

**WASHINGTON TEACHERS UNION
LOCAL #6**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY
INFORMATION**

JUNE 30, 2016 AND 2015

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INDEPENDENT AUDITORS' REPORT

Executive Board
Washington Teachers Union Local #6

We have audited the accompanying financial statements of Washington Teachers Union Local #6, which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Union's preparation and fair presentation of the financial statements 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 Union'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 financial statements.

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 financial statements referred to above present fairly, in all material respects, the financial position of Washington Teachers Union Local #6 as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Executive Board
Washington Teachers Union Local #6
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Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 11 - 12 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Katz Abosch Windesheim Gershman & Freedman, PA

Timonium, Maryland
November 28, 2016

WASHINGTON TEACHERS UNION LOCAL #6
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
<u>ASSETS</u>		
Cash	\$ 478,880	\$ 386,912
Due from D.C. Public Schools	230,234	205,058
Other receivables	9,188	39,793
Prepaid expenses	36,108	31,911
Deposits	0	29,889
Fixed assets, net	<u>5,588,994</u>	<u>5,796,280</u>
TOTAL ASSETS	\$ <u>6,343,404</u>	\$ <u>6,489,843</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts payable	\$ 130,377	\$ 162,129
Legal settlement payable	0	55,000
Accrued salaries, vacation, and payroll taxes	49,633	31,792
Due to D.C. Public Schools	812,324	868,441
Debt	4,473,773	4,673,132
Due to American Federation of Teachers	<u>236,964</u>	<u>353,710</u>
TOTAL LIABILITIES	5,703,071	6,144,204
<u>NET ASSETS</u>		
Unrestricted	<u>640,333</u>	<u>345,639</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>6,343,404</u>	\$ <u>6,489,843</u>

The Accompanying Notes are an Integral Part of the Financial Statements

**WASHINGTON TEACHERS UNION LOCAL #6
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<u>REVENUE, GAINS AND OTHER SUPPORT</u>		
Membership dues	\$ 4,186,498	\$ 3,975,917
Dental/optical - administration fees	72,341	64,261
Other revenue	<u>65,551</u>	<u>53,227</u>
 TOTAL REVENUE, GAINS AND OTHER SUPPORT	 <u>4,324,390</u>	 <u>4,093,405</u>
<u>EXPENSES AND LOSSES</u>		
Functional expenses:		
Program services	3,214,602	3,253,428
Management and general	<u>813,231</u>	<u>1,044,771</u>
 TOTAL EXPENSES	 4,027,833	 4,298,199
Loss on disposal of fixed assets	<u>1,863</u>	<u>0</u>
 TOTAL EXPENSES AND LOSSES	 <u>4,029,696</u>	 <u>4,298,199</u>
 Change in Net Assets	 294,694	 (204,794)
 Net Assets - Beginning of the Year	 <u>345,639</u>	 <u>550,433</u>
 Net Assets - End of the Year	 <u>\$ 640,333</u>	 <u>\$ 345,639</u>

The Accompanying Notes are an Integral Part of the Financial Statements

WASHINGTON TEACHERS UNION LOCAL #6
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ 294,694	\$ (204,794)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	210,613	210,646
Loss on disposal of fixed assets	1,863	0
Changes in operating assets and liabilities:		
Due from VEBA	0	39,702
Other receivables	30,605	(39,720)
Due from D.C. Public Schools	(25,176)	7,131
Prepaid expenses	(4,197)	(21,722)
Deposits	29,889	0
Accounts payable	(31,752)	61,018
Legal settlement payable	(55,000)	55,000
Accrued salaries, vacation, and payroll taxes	17,841	(6,094)
Accrued retirement contribution	0	(25,125)
Due to D.C. Public Schools	(56,117)	404,941
Due to American Federation of Teachers	<u>(116,746)</u>	<u>(35,401)</u>
Net Cash Provided by Operating Activities	<u>296,517</u>	<u>445,582</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchases of fixed assets	<u>(5,191)</u>	<u>(115,954)</u>
Net Cash Used in Investing Activities	<u>(5,191)</u>	<u>(115,954)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Principal payments on debt	<u>(199,358)</u>	<u>(179,489)</u>
Net Cash Used in Financing Activities	<u>(199,358)</u>	<u>(179,489)</u>
NET INCREASE IN CASH	91,968	150,139
CASH AT THE BEGINNING OF THE YEAR	<u>386,912</u>	<u>236,773</u>
CASH AT THE END OF THE YEAR	<u>\$ 478,880</u>	<u>\$ 386,912</u>
Supplemental Disclosures of Cash Flow Information:		
Interest paid	\$ 177,578	\$ 182,448

