-2011.

If you have any questions about your current implementation of agency fee, please contact this office at 916-446-2788.

**CALIFORNIA FEDERATION OF TEACHERS**

**STATEMENT OF ALLOCATED CHARGEABLE AND NONCHARGEABLE EXPENSES**

**FOR THE YEAR ENDED DECEMBER 31, 2009**

MANNON KAPLAN, CPA  
GEORGE NADEL RIVIN, CPA  
EDWIN KANEMARU, CPA  
KENNETH R. HOLMER, CPA  
DOUGLAS S. WAITE, CPA  
CHARLES SCHNAID, CPA  
DONALD G. GARRETT, CPA  
CATHERINE C. GARDNER, CPA  
JEFFREY L. GOSS, CPA  
RICHARD DEFONZO, JD  
JOANNA BOLSKY, CPA  
RONALD D. CHANDLER, CPA  
MICHAEL G. KAPLAN, CPA  
MICHAEL J. QUACKENBUSH, CPA  
EDMOND AVANESS, CPA  
CRANE CURRAN, CPA  
BRIAN J. HARRIS, CPA  
GREGORY E. KLEIN, CPA  
FRED WOLINSKY, CPA  
LINDA BECKER, MBA  
ANDREW B. KOSKI, MBA

STANLEY L. MILLER, CPA (1921-1995)  
PAUL ARASE, CPA (RETIRED)



Miller, Kaplan, Arase & Co., LLP  
CERTIFIED PUBLIC ACCOUNTANTS

SINCE 1941

4123 LANKERSHIM BOULEVARD  
NORTH HOLLYWOOD, CALIFORNIA 91602-2828

(818) 769-2010

FAX (818) 769-3100

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## Independent Auditors' Report

Executive Council  
California Federation of Teachers  
2550 North Hollywood Way, Suite 400  
Burbank, California 91505-1061

Members of the Council:

We have audited the accompanying statement of allocated chargeable and nonchargeable expenses of the California Federation of Teachers (the "CFT") for the year ended December 31, 2009. This statement is the responsibility of the CFT's management. 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 of allocated chargeable and nonchargeable expenses is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of allocated chargeable and nonchargeable expenses. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Based upon the significant factors and assumptions described in Note 3, the accompanying statement of allocated chargeable and nonchargeable expenses was prepared for the purpose of determining the percentage of chargeable and nonchargeable expenses used in calculating nonmembers' fair share fees. This statement is not intended to be a complete presentation of the CFT's expenses. The total expenses reported in this statement were derived from the CFT's financial statements for the year ended December 31, 2009. We audited and expressed an unqualified opinion on those financial statements; our report was dated July 2, 2010.

In our opinion, based on our audit, the statement of allocated chargeable and nonchargeable expenses referred to above presents fairly, in all material respects, the chargeable and nonchargeable expenses of California Federation of Teachers for the year ended December 31, 2009, based on the significant factors and assumptions described in Note 3.

This report is intended solely for the information and use of the CFT's management and parties to any future arbitration related to the CFT and should not be used for any other purpose.

