

CALIFORNIA FEDERATION OF TEACHERS

STATEMENT OF ALLOCATED CHARGEABLE AND NONCHARGEABLE EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2022



INDEPENDENT AUDITOR'S REPORT

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

Members of the Council:

Opinion

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, 2022, and the related notes.

In our opinion, the statement of allocated chargeable and nonchargeable expenses referred to above presents fairly, in all material respects, the chargeable and nonchargeable expenses of the CFT for the year ended December 31, 2022, based on the significant factors and assumptions described in Note 3.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Information section of our report. We are required to be independent of the CFT and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Information

Management is responsible for the preparation and fair presentation of the statement of allocated chargeable and nonchargeable expenses based on the significant factors and assumptions described in Note 3, and for 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.

In preparing the statement, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the CFT's ability to continue as a going concern within one year after the date that the statement is available to be issued.

Auditor's Responsibilities for the Audit of the Financial Information

Our objectives are to obtain reasonable assurance about whether the statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve

collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the statement.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the statement.
- Obtain an understanding of internal control relevant to the audit 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 CFT's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the statement.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the CFT's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on the Audit of the Financial Statements

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 financial core fees. This statement is not intended to be a complete presentation of the CFT's expenses. The expenses reported in this statement were derived from the CFT's financial statements for the year ended December 31, 2022. We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the CFT as of and for the year ended December 31, 2022, and our report thereon dated August 8, 2023 expressed an unmodified opinion on those financial statements.



MILLER KAPLAN ARASE LLP

North Hollywood, California

August 30, 2023

CALIFORNIA FEDERATION OF TEACHERS
STATEMENT OF ALLOCATED CHARGEABLE AND NONCHARGEABLE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022

	Note	Total Expenses	Chargeable Expenses	Nonchargeable Expenses
DIRECT EXPENSES				
Personnel Expenses:	3-A			
Management		\$ 1,111,809	\$ 1,084,263	\$ 27,546
F.R.U.		3,568,478	3,198,757	369,721
O.P.E.I.U.		1,411,557	1,235,286	176,271
Other Personnel-Related Expenses	3-B	13,300,069	12,175,986	1,124,083
Travel and Lodging	3-C	130,163	114,981	15,182
Mileage Reimbursement	3-D	57,550	55,966	1,584
O.P.E.I.U. Travel Reimbursement	3-E	1,163	1,160	3
Financial Assistance to Locals	3-F	8,189,424	8,189,424	-
Departments:				
Communications and Publications	3-G	75,077	34,142	40,935
Governmental Relations	3-H	8,616	-	8,616
Information Technology	3-I	8,385	8,385	-
Leadership Development and Training	3-J	157,282	124,727	32,555
Research	3-K	8,500	8,500	-
Councils:				
Community College Council	3-L	99,480	1,812	97,668
Council of Classified Employees	3-M	212,918	58,870	154,048
EC/K-12 Council	3-N	208,448	-	208,448
Retiree Council	3-O	1,959	-	1,959
Governance	3-P	428,746	277,486	151,260
Committees and Task Forces	3-Q	13,181	6,901	6,280
Professional Services	3-R	276,583	253,473	23,110
Miscellaneous	3-S	137,289	5,428	131,861
Raoul Teillet Scholarship Fund Expenses	3-T	94,000	-	94,000
Legal Defense Fund Expenses	3-U	182,423	182,423	-
Proposition and Ballot Initiatives				
COPE Committee Expenses	3-V	1,311,612	-	1,311,612
COPE Candidate Committee Expenses	3-W	1,883,724	-	1,883,724
Militancy Fund Expenses	3-X	193	193	-
Strategic Organizing Fund Expenses	3-Y	319,611	-	319,611
TOTAL DIRECT EXPENSES		33,198,240	27,018,163	6,180,077
INDIRECT EXPENSES				
Building Occupancy		733,454	596,916	136,538
Building Repairs and Maintenance		3,239	2,636	603
Furniture and Equipment Acquisition		65,587	53,378	12,209
Furniture and Equipment Repairs and Maintenance		1,221	994	227
Office Supplies		30,595	24,900	5,695
Postage and Shipping		18,562	15,107	3,455
Printing		5,198	4,230	968
Subscriptions		3,072	2,500	572
Telecommunications		132,725	108,017	24,708
Depreciation		23,307	18,968	4,339
Bank Charges		2,063	1,679	384
Payroll Processing Fees		7,439	6,054	1,385
Property Insurance		9,782	7,961	1,821
Property Taxes		976	794	182
Storage of Benefits Supplies		3,806	3,097	709
Supplies and Shipping		2,712	2,207	505
CFT Archives/Storage		2,359	1,920	439
CFT Website		10,283	8,369	1,914
Professional Services		1,575	1,282	293
Retiree Benefits		140,504	114,348	26,156
Special Project (Rebranding)		38,289	31,161	7,128
Building Corporation Fund Expenses		56,615	46,076	10,539
TOTAL INDIRECT EXPENSES		1,293,363	1,052,594	240,769
TOTAL EXPENSES		\$ 34,491,603	\$ 28,070,757	\$ 6,420,846
PERCENTAGES		100.00%	81.38%	18.62%

(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, 2022

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

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the CFT and recognize a tax liability if the CFT has taken a tax position that more likely than not would not be sustained upon examination by a tax authority. The CFT is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

No provision for federal or state income tax is made. The CFT and the Legal Defense Fund have received tax-exempt status from the federal government under Internal Revenue Code Section 501(c)(5) and the state of California under Revenue and Taxation Code Section 23701a.

