

**SAN FRANCISCO COMMUNITY COLLEGE DISTRICT
FEDERATION OF TEACHERS, LOCAL 2121**

**SCHEDULE OF EXPENSES AND ALLOCATION BETWEEN
CHARGEABLE EXPENSES AND NON-CHARGEABLE EXPENSES**

YEAR ENDED JUNE 30, 2016

**SAN FRANCISCO COMMUNITY COLLEGE DISTRICT
FEDERATION OF TEACHERS, LOCAL 2121**

SCHEDULE OF EXPENSES AND ALLOCATION BETWEEN CHARGEABLE EXPENSES
AND NON-CHARGEABLE EXPENSES
YEAR ENDED JUNE 30, 2016

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INDEPENDENT AUDITORS' REPORT

To the Executive Board of
San Francisco Community College District Federation of Teachers, Local 2121

REPORT ON THE SCHEDULE

We have audited the accompanying schedule of expenses and allocation between chargeable expenses and non-chargeable expenses (the schedule) of San Francisco Community College District Federation of Teachers, Local 2121 (the Local), which comprises the schedule for the year ended June 30, 2016, and the related notes to the schedule.

MANAGEMENT'S RESPONSIBILITY FOR THE SCHEDULE

Management is responsible for the preparation and fair presentation of the schedule based on the definitions and the significant factors and assumptions described in Notes 3 and 4. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of a schedule that is free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on the schedule 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 schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the schedule, whether due to fraud or error. In making those risk assessments,

To the Executive Board of

San Francisco Community College District Federation of Teachers, Local 2121

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the auditors consider internal control relevant to the Local's preparation and fair presentation of the schedule 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 Local'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 schedule.

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 schedule referred to above presents fairly, in all material respects, the expenses and allocation between chargeable expenses and non-chargeable expenses of the Local for the year ended June 30, 2016, based on the definitions and the significant factors and assumptions described in Notes 3 and 4.

RESTRICTION ON USE

This report is intended solely for the information and use of the Local and its agency fee payers and is not intended to be and should not be used for any other purposes.

A handwritten signature in black ink that reads "Lindquist LLP". The signature is written in a cursive, flowing style.

June 21, 2017

**SAN FRANCISCO COMMUNITY COLLEGE DISTRICT
FEDERATION OF TEACHERS, LOCAL 2121**

**SCHEDULE OF EXPENSES AND ALLOCATION BETWEEN CHARGEABLE EXPENSES
AND NON-CHARGEABLE EXPENSES
YEAR ENDED JUNE 30, 2016**

	<u>Column A</u> Total <u>Expenses</u>	<u>Column B</u> Chargeable <u>Expenses</u>	<u>Column C</u> Non-Chargeable <u>Expenses</u>	<u>Note</u>
AFFILIATION FEES				
American Federation of Teachers	\$ 228,914	\$ 143,117	\$ 85,797	4(a)
California Federation of Teachers	515,056	416,320	98,736	4(a)
California Labor Federation	10,209	-	10,209	4(a)
San Francisco Labor Council	10,209	-	10,209	4(a)
Other affiliations	50	-	50	4(a)
Total affiliation fees	<u>764,438</u>	<u>559,437</u>	<u>205,001</u>	4(a)
DIRECT EXPENSES				
Professional staff salaries and benefits	170,288	168,091	2,197	4(b)
Clerical salaries and benefits	205,191	191,238	13,953	4(b)
Executive Board expenses	315	315	-	
Legal fees	79,787	79,787	-	4(c)
Representation expenses	8,655	8,655	-	4(d)
Conferences, meetings and events	26,659	24,260	2,399	4(d)
Contributions for events	14,730	-	14,730	4(e)
C.O.P.E. expenses	33,596	-	33,596	4(e)
Accounting fees	8,000	8,000	-	4(f)
Communication expenses	<u>1,449</u>	<u>1,350</u>	<u>99</u>	4(h)
Total direct expenses	<u>548,670</u>	<u>481,696</u>	<u>66,974</u>	
DIRECT PERCENTAGE		<u>87.79%</u>	<u>12.21%</u>	
INDIRECT EXPENSES				
Depreciation	851	747	104	4(g)
Telephone	4,249	3,730	519	4(g)
Utilities	4,821	4,233	588	4(g)
Alarm system	597	524	73	4(g)
Equipment lease and repairs	7,997	7,021	976	4(g)
Office supplies and other	13,381	11,748	1,633	4(g)
Postage	3,214	2,822	392	4(g)
Rent	34,972	30,703	4,269	4(g)
Insurance	<u>775</u>	<u>680</u>	<u>95</u>	4(g)
Total indirect expenses	<u>70,857</u>	<u>62,208</u>	<u>8,649</u>	4(g)
TOTAL EXPENSES	<u>1,383,965</u>	<u>1,103,341</u>	<u>280,624</u>	
LESS: California Federation of Teachers/ American Federation of Teachers financial assistance	<u>(256,184)</u>	<u>(256,184)</u>	<u>-</u>	
ADJUSTED TOTAL EXPENSES	<u>\$ 1,127,781</u>	<u>\$ 847,157</u>	<u>\$ 280,624</u>	
TOTAL DIRECT PERCENTAGE		<u>75.12%</u>	<u>24.88%</u>	