*Miller, Kaplan, Arase & Co., LLP*  
MILLER, KAPLAN, ARASE & CO., LLP

July 2, 2010

**CALIFORNIA FEDERATION OF TEACHERS**  
**STATEMENT OF ALLOCATED CHARGEABLE AND NONCHARGEABLE EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Total Expenses</u>	<u>Chargeable Expenses</u>	<u>Nonchargeable Expenses</u>
<b><u>DIRECT EXPENSES</u></b>			
Personnel Expenses:			
Management	\$ 622,448	\$ 549,109	\$ 73,339
F.R.U.	3,050,499	2,520,452	530,047
O.P.E.I.U.	1,290,847	1,153,590	137,257
Other Personnel-Related Expenses	488,916	423,945	64,971
Travel and Lodging	263,873	193,576	70,297
Mileage Reimbursement	102,399	87,490	14,909
OPEIU Travel Reimbursement	3,773	3,285	488
Financial Assistance to Locals	8,181,675	8,181,675	-
Departments:			
Communications and Publications	263,081	132,709	130,372
Governmental Relations	68,252	15,872	52,380
Information Technology	29,280	29,280	-
Leadership Development and Training	96,611	84,694	11,917
Research	8,500	8,500	-
Organizing	30,727	-	30,727
Councils:			
Community College Council	160,397	115,013	45,384
Council of Classified Employees	98,266	80,782	17,484
EC/K-12 Council	167,345	133,955	33,390
Governance	195,389	170,717	24,672
Committees and Task Forces	9,165	7,065	2,100
Professional Services	137,638	129,335	8,303
Miscellaneous	123,279	28,363	94,916
Raoul Teillet Scholarship Fund Expenses	139,199	-	139,199
Legal Defense Fund Expenses	109,575	109,575	-
Western States Insurance Trust Expenses	13,582	-	13,582
Dues Collection Fund Expenses	60	60	-
Proposition and Ballot Initiatives			
COPE Committee Expenses	1,143,286	-	1,143,286
COPE Candidate Committee Expenses	244,740	-	244,740
Militancy Fund Expenses	40	40	-
<b>TOTAL DIRECT EXPENSES</b>	<b>\$ 17,042,842</b>	<b>\$ 14,159,082</b>	<b>\$ 2,883,760</b>
<b><u>INDIRECT EXPENSES</u></b>			
Building Occupancy	\$ 568,540	\$ 472,340	\$ 96,200
Building Repairs and Maintenance	6,049	5,025	1,024
Furniture and Equipment - Acquisition	105,147	87,355	17,792
Furniture and Equipment - Repairs and Maintenance	20,911	17,373	3,538
Office Supplies	49,564	41,177	8,387
Postage and Shipping	32,746	27,205	5,541
Printing	22,934	19,053	3,881
Subscriptions	17,197	14,287	2,910
Telecommunications	71,344	59,272	12,072
Amortization and Depreciation	17,736	14,735	3,001
Bank Charges	2,344	1,947	397
Property Insurance	14,784	12,282	2,502
Property Taxes	1,796	1,492	304
Uncollectible Per Capita Expense	12,175	10,115	2,060
Storage of Benefits Supplies	2,551	2,119	432
CFT Archives/Storage	2,753	2,287	466
Pension Benefits - Management/F.R.U.	333,662	277,204	56,458
Postretirement Medical Benefits - Management/F.R.U.	60,461	50,231	10,230
O.P.E.I.U. - Postretirement Medical Benefits	1,282,206	1,065,249	216,957
Retiree Benefits	56,860	47,239	9,621
<b>TOTAL INDIRECT EXPENSES</b>	<b>\$ 2,681,760</b>	<b>\$ 2,227,987</b>	<b>\$ 453,773</b>
<b>TOTAL EXPENSES</b>	<b>\$ 19,724,602</b>	<b>\$ 16,387,069</b>	<b>\$ 3,337,533</b>
<b>PERCENTAGES</b>	<b>100.00%</b>	<b>83.08%</b>	<b>16.92%</b>

(Attached notes are an integral part of this statement)

CALIFORNIA FEDERATION OF TEACHERS  
NOTES TO STATEMENT OF ALLOCATED CHARGEABLE AND NONCHARGEABLE EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Expenses

The statement of allocated chargeable and nonchargeable expenses has been prepared on the accrual basis; consequently, certain expenses have been recognized when the obligation is incurred rather than when paid.

B. Accounting Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported expenses during the reporting period and the allocation of expenses between chargeable and nonchargeable. Accordingly, actual results may differ from those estimates.

C. Tax-Exempt Status

The CFT is a non-profit organization that is exempt from Federal and state taxes on income under provisions of Section 501(c)(5) of the Internal Revenue Code and California Revenue and Taxation Code 23701a, other than taxes on unrelated business income.

The COPE Candidate Committee is subject to taxation under Internal Revenue Code Section 527 and the State of California Revenue and Taxation Code Section 23701r on investment income in excess of \$100.

D. Pensions

The CFT incurs expenses related to four pension plans. Benefits under the CFT's 401(k) Plan are based on the required contributions made to the Plan. Pension costs for the CFT's defined benefit plan are determined by actuarial valuation. The CFT makes contributions to two Offices and Professional Employees International Union (OPEIU) pension plans for the office and clerical staff, one for its Northern California employees and one for its Southern California employees. These Plans may have liabilities for unfunded vested benefits at December 31, 2009 requiring assessment of withdrawal liability from contributing employers who withdraw from the Plans. The management of the CFT has expressed no intent to withdraw from these Plans and the withdrawal liability, if any, to the CFT has not been computed. The pension costs for the defined benefit pension plan, which covers the CFT's field employees, are determined by actuarial valuation.