The Accompanying Notes are an Integral Part of the Financial Statements

WASHINGTON TEACHERS UNION LOCAL #6
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations

The Washington Teachers Union Local #6 (Union) was formed in 1953 in Washington, D.C as a non-stock, nonprofit for the purpose of representing active and retired teachers in the District of Columbia Public Schools (DCPS), and is dedicated to social and educational justice for the students of DCPS and to proving the quality of support, resources, compensation and working conditions for DCPS teachers.

Basis of accounting

The financial statements are prepared on the accrual basis of accounting.

Financial statement presentation

The Union follows the Not-For-Profit Entities Presentation of Financial Statements Topic of the FASB Accounting Standards Codification which requires it to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. During the years ended June 30, 2016 and 2015, there were no temporarily or permanently restricted net assets.

Fixed assets and depreciation

Fixed assets are recorded at cost if purchased and fair value if donated. Expenditures for repairs and maintenance are charged to expense as incurred. The cost of fixed assets is depreciated using the straight-line method over their estimated useful lives.

Revenue recognition

The Union receives membership dues from DCPS. The dues are withheld by DCPS from members' payroll on behalf of the Union and submitted electronically to the Union. Membership dues are recognized over the period to which the dues relate.

Income taxes

The Union is exempt from federal and state taxation under Section 501(c)(5) of the Internal Revenue Code, and is classified as a labor organization.

Subsequent events

The Union has evaluated subsequent events through November 28, 2016, which is the date the financial statements were available to be issued.

WASHINGTON TEACHERS UNION LOCAL #6
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses. Actual results could differ from the estimates that were used.

Functional expenses

Expenses are charged directly to program services or management and general based on specific identification, when determinable. A reasonable allocation is made for costs not specifically identifiable.

Contributed services

The value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Union in carrying out its mission, but these services do not meet the criteria for financial reporting recognition as contributed services.

Reclassifications

Certain 2015 balances have been reclassified to conform with the 2016 financial statement presentation.

NOTE 2: FIXED ASSETS

The following is a summary of fixed assets at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Land	\$ 505,140	\$ 505,140
Building and improvements	5,165,472	5,165,472
Furniture and equipment	<u>378,373</u>	<u>409,640</u>
Total	6,048,985	6,080,252
Less: accumulated depreciation	<u>(459,991)</u>	<u>(283,972)</u>
TOTAL FIXED ASSETS - NET	\$ <u>5,588,994</u>	\$ <u>5,796,280</u>

Depreciation expense for the years ended June 30, 2016 and 2015, amounted to \$210,613 and \$210,646, respectively.

WASHINGTON TEACHERS UNION LOCAL #6
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 3: DEBT

The Union has a note payable to M&T Bank. This note was a construction loan which was used to pay for renovations of the Union's office facility, and was converted to permanent financing during the year ended June 30, 2013. The note bears interest at a rate of 3.99%, is payable in monthly installments (principal and interest) of \$16,179 and matures in October 2017. The note is secured by the Union's real property. The outstanding balance of the note payable as of June 30, 2016 and 2015 was \$2,771,706 and \$2,851,657, respectively.

During the year ended June 30, 2014, the Union obtained additional financing from M&T Bank. The additional amount loaned totaled \$458,000. The note bears interest at a rate of 3.99% and is payable in monthly installments (principal and interest) of \$2,415 and matures in October 2017. The note is secured by the Union's real property. The outstanding balance of the note payable at June 30, 2016 and 2015 was \$435,350 and \$446,425, respectively.

The M&T Bank loans have a financial covenant which requires a minimum debt service coverage ratio calculated on a quarterly basis.