The accompanying notes are an integral part of this schedule.

**SAN FRANCISCO COMMUNITY COLLEGE DISTRICT
FEDERATION OF TEACHERS, LOCAL 2121**

NOTES TO SCHEDULE OF EXPENSES AND ALLOCATION BETWEEN CHARGEABLE
EXPENSES AND NON-CHARGEABLE EXPENSES
YEAR ENDED JUNE 30, 2016

NOTE 1. ORGANIZATION AND TAX STATUS

San Francisco Community College District Federation of Teachers, Local 2121 American Federation of Teachers, AFL-CIO (the Local) is a not-for-profit organization formed in 1970. The Local's mission is to meet the following objectives: to promote the welfare of students and the advancement of community college education in the public interest; to promote the highest standards of professional services in education; to obtain for teachers their rightful voice in shaping educational policy and in establishing the conditions under which they teach; to promote the welfare of teachers by obtaining full and just compensation for professional services rendered; and to obtain for teachers the right to free collective bargaining as a necessary means for achieving the substantive aims and purposes of this organization.

The Local is exempt from federal income taxation under Section 501(c)(5) of the Internal Revenue Code and from state taxation under Section 23701f by the State of California and, accordingly, no provisions have been made for income taxes in these financial statements.

Management has analyzed the tax positions taken by the Local and has concluded that, as of June 30, 2016, there are no uncertain positions taken, or expected to be taken, that would require recognition of a liability, disclosure, or additional expenses in the schedule. The Local is subject to routine audits by the taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Local believes it is no longer subject to income tax examinations for the fiscal years prior to 2013.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting - The financial records of the Local are maintained on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation - The accompanying schedule of expenses and allocation between chargeable expenses and non-chargeable expenses (the schedule) was prepared for the purpose of presenting the fair-share cost of services rendered by San Francisco Community College District Federation of Teachers, Local

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2121 (the Local) for bargaining-unit employees who are members of the Local. The accompanying schedule is not intended to be a complete presentation of the Local's financial position, activities or cash flows in accordance with accounting principles generally accepted in the United States of America.

Depreciation - Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Estimates - The preparation of the accompanying schedule requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the schedule. Actual results could differ from those estimates.

NOTE 3. DEFINITIONS

The following definitions of chargeable and non-chargeable expenses are based on the Local's understanding of the existing law regarding such expenses.

Chargeable expenses include those expenses incurred by the Local that reflect the share of the costs of operations of the Local considered necessarily and reasonably incurred for the purpose of performing duties as representative of the employees in dealing with the employer on labor-management issues, including the costs of collective bargaining, contract enforcement, legal cases, maintaining the organization's existence, and other activities germane to the Local's role in collective bargaining and contract administration.

Activities that are classified as chargeable include the following: preparation for negotiation and administration of collective bargaining agreements; ratification of collective bargaining agreements; grievance activities and arbitrations; economic actions, including strike-related expenses; the prosecution or defense of litigation or administrative agency procedures to obtain ratification, interpretation or enforcement of collective bargaining agreements or representational rights; governance of the Local including, but not limited to, office management, maintaining the Local's finances, union meetings, service fee administration, National, State and Local American Federation of Teachers' conferences, union elections and administration of its constitution and bylaws; purchasing books, periodicals and reports relating to chargeable activities; publishing those portions of the Local's publications that relate to chargeable activities; social and recreational activities open to both members and fair-share fee payers; and professional fees incurred to support internal governance and the other germane activities described above.

