

CALIFORNIA FEDERATION OF TEACHERS

STATEMENT OF ALLOCATED CHARGEABLE AND NONCHARGEABLE EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2019



INDEPENDENT AUDITORS' REPORT

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

Members of the Council:

Report on the Statement of Allocated Chargeable and Nonchargeable Expenses

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, 2019 and the related notes to the statement.

Management's Responsibility for the Statement

Management is responsible for the preparation and fair presentation of this statement including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement is free from material misstatement.

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

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

Opinion

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, 2019, based on the significant factors and assumptions described in Note 3.

Other Matter

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, 2019. 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, 2019, and our report thereon dated June 26, 2020, expressed an unmodified opinion on those financial statements.

Restriction on Use

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



MILLER KAPLAN ARASE LLP

North Hollywood, California

July 29, 2020

CALIFORNIA FEDERATION OF TEACHERS
STATEMENT OF ALLOCATED CHARGEABLE AND NONCHARGEABLE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

	Note	Total Expenses	Chargeable Expenses	Nonchargeable Expenses
DIRECT EXPENSES				
Personnel Expenses:	3-A			
Management		\$ 1,035,146	\$ 950,965	\$ 84,181
F.R.U.		2,568,002	2,287,522	280,480
O.P.E.I.U.		1,202,457	1,074,115	128,342
Other Personnel-Related Expenses	3-B	(4,057,621)	(3,648,015)	(409,606)
Travel and Lodging	3-C	215,280	179,321	35,959
Mileage Reimbursement	3-D	90,397	78,586	11,811
O.P.E.I.U. Travel Reimbursement	3-E	3,756	3,756	-
Financial Assistance to Locals	3-F	8,034,886	8,034,886	-
Departments:				
Communications and Publications	3-G	65,159	25,917	39,242
Governmental Relations	3-H	14,485	-	14,485
Information Technology	3-I	13,706	13,706	-
Leadership Development and Training	3-J	8,105	8,105	-
Research	3-K	8,500	8,500	-
Organizing	3-L	385,000	-	385,000
Councils:				
Community College Council	3-M	104,600	95,929	8,671
Council of Classified Employees	3-N	182,646	122,536	60,110
EC/K-12 Council	3-O	221,649	102,668	118,981
Retiree Council	3-P	5,126	2,729	2,397
Governance	3-Q	534,682	411,206	123,476
Committees and Task Forces	3-R	18,337	10,931	7,406
Professional Services	3-S	207,814	182,324	25,490
Miscellaneous	3-T	50,557	25,655	24,902
Raoul Teilhet Scholarship Fund Expenses	3-U	100,300	-	100,300
Legal Defense Fund Expenses	3-V	188,663	188,663	-
Proposition and Ballot Initiatives				
COPE Committee Expenses	3-W	816,818	-	816,818
COPE Candidate Committee Expenses	3-X	361,908	-	361,908
Militancy Fund Expenses	3-Y	10,000	10,000	-
Strategic Organizing Fund	3-Z	45,550	-	45,550
TOTAL DIRECT EXPENSES		12,435,908	10,170,005	2,265,903
INDIRECT EXPENSES				
Building Occupancy		685,980	560,990	124,990
Building Repairs and Maintenance		2,100	1,717	383
Furniture and Equipment - Acquisition		82,690	67,623	15,067
Furniture and Equipment - Repairs and Maintenance		1,080	883	197
Office Supplies		36,256	29,650	6,606
Postage and Shipping		15,314	12,524	2,790
Printing		10,034	8,206	1,828
Subscriptions		3,569	2,919	650
Telecommunications		81,474	66,629	14,845
Depreciation		10,631	8,694	1,937
Bank Charges		3,896	3,186	710
Payroll Processing Fees		5,870	4,800	1,070
Property Insurance		9,016	7,373	1,643
Property Taxes		1,013	828	185
Storage of Benefits Supplies		2,772	2,267	505
CFT Archives/Storage		660	540	120
CFT Website Redesign/Maintenance		14,522	11,876	2,646
Professional Services		4,250	3,476	774
Retiree Benefits		221,310	180,986	40,324
TOTAL INDIRECT EXPENSES		1,192,437	975,167	217,270
TOTAL EXPENSES		\$ 13,628,345	\$ 11,145,172	\$ 2,483,173
PERCENTAGES		100.00%	81.78%	18.22%

CALIFORNIA FEDERATION OF TEACHERS
NOTES TO STATEMENT OF ALLOCATED CHARGEABLE AND NONCHARGEABLE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

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 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, 2019

CALIFORNIA FEDERATION OF TEACHERS
NOTES TO STATEMENT OF ALLOCATED CHARGEABLE AND NONCHARGEABLE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Pensions (Continued)

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.

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. 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 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.

CALIFORNIA FEDERATION OF TEACHERS
NOTES TO STATEMENT OF ALLOCATED CHARGEABLE AND NONCHARGEABLE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 2 - FAIR SHARE/AGENCY FEES (Continued)

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.
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.

CALIFORNIA FEDERATION OF TEACHERS
NOTES TO STATEMENT OF ALLOCATED CHARGEABLE AND NONCHARGEABLE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 2 - FAIR SHARE/AGENCY FEES (Continued)

B. Definitions (Continued)

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.

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

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 and allocated accordingly.

CALIFORNIA FEDERATION OF TEACHERS
NOTES TO STATEMENT OF ALLOCATED CHARGEABLE AND NONCHARGEABLE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

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

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 determined to be chargeable.

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.

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.

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. Informational 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 determined to be chargeable.

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. 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.

CALIFORNIA FEDERATION OF TEACHERS
NOTES TO STATEMENT OF ALLOCATED CHARGEABLE AND NONCHARGEABLE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

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

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. Retiree Council

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

Q. Governance

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

R. 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.

S. Professional Services

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

T. Miscellaneous

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

U. 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.

V. 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.

W. 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 generally nonchargeable.

CALIFORNIA FEDERATION OF TEACHERS
NOTES TO STATEMENT OF ALLOCATED CHARGEABLE AND NONCHARGEABLE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

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

X. 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.

Y. 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 were allocated as chargeable.

Z. Strategic Organizing

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 adjustment has been made to the total expenses originally reported on the CFT's financial statements as of December 31, 2019:

Total Expenses Per the Financial Statements	\$ 14,906,419
Less: Agency Fee Rebates (A)	(4,150)
Administrative Expense Reimbursements (B)	(385,425)
Voluntary Contributions: (C)	
Proposition and Ballot Initiatives	
COPE Committee	(614,638)
COPE Candidate Committee	(273,826)
Disaster Relief Fund (D)	<u>(35)</u>
Total Adjusted Expenses	<u>\$ 13,628,345</u>

- (A) For purposes of this statement, total expenses were reduced by the amount of agency fee rebates the CFT paid to its affiliated Local Unions to reimburse them for paying full per capita on nonmembers. This offsets the difference for nonmembers not paying full dues to them.
- (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.
- (C) 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.
- (D) For purposes of this statement, total Disaster Relief Fund expenses were offset by the contributions received.