E. Postretirement Medical Benefits - Management/F.R.U.

Effective May 1, 2002, the CFT established the transition obligation related to its post-retirement health benefits. The obligation is amortized on a straight-line basis over 20 years. Annual benefit expense for the plan includes service costs, interest and amortization of the transition obligation.

F. O.P.E.I.U. Postretirement Medical Benefits

Effective January 1, 2009, the CFT established the transition obligation related to its O.P.E.I.U. postretirement health benefits. The obligation is amortized on a straight-line basis over 20 years. Annual benefit expense for the Plan includes service costs, interest and amortization of the transition obligation.

CALIFORNIA FEDERATION OF TEACHERS  
NOTES TO STATEMENT OF ALLOCATED CHARGEABLE AND NONCHARGEABLE EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Office Furniture and Equipment

Office furniture and equipment are stated at cost. Depreciation is determined for related groups of assets under the straight-line method, based upon their estimated useful lives, which range from 3 to 5 years. Minor renewals or replacements, and maintenance and repairs are expensed. Major replacements and improvements are capitalized.

H. Compensated Absences

The CFT accrues accumulated vacation expense as it is earned by its employees under the various contracts and agreements. Accumulated sick leave of over 20 days is payable to clerical employees at 50% of their regular pay rate.

NOTE 2 - FAIR SHARE/AGENCY FEES

A. Background

In 1986, the United States Supreme Court issued a decision in Chicago Teachers Union vs. Hudson regarding certain procedures that must be followed by labor organizations that collect fair share fees from nonmembers under a collective bargaining agreement with a public employer. In its decision, the United States Supreme Court reaffirmed the constitutionality of such fair share fee agreements, originally upheld in Abood vs. Detroit Board of Education. In other cases, Ellis vs. Railway Clerks and Lehnert vs. Ferris Faculty Association, the United States Supreme Court held that certain union expenditures could be charged to fair share fee payers, but that certain others could not be charged.

B. Definitions

Expenses as to the following activities are totally chargeable:

1. Operation and governing of the CFT, including CFT elections.
2. Preparation for, negotiation and administration of collective bargaining agreements.
3. Ratification of collective bargaining agreements.
4. Grievances and arbitrations.
5. Purchasing books, periodicals and reports relating to chargeable activities.
6. Using technicians and professionals in labor law, economics and other subjects for services used in connection with chargeable activities.
7. Publishing those portions of newspapers and newsletters which concern matters for which a union can charge a fair share fee payer, and/or concerning teaching and education generally, professional development, unemployment, job opportunities, award programs and other miscellaneous matters analogous to chargeable de minimis social activity.
8. Mediation, strikes, slow-down and work stoppages as to representation and collective bargaining.

CALIFORNIA FEDERATION OF TEACHERS  
NOTES TO STATEMENT OF ALLOCATED CHARGEABLE AND NONCHARGEABLE EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 2 - FAIR SHARE/AGENCY FEES (Continued)

B. Definitions (Continued)

9. The prosecution or defense of litigation as to interpretation or enforcement of collective bargaining agreements or collective bargaining or representational rights.
10. Social and recreational activities open to both members and fair share fee payers.
11. Payments for insurance, medical care, retirement, disability and death-related benefits for persons paid for services in carrying out the representational interest of collective bargaining and contract administration.
12. Operating and administrative costs of the CFT on such as rent, utilities, automobiles, salaries, etc.

Expenses as to the following activities are not chargeable:

1. Voter registration, get-out-the-vote and political campaigns.
2. Supporting and contributing to charitable or ideological organizations.
3. Supporting and contributing to political organizations and candidates for public office.
4. Supporting and contributing to ideological causes and committees, including ballot measures.
5. Supporting and contributing to activities as to foreign affairs.
6. Members-only benefits.
7. Litigation not related to bargaining unit matters, collective bargaining or representation.
8. Organizing; recruitment of members.
9. Lobbying - federal, state and local.