Additionally, during the year ended June 30, 2014, the Union secured a loan with Amalgamated Bank of Chicago in the amount of \$1,500,000. The loan bears interest at the prime rate (3.50% at June 30, 2016) and is payable in monthly installments of principal of \$8,333, plus interest. The loan matures in December 2017. Although the loan with Amalgamated Bank of Chicago is unsecured, it is unconditionally guaranteed in full by the American Federation of Teachers, AFL-CIO (AFT). In order to induce AFT to provide this guarantee, the Union has granted AFT a security interest in all receivables of the Union, including membership dues. In addition, certain significant expenditures must receive AFT's prior approval, and AFT has the right to require the sale of the Union's real property. However, the loan with Amalgamated Bank of Chicago as well as AFT's rights (as described above) are subordinated to M&T Bank's right to payment in full of the Union's debt to M&T Bank. The outstanding balance of the loan payable to Amalgamated Bank of Chicago at June 30, 2016 and 2015 was \$1,266,717 and \$1,375,050, respectively.

As of June 30, 2016, debt matures as follows:

<u>Year ended June 30,</u>	
2017	\$ 205,122
2018	<u>4,268,651</u>
Total	\$ <u>4,473,773</u>

Interest expense for the years ended June 30, 2016 and 2015 was \$177,578 and \$182,448, respectively.

WASHINGTON TEACHERS UNION LOCAL #6
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 4: DUE TO D.C. PUBLIC SCHOOLS

The Union owes \$812,324 and \$868,441, as of June 30, 2016 and 2015, respectively, to reimburse DCPS for salaries and benefits of certain Union management personnel who are employees of DCPS. The Union and DCPS are in negotiations regarding a payment plan with respect to this liability.

NOTE 5: DUE TO AMERICAN FEDERATION OF TEACHERS

The Union is an affiliate of AFT, and is required to pay per capita assessments to AFT. In June 2014, the Union and AFT entered into an agreement to establish a payment plan for delinquent assessments of \$389,111 owed by the Union to AFT for the months of October 2013 through March 2014. Under the payment plan, beginning September 1, 2014, the Union is required to pay \$10,808 per month for 36 consecutive months to AFT, in addition to its regular monthly assessments. The Union has granted to AFT a security interest in its membership dues revenue. The Union's liability to AFT as of June 30, 2016 and 2015 was \$236,964 and \$353,710, respectively, which includes both the monthly assessment for June and amounts due under the aforementioned payment plan.

Per capita assessment expense to AFT for the years ended June 30, 2016 and 2015, amounted to \$989,272 and \$881,904, respectively.

NOTE 6: RETIREMENT PLAN

The Union has adopted a retirement plan (the Plan) to provide for contributions made under salary deferral agreements pursuant to Section 401(k) of the Internal Revenue Code. All employees shall be eligible to enter the Plan, if they are at least age 21, and have at least six months of service. The Union may make a discretionary contribution to the Plan. Union contributions were \$18,117 and \$13,769 for the years ended June 30, 2016 and 2015, respectively.

NOTE 7: OPERATING LEASES

The Union leases office equipment under leases expiring through June 2019.

The minimum future rental payments required under non-cancelable operating leases having terms in excess of one year as of June 30, 2016 are as follows:

2017	\$ 17,115
2018	13,181
2019	<u>7,632</u>
Total	\$ <u>37,928</u>

Rent expense for the years ended June 30, 2016 and 2015 was \$37,496 and \$31,376, respectively.

WASHINGTON TEACHERS UNION LOCAL #6
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 8: VEBA RELATED EXPENSES

Effective July 1, 2013, the Washington Teachers Union Option 2 VEBA (VEBA) was created. The VEBA is a voluntary employee beneficiary association which is a form of trust fund permitted under the Internal Revenue Code. The purpose of the VEBA is to provide supplemental unemployment benefits and other welfare benefits to current and former DCPS employees who meet certain eligibility requirements, and to establish, maintain, operate and administer the Washington Teachers Union Teachers' Centers. Based upon an agreement with DCPS, DCPS is to make annual contributions to the VEBA in order to fund the VEBA's operations. Through June 30, 2015, the Union incurred \$446,366 of costs relating to the VEBA's operations, primarily for the Teachers' Centers. The Union incurred additional VEBA related costs of \$263,682 during the year ended June 30, 2016, again primarily for the Teachers' Centers. The Union is seeking repayment of these amounts (less \$99,713 of tuition received from professional development courses) from the VEBA under the terms of the VEBA Trust Agreement and under the terms of a memorandum of agreement with DCPS. However, DCPS has refused to submit contributions to the VEBA to permit repayment to the Union of these amounts. The Union and DCPS have had and continue to have discussions regarding these matters; however, the probability of a favorable outcome for the Union is unknown. As a result, the accompanying statement of activities for the year ended June 30, 2015 reflects \$307,776 of VEBA related activity (\$382,217 of expenses less \$74,441 of tuition received from professional development courses), including \$89,702 of costs incurred prior to July 1, 2014 which had been recorded as receivables. In addition, \$64,149 of furniture and equipment incurred during the year ended June 30, 2015 related to the Teachers' Centers has been included in fixed assets in the accompanying June 30, 2016 and 2015 statements of financial position. The accompanying statement of activities for the year ended June 30, 2016 reflects \$238,410 of VEBA related activity (\$263,682 of expenses less \$25,272 of tuition received from professional development courses).