The General, Scholarship, Dues Collections, Proposition and Ballot Initiatives COPE Committee, Militancy and Strategic Organizing Funds share the same federal and state employer identification numbers and are included in the same returns.

The Western States Insurance Trust is a taxable complex trust.

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.

The Disaster Relief Fund has received tax-exempt status from the federal government under Internal Revenue Code Section 501(c)(3) and the state of California under Revenue and Taxation Code Section 23701d.

D. Pensions

The CFT incurs expenses related to five pension plans. Benefits under the CFT's 401(k) Plans are based on the required contributions made to the Plans. The pension costs for the CFT's two defined benefit plans are determined by actuarial valuation. The CFT makes contributions to two Office and Professional Employees 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, 2022 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.

CALIFORNIA FEDERATION OF TEACHERS
NOTES TO STATEMENT OF ALLOCATED CHARGEABLE AND NONCHARGEABLE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Effective May 1, 2002, the CFT established the transition obligation related to its 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.

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.

G. Property and Equipment

Property and equipment are stated at cost. Amortization and depreciation are determined for related groups of assets under the straight-line method, based upon their estimated useful lives, which range from 3 to 40 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 1988, the United States Supreme Court issued a decision holding that unions covered under the National Labor Relations Act (NLRA) may not charge nonmembers fees for nonrepresentational activities when the nonmembers are covered by collective bargaining agreements and object to such fees for nonrepresentational activities. This decision, known as Communication Workers of America v. Beck, applies not only to the relatively uncommon private sector agency shop, but also to the more standard union shop, where the board and courts have long held that any bargaining unit employees may opt to be classified as a "financial core status payer" if he/she does not wish to join the union.

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.

CALIFORNIA FEDERATION OF TEACHERS
NOTES TO STATEMENT OF ALLOCATED CHARGEABLE AND NONCHARGEABLE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022

NOTE 2 - FAIR SHARE/AGENCY FEES (Continued)

B. Definitions (Continued)

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 financial core status 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.
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 financial core status 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 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.

CALIFORNIA FEDERATION OF TEACHERS
NOTES TO STATEMENT OF ALLOCATED CHARGEABLE AND NONCHARGEABLE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022

**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.

The salaries and benefits of certain 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

Management and representation staff's travel and lodging expenses were allocated in proportion to the time spent on various representational and nonrepresentational activities as documented in their weekly activity reports and allocated accordingly. Certain officers' 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 and allocated accordingly.

E. O.P.E.I.U. 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 allocated as chargeable.

CALIFORNIA FEDERATION OF TEACHERS
NOTES TO STATEMENT OF ALLOCATED CHARGEABLE AND NONCHARGEABLE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022

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

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.

Three publications that the CFT produces, and made available to both members and financial core status payers through the CFT website 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.

Legislative, 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 found to be nonchargeable.

I. Information Technology

These expenses were analyzed and determined to be chargeable.

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 determined to be chargeable.

L. 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.

M. 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.

N. EC/K-12 Council

These expenses were analyzed in order to identify the nature of the activities for which the CFT incurred them and determined to be nonchargeable.

O. Retiree Council

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

CALIFORNIA FEDERATION OF TEACHERS
NOTES TO STATEMENT OF ALLOCATED CHARGEABLE AND NONCHARGEABLE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022

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

P. Governance

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

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 and allocated accordingly.

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 Teillet 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

These expenses were to support cases that particular affiliate local unions file against specific school district and were allocated as chargeable.

V. Proposition and Ballot Initiatives COPE Committee Expenses

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

W. COPE Candidate Committee Expenses

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

X. Militancy Fund Expenses

These expenses were to help and defend persons 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. These expenses were allocated as chargeable.

CALIFORNIA FEDERATION OF TEACHERS
NOTES TO STATEMENT OF ALLOCATED CHARGEABLE AND NONCHARGEABLE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022

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

Y. Strategic Organizing Fund Expenses

These expenses were to build representation and involvement of the communities and its membership through organizing and were allocated as nonchargeable.

NOTE 4 - ADJUSTMENT TO EXPENSES

The following adjustments have been made to the total expenses originally reported on the CFT's financial statements as of December 31, 2022:

Total Expenses Per the Financial Statements	\$36,126,905
Less: Administrative Expense Reimbursement (A)	(223,686)
Voluntary Contributions: (B)	
Proposition and Ballot Initiatives	
COPE Committee	(749,059)
COPE Candidate Committee	(270,413)
Disaster Relief Fund Contributions (C)	(11,230)
Strategic Organizing Fund Grant and Staff Funding (D)	(350,000)
Building Corporation Fund (E)	<u>(30,914)</u>
Total Adjusted Expenses	<u>\$34,491,603</u>

- (A) 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.
- (B) For purposes of this statement, total Proposition and Ballot Initiatives COPE Committee and COPE Candidate Committee expenses were offset by the voluntary contributions received during the year.
- (C) For purposes of this statement, total Disaster Relief Fund expenses were offset by the contributions received.
- (D) For purposes of this statement, Strategic Organizing Fund expenses were offset by grants and staff funding received from the American Federation of Teachers.
- (E) For purposes of this statement, Building Corporation Fund expenses were offset by rental income received from tenants.