

**WASHINGTON TEACHERS' UNION
LOCAL #6**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY
INFORMATION**

JUNE 30, 2015 AND 2014

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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, 2015 and 2014, 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, 2015 and 2014, 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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Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 14 - 15 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
September 12, 2016

WASHINGTON TEACHERS' UNION LOCAL #6
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2015 AND 2014

ASSETS

	<u>2015</u>	<u>2014</u>
<u>ASSETS</u>		
Cash	\$ 386,912	\$ 236,773
Due from VEBA	0	39,702
Due from D.C. Public Schools	205,058	212,189
Other receivables	39,793	73
Prepaid expenses	31,911	10,189
Deposits	29,889	29,889
Fixed assets, net	<u>5,796,280</u>	<u>5,890,972</u>
TOTAL ASSETS	\$ <u>6,489,843</u>	\$ <u>6,419,787</u>

The Accompanying Notes are an Integral Part of the Financial Statements

LIABILITIES AND NET ASSETS

	<u>2015</u>	<u>2014</u>
<u>LIABILITIES</u>		
Accounts payable	\$ 162,129	\$ 101,111
Legal settlement payable	55,000	0
Accrued salaries, vacation, and payroll taxes	31,792	37,886
Accrued retirement contribution	0	25,125
Due to D.C. Public Schools	868,441	463,500
Debt	4,673,132	4,852,621
Due to American Federation of Teachers	<u>353,710</u>	<u>389,111</u>
 TOTAL LIABILITIES	 6,144,204	 5,869,354
 <u>NET ASSETS</u>		
Unrestricted	<u>345,639</u>	<u>550,433</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 6,489,843</u>	 <u>\$ 6,419,787</u>

**WASHINGTON TEACHERS' UNION LOCAL #6
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

	2015	2014
<u>REVENUE AND OTHER SUPPORT</u>		
Membership dues	\$ 3,901,476	\$ 3,681,888
Dental/optical - administration fees	64,261	52,087
Other revenue	<u>53,227</u>	<u>43,718</u>
 TOTAL REVENUE AND OTHER SUPPORT	 <u>4,018,964</u>	 <u>3,777,693</u>
<u>EXPENSES AND LOSSES</u>		
Functional expenses:		
Program services	3,197,597	2,931,067
Management and general	<u>1,026,161</u>	<u>952,322</u>
 TOTAL EXPENSES	 4,223,758	 3,883,389
Loss on disposal of fixed assets	<u>0</u>	<u>3,819</u>
 TOTAL EXPENSES AND LOSSES	 <u>4,223,758</u>	 <u>3,887,208</u>
 Change in Net Assets	 <u>(204,794)</u>	 <u>(109,515)</u>
 Net Assets - Beginning of the Year	 <u>550,433</u>	 <u>659,948</u>
 Net Assets - End of the Year	 <u>\$ 345,639</u>	 <u>\$ 550,433</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, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ (204,794)	\$ (109,515)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	210,646	47,479
Loss on disposal of fixed assets	0	3,819
Changes in operating assets and liabilities:		
Due from VEBA	39,702	(39,702)
Other receivables	(39,720)	26,693
Due from D.C. Public Schools	7,131	41,473
Prepaid expenses	(21,722)	(10,189)
Deposits	0	(29,889)
Accounts payable	61,018	(159,051)
Legal settlement payable	55,000	0
Accrued salaries, vacation, and payroll taxes	(6,094)	(8,589)
Accrued retirement contribution	(25,125)	(65,318)
Due to D.C. Public Schools	404,941	215,652
Due to American Federation of Teachers	<u>(35,401)</u>	<u>325,146</u>
 Net Cash Provided by Operating Activities	 <u>445,582</u>	 <u>238,009</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchases of fixed assets	<u>(115,954)</u>	<u>(1,913,673)</u>
 Net Cash Used in Investing Activities	 <u>(115,954)</u>	 <u>(1,913,673)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Proceeds from debt	0	1,958,000
Principal payments on debt	<u>(179,489)</u>	<u>(108,161)</u>
 Net Cash Provided by (Used in) Financing Activities	 <u>(179,489)</u>	 <u>1,849,839</u>
 NET INCREASE IN CASH	 150,139	 174,175
 CASH AT THE BEGINNING OF THE YEAR	 <u>236,773</u>	 <u>62,598</u>
 CASH AT THE END OF THE YEAR	 <u>\$ 386,912</u>	 <u>\$ 236,773</u>

The Accompanying Notes are an Integral Part of the Financial Statements

	<u>2015</u>	<u>2014</u>
Supplemental Schedule of Noncash Investing and Financing Activities:		
Building and improvements acquired from expenditures of escrow - construction funds	