NOTE 3 - SIGNIFICANT FACTORS AND ASSUMPTIONS USED IN THE ALLOCATION OF EXPENSES BETWEEN CHARGEABLE AND NONCHARGEABLE

All expenses were segregated into two classes: direct expenses and indirect expenses. Direct expenses consisted of those expenses for which a clear, measurable relationship to representational activities could be identified. All other expenses were classified as indirect expenses. Management believed that the representational character of indirect expenses was related to direct expenses and, accordingly, that it was appropriate to allocate indirect expenses in proportion to the aggregate allocation percentage derived for the direct expenses. Significant factors and assumptions used in the allocation of the direct expenses are discussed below.

A. Personnel Expenses

Management, representation and support staff who performed the CFT's activities prepared weekly activity reports, which documented the time spent on various representational and nonrepresentational activities. These activity reports were the basis for allocating their salaries and benefits commensurate to the proportion of time spent performing representational work.

CALIFORNIA FEDERATION OF TEACHERS  
NOTES TO STATEMENT OF ALLOCATED CHARGEABLE AND NONCHARGEABLE EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 3 - SIGNIFICANT FACTORS AND ASSUMPTIONS USED IN THE ALLOCATION OF EXPENSES  
BETWEEN CHARGEABLE AND NONCHARGEABLE (Continued)

A. Personnel Expenses (Continued)

The salaries and benefits of support employees were allocated on the basis of a weighted average of the proportion of time spent working with the individuals described above. Certain other employees' salaries were allocated on the basis of the character of the job performed.

B. Other Personnel-Related Expenses

These expenses were allocated in proportion to the ratio of aggregate chargeable direct salaries and benefits derived pursuant to the methodology described in Note 3(A) above to total direct salaries and benefits.

C. Travel and Lodging

These expenses were analyzed in order to identify the nature of the activities for which the CFT incurred them and allocated accordingly.

D. Mileage Reimbursement

These expenses were allocated in proportion to the time spent by management and representation staff on various representational and nonrepresentational activities as documented in their weekly activity reports.

E. OPEIU Travel Reimbursement

These expenses were analyzed in order to identify the nature of the activities for which the CFT incurred them and allocated accordingly.

F. Financial Assistance to Locals

Local staff funding programs are required by the CFT's constitution. This financial assistance is provided to local unions for the purpose of employing professional staff at the local level to assist with representational activities and is therefore 100% chargeable.

G. Communications and Publications

These expenses were analyzed in order to identify the nature of the activities for which the CFT incurred them and allocated accordingly.

One of the three publications that the CFT produces, which is distributed to both members and fair share fee payers, is included under this category. As a result, the issues of this publication were analyzed and the costs allocated in proportion to the relative space devoted to representational and nonrepresentational matters.

Also, promotional items and public and community relations were allocated as nonchargeable.

H. Governmental Relations

These expenses were analyzed in order to identify the nature of the activities for which the CFT incurred them and allocated accordingly.

Legislative subscriptions and other legislative-related expenses were allocated as nonchargeable.

CALIFORNIA FEDERATION OF TEACHERS  
NOTES TO STATEMENT OF ALLOCATED CHARGEABLE AND NONCHARGEABLE EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 3 - SIGNIFICANT FACTORS AND ASSUMPTIONS USED IN THE ALLOCATION OF EXPENSES  
BETWEEN CHARGEABLE AND NONCHARGEABLE (Continued)

I. Informational Technology

Professional staff that performed the CFT's informational technology activities prepared weekly activity reports, which documented the time spent on various representational and nonrepresentational activities. These activity reports were the basis for allocating their salaries and salary-related expenses commensurate to the proportion of time spent performing representational work. The salaries of support employees were allocated on the basis of a weighted average of the proportion of time spent working with the individuals previously described.

Other related expenses were analyzed to identify the work that was performed in conjunction with chargeable and nonchargeable activities

J. Leadership Development and Training

These expenses were analyzed in order to identify the nature of the activities for which the CFT incurred them and allocated accordingly.

K. Research

These expenses were analyzed in order to identify the nature of the activities for which the CFT incurred them and allocated accordingly.

L. Organizing

Organizing expenses were allocated as nonchargeable.

M. Community College Council

These expenses were analyzed in order to identify the nature of the activities for which the CFT incurred them and allocated accordingly.