NOTE 9: CONTINGENCIES

The Union is involved from time to time in claims, proceedings and litigation arising from its operations. The Union does not believe that any such claim, proceeding or litigation, either alone or in the aggregate, will have a material adverse effect on the Union's financial position, activities, or cash flows.

SUPPLEMENTARY INFORMATION

**WASHINGTON TEACHERS UNION LOCAL #6
SCHEDULES OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	2016		
	Program	Management & General	Total
AFT per capita assessment	\$ 989,272	\$ 0	\$ 989,272
Advertising	476	0	476
Depreciation	168,490	42,123	210,613
Donations	0	26,888	26,888
Dues and subscriptions	735	0	735
Election	12,708	0	12,708
Employee benefits	60,392	15,098	75,490
Equipment leasing expense	29,997	7,499	37,496
Governance - other	86,452	0	86,452
Insurance	14,347	3,587	17,934
Interest expense	142,062	35,516	177,578
Legal fees	274,143	147,616	421,759
Licenses	0	0	0
Membership expenses	94,401	0	94,401
Miscellaneous	0	4,254	4,254
Officer expenses	287,182	58,821	346,003
Payroll taxes	42,030	10,508	52,538
Penalties	0	716	716
Postage and delivery	10,310	10,310	20,620
Printing and publications	37,274	9,319	46,593
Professional fees	95,847	216,860	312,707
Repairs and maintenance	5,888	5,221	11,109
Retirement plan expense	14,494	3,623	18,117
Salaries and wages	549,198	137,300	686,498
Security	0	3,246	3,246
Supplies	17,244	4,311	21,555
Taxes	33,849	8,462	42,311
Utilities	36,866	9,216	46,082
VEBA related expenses	<u>210,945</u>	<u>52,737</u>	<u>263,682</u>
TOTAL	<u>\$ 3,214,602</u>	<u>\$ 813,231</u>	<u>\$ 4,027,833</u>

	2015		
	Program	Management & General	Total
AFT per capita assessment	\$ 881,904	\$ 0	\$ 881,904
Advertising	3,375	0	3,375
Depreciation	157,984	52,662	210,646
Donations	0	11,910	11,910
Dues and subscriptions	629	0	629
Election	0	0	0
Employee benefits	44,431	14,810	59,241
Equipment leasing expense	23,532	7,844	31,376
Governance - other	66,892	0	66,892
Insurance	4,123	1,375	5,498
Interest expense	136,836	45,612	182,448
Legal fees	162,971	302,660	465,631
Licenses	0	4,750	4,750
Membership expenses	165,092	0	165,092
Miscellaneous	0	6,157	6,157
Officer expenses	418,491	79,712	498,203
Payroll taxes	46,276	15,425	61,701
Penalties	0	12,647	12,647
Postage and delivery	4,976	4,977	9,953
Printing and publications	18,766	4,691	23,457
Professional fees	235,524	171,286	406,810
Repairs and maintenance	7,096	7,096	14,192
Retirement plan expense	10,327	3,442	13,769
Salaries and wages	490,109	170,330	660,439
Security	0	2,689	2,689
Supplies	14,812	4,936	19,748
Taxes	31,300	10,433	41,733
Utilities	41,319	13,773	55,092
VEBA related expenses	<u>286,663</u>	<u>95,554</u>	<u>382,217</u>
	<u>\$ 3,253,428</u>	<u>\$ 1,044,771</u>	<u>\$ 4,298,199</u>