NOTE 3. DEFINITIONS (CONT'D)

Non-chargeable expenses are those expenses incurred by the Local for the benefit and advancement of the members and their union that are not considered representational activities for non-members. Non-chargeable activities are those services that are ideological or political in nature, exclusively for the benefit of members and/or not considered germane to representing non-members in the process of negotiating, administering and enforcing the collective bargaining agreement. The term "political" is defined as support for or against candidates for political office at any level of government. The term "ideological" is defined as support for or against certain positions that the Local may take that are not work-related.

The following are examples of expenses classified as non-chargeable: charitable support; lobbying efforts not directly aimed at affecting the terms and conditions of employment; membership recruitment; members-only benefits; C.O.P.E. activities; and communication, publications, public relations and other efforts directed toward activities that are not considered germane to representing non-members in the collective bargaining process.

**NOTE 4. SIGNIFICANT FACTORS AND ASSUMPTIONS USED IN THE ALLOCATION OF
EXPENSES BETWEEN CHARGEABLE AND NON-CHARGEABLE**

All expenses were segregated into two classes: direct expenses and indirect expenses. Direct expenses consisted in those expenses for which a clear, measurable relation to representation activities could be identified. All other expenses were classified as indirect expenses. Management believes that the representation 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 from the direct expenses. The significant factors and assumptions used in the allocation of the direct expenses are discussed below.

The following categories have been allocated in the manner indicated:

- (a) The Local pays per-capita taxes or dues to several labor organizations. These expenses are designated based on the most recent public allocation statements, as reported by the organization, or as 100% non-chargeable for those organizations that do not provide an audited allocation of their expenditures.

**NOTE 4. SIGNIFICANT FACTORS AND ASSUMPTIONS USED IN THE ALLOCATION OF
EXPENSES BETWEEN CHARGEABLE AND NON-CHARGEABLE (CONT'D)**

- (b) Salaries and wages expense is allocated between chargeable and non-chargeable expense based on the time spent by the Local's staff performing chargeable versus non-chargeable activities. The Local's officers and employees submit written reports as to the percentage of time spent in a chargeable or non-chargeable capacity. The percentages of chargeable and non-chargeable time in chargeable and non-chargeable activities were then applied proportionally to the total salaries expense item. The aggregate of these percentage rates is also applied to all line items related to salaries, such as employee benefits, training and payroll taxes.
- (c) Legal expenses consist of attorney fees and costs for legal services provided by Local counsel. These expenses are allocated based on whether the subject matter of the legal services relates to representational or non-representational matters as reported by legal counsel.
- (d) These items are other direct expenses that mainly represent the direct costs of contract enforcement, representation of the bargaining unit, and organization and administration of the Local and as such were deemed to be chargeable expenses as a majority. A minor portion of these expenses are deemed non-chargeable due to the subject matter of meetings and subscriptions expenses.
- (e) Contributions include charitable and political contributions, donations, and gifts to current and retired members, which are considered fully non-chargeable due to the nature of these expenses.
- (f) This item is considered 100% chargeable because it relates to the governance of the Local.
- (g) These expenses represent indirect expenses that are allocated based on the same percentage as total direct expenses of the Local.
- (h) Newsletter expenses include direct printing and publishing expenses of the Local's publications and are allocated based on the specific content of the articles in the publications. Articles dealing with political action, ideology issues, and the Local's member services were deemed nonchargeable. Articles related to the Union's role as the collective bargaining agent (negotiations, contract enforcement, faculty rights, conferences, meeting announcements) are chargeable. The allocation percentage calculation was derived from a column-inch measurement of each topic in the Union's publications.

NOTE 5. RECONCILIATION TO THE FINANCIAL STATEMENTS

Below is a reconciliation of expenses as reported on the Local's financial statements to the expenses applicable to the Local's schedule of expenses and allocation between chargeable expenses and non-chargeable expenses (the schedule). The Local is affiliated with the AFT 2121 Committee on Political Education (COPE). COPE is a separate, segregated fund established to educate the Local's members on political issues and to make political contributions. The financial activities of COPE are not included in the accompanying schedule but are included in the consolidated financial statements of the Local. The accompanying schedule does include transfers from the Local to COPE.

Total expenses per the December 31, 2016, financial statements	\$ 1,380,635
Less: COPE expenditures in the consolidated financial statements	(30,266)
Add: Transfers from the Local to COPE	<u>33,596</u>
Total expenses per this schedule	<u>\$ 1,383,965</u>