Two of the three publications that the CFT produces, which are distributed to both members and fair share fee payers, are included under this category. As a result, the issues of these publications were analyzed and the costs allocated in proportion to the relative space devoted to representational and nonrepresentational matters.

N. Council of Classified Employees

These expenses were analyzed in order to identify the nature of the activities for which the CFT incurred them and allocated accordingly.

O. EC/K-12 Council

These expenses were analyzed in order to identify the nature of the activities for which the CFT incurred them and allocated accordingly.

P. Governance

These expenses were analyzed to identify the work that was performed in conjunction with chargeable and nonchargeable activities.

CALIFORNIA FEDERATION OF TEACHERS  
NOTES TO STATEMENT OF ALLOCATED CHARGEABLE AND NONCHARGEABLE EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 3 - SIGNIFICANT FACTORS AND ASSUMPTIONS USED IN THE ALLOCATION OF EXPENSES  
BETWEEN CHARGEABLE AND NONCHARGEABLE (Continued)

Q. Committees and Task Forces

These expenses were analyzed in order to identify the nature of the activities for which the CFT incurred them and allocated accordingly.

R. Professional Services

These expenses were analyzed to identify the work that was performed in conjunction with chargeable and nonchargeable activities.

S. Miscellaneous

These expenses were analyzed in order to identify the nature of the activities for which the CFT incurred them and allocated accordingly.

T. Raoul Teilhet Scholarship Fund Expenses

These expenses were for scholarships and related expenses to assist some well deserving high school students with funds that will benefit them in pursuing their college education and were allocated as nonchargeable.

U. Legal Defense Fund Expenses

The CFT's Legal Defense Fund is available to members and fair share fee payers and grants assistance to locals to help protect the rights of teachers, career service personnel and other educational workers, as well as state and local employees. This Fund is administered through a Board of Directors comprised of seven members of the CFT's Executive Council. Direct Legal Defense Fund expenses were allocated as chargeable.

V. Western States Insurance Trust Expenses

These expenses are related to royalties received from various insurance companies for members' participation in various insurance programs and were allocated as nonchargeable.

W. Dues Collection Fund Expenses

The CFT collects dues on behalf of various small affiliated local unions who do not have a mechanism in place to collect union dues. This cost is necessary to enable the CFT to collect per capita taxes from these affiliated local unions and is therefore chargeable.

X. Proposition and Ballot Initiatives COPE Committee Expenses

These expenses are to support state and local ballot initiatives, which the CFT believes further the goals of education and students and are generally nonchargeable.

CALIFORNIA FEDERATION OF TEACHERS  
NOTES TO STATEMENT OF ALLOCATED CHARGEABLE AND NONCHARGEABLE EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 3 - SIGNIFICANT FACTORS AND ASSUMPTIONS USED IN THE ALLOCATION OF EXPENSES  
BETWEEN CHARGEABLE AND NONCHARGEABLE (Continued)

Y. COPE Candidate Committee Expenses

These expenses are to support state and local candidates running for public office who further the goals of the CFT and its membership and are therefore nonchargeable.

Z. Militancy Fund Expenses

These expenses are to help and defend members and fair share fee payers who have been targeted for retaliation by employers as a result of their CFT Union activities and other similar purposes as determined by the executive council and are chargeable.

NOTE 4 - ADJUSTMENT TO EXPENSES

The following adjustment has been made to the total expenses originally reported on the CFT's financial statements as of December 31, 2009:

Total Expenses Per Financial Statements	\$ 20,378,358
Less: Agency Fee Rebates (A)	(97,549)
Administrative Expense Reimbursements and Sale of CFT Pocket Calendars (B)	(564,540)
Add: Local Grant Payable Write-Off (C)	<u>8,333</u>
<u>Total Adjusted Expenses</u>	<u>\$ 19,724,602</u>

- (A) For purposes of this statement, total expenses were reduced by the amount of agency fee rebates the CFT paid to its fair share fee payers.
- (B) For purposes of this statement, total expenses were reduced by the total reimbursed costs for administrative and other services provided by the CFT to various related entities. In addition, cash disbursements for the purchase of CFT pocket calendars were offset by the proceeds from sales. Pocket calendars are considered nonchargeable.
- (C) For purposes of this statement, total expenses were increased by the total Local grant payable write-off the CFT incurred during the year.