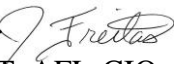


July 5, 2016

TO: ALL AFT/CFT LOCAL PRESIDENTS AND TREASURERS

FROM: Jeffery M. Freitas, Secretary Treasurer 
California Federation of Teachers, AFT, AFL-CIO

RE: **Agency Fee (Fair Share) Audits for 2015**

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, 2016 will be available in August. The agency fee audit for fiscal year ending April 30, 2015 is available online at <http://www.leadernet.aft.org>. Go to "Governance & Administration" scroll down to "AFT Budget & Finances" and click on "California Agency Fee Audit for 2015-2016." The chargeable percentage for the AFT per capita from that document is 61.06% and the non-chargeable percentage is 38.94%.

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 2015. Based on the chargeable and nonchargeable expenses for the year, we calculated the percentages for the CFT per capita for 2016-2017 year to be as follows:

The CFT estimated chargeable expenses are 80.83%.

The CFT estimated nonchargeable expenses are 19.17%.

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

The CFT agency fee 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 2016-2017.

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

CALIFORNIA FEDERATION OF TEACHERS

STATEMENT OF ALLOCATED CHARGEABLE AND NONCHARGEABLE EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2015

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, 2015 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, 2015, based on the significant factors and assumptions described in Note 3.

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Crane Curran, CPA
Gregory E. Klein, CPA
Andrew B. Koski, MBA
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Kami B. Cohen, CPA
Kelly W. Fox, CPA
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Kelly Harper, CPA
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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 fair share 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, 2015. We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the California Federation of Teachers as of and for the year ended December 31, 2015, and our report thereon dated June 15, 2016, 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

MILLER KAPLAN ARASE LLP

North Hollywood, California

June 30, 2016

CALIFORNIA FEDERATION OF TEACHERS
STATEMENT OF ALLOCATED CHARGEABLE AND NONCHARGEABLE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015

	Note	Total Expenses	Chargeable Expenses	Nonchargeable Expenses
<u>DIRECT EXPENSES</u>				
Personnel Expenses:	3-A			
Management		\$ 877,405	\$ 742,296	\$ 135,109
F.R.U.		3,197,904	2,473,739	724,165
O.P.E.I.U.		1,693,072	1,438,813	254,259
Other Personnel-Related Expenses	3-B	3,690,644	2,938,554	752,090
Travel and Lodging	3-C	274,593	176,283	98,310
Mileage Reimbursement	3-D	121,796	111,083	10,713
O.P.E.I.U. Travel Reimbursement	3-E	2,469	1,835	634
Financial Assistance to Locals	3-F	7,746,786	7,704,686	42,100
Departments:				
Communications and Publications	3-G	358,862	139,480	219,382
Governmental Relations	3-H	11,703	344	11,359
Information Technology	3-I	10,789	10,789	-
Leadership Development and Training	3-J	93,090	77,439	15,651
Research	3-K	10,437	10,437	-
Organizing	3-L	72,438	-	72,438
Councils:				
Community College Council	3-M	184,940	129,111	55,829
Council of Classified Employees	3-N	187,860	144,677	43,183
EC/K-12 Council	3-O	144,475	93,858	50,617
Governance	3-P	461,385	394,507	66,878
Committees and Task Forces	3-Q	13,575	11,464	2,111
Professional Services	3-R	238,084	221,315	16,769
Miscellaneous	3-S	402,786	56,873	345,913
Raoul Teillet Scholarship Fund Expenses	3-T	94,000	-	94,000
Legal Defense Fund Expenses	3-U	318,914	318,914	-
Western States Insurance Trust Expenses	3-V	868	-	868
Dues Collection Fund Expenses	3-W	231	231	-
Proposition and Ballot Initiatives				
COPE Committee Expenses	3-X	976,049	-	976,049
COPE Candidate Committee Expenses	3-Y	87,785	-	87,785
Militancy Fund Expenses	3-Z	3,000	-	3,000
<u>TOTAL DIRECT EXPENSES</u>		\$ 21,275,940	\$ 17,196,728	\$ 4,079,212
<u>INDIRECT EXPENSES</u>				
Building Occupancy		\$ 602,800	\$ 487,226	\$ 115,574
Building Repairs and Maintenance		4,125	3,334	791
Furniture and Equipment - Acquisition		112,124	90,627	21,497
Furniture and Equipment - Repairs and Maintenance		35,515	28,706	6,809
Office Supplies		57,086	46,141	10,945
Postage and Shipping		29,547	23,882	5,665
Printing		11,041	8,924	2,117
Subscriptions		7,411	5,990	1,421
Telecommunications		78,563	63,500	15,063
Depreciation		19,007	15,363	3,644
Bank Charges		5,255	4,247	1,008
Payroll Processing Fees		6,758	5,462	1,296
Property Insurance		9,118	7,370	1,748
Property Taxes		3,092	2,499	593
Uncollectible Invoices Expense		2,167	1,752	415
Storage of Benefits Supplies		1,939	1,567	372
Benefits Supplies and Shipping		1,637	1,323	314
CFT Archives/Storage		660	533	127
Retiree Benefits		116,677	94,307	22,370
<u>TOTAL INDIRECT EXPENSES</u>		\$ 1,104,522	\$ 892,753	\$ 211,769
<u>TOTAL EXPENSES</u>		\$ 22,380,462	\$ 18,089,481	\$ 4,290,981
<u>PERCENTAGES</u>		<u>100.00%</u>	<u>80.83%</u>	<u>19.17%</u>

(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, 2015

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 has adopted guidance on accounting for uncertainty in income taxes issued by the Financial Accounting Standards Board. Management believes that the CFT has taken no uncertain tax positions that require adjustment to the statement in order to comply with the provisions of this guidance. The CFT files information returns annually. As of December 31, 2015, returns subsequent to 2011 were subject to examination by authorities.

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 Initiative COPE Committee, and Militancy 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.

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. 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, 2015 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 management and field employees, are determined by actuarial valuation.

CALIFORNIA FEDERATION OF TEACHERS
NOTES TO STATEMENT OF ALLOCATED CHARGEABLE AND NONCHARGEABLE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015

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. 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 fair shares payers 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.

CALIFORNIA FEDERATION OF TEACHERS
NOTES TO STATEMENT OF ALLOCATED CHARGEABLE AND NONCHARGEABLE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015

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 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 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.

CALIFORNIA FEDERATION OF TEACHERS
NOTES TO STATEMENT OF ALLOCATED CHARGEABLE AND NONCHARGEABLE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015

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.

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.

Organizing grant was allocated as nonchargeable.

CALIFORNIA FEDERATION OF TEACHERS
NOTES TO STATEMENT OF ALLOCATED CHARGEABLE AND NONCHARGEABLE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015

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.

One of the four 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.

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.

CALIFORNIA FEDERATION OF TEACHERS
NOTES TO STATEMENT OF ALLOCATED CHARGEABLE AND NONCHARGEABLE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015

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

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 four 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.

One of the four 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.

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.

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.

CALIFORNIA FEDERATION OF TEACHERS
NOTES TO STATEMENT OF ALLOCATED CHARGEABLE AND NONCHARGEABLE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015

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

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 refund from various insurance companies for members' participation in various insurance programs. These expenses are 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.

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. These expenses are allocated as nonchargeable.

Z. MILITANCY FUND EXPENSES

These expenses are 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. These expenses are 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, 2015:

CALIFORNIA FEDERATION OF TEACHERS
NOTES TO STATEMENT OF ALLOCATED CHARGEABLE AND NONCHARGEABLE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 4 - ADJUSTMENT TO EXPENSES (Continued)

Total Expenses Per Financial Statements	\$ 23,756,929
Less: Agency Fee Rebates (A)	(72,436)
Administrative Expense Reimbursements and Sale of CFT Pocket Calendars (B)	(703,770)
Voluntary Contributions: (C)	
Proposition and Ballot Initiatives COPE Committee	(551,930)
COPE Candidate Committee	(283,683)
Royalty Income (D)	(832)
Building Power Campaign (E)	236,184
<u>Total Adjusted Expenses</u>	<u>\$ 22,380,462</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. 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 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 Western States Insurance Trust expenses were offset by the royalties income collected during the year.
- (E) For purpose of this statement, the unused portion of the amount the Proposition and Ballot Initiative COPE Committee transferred to the CFT for the Building Power Campaign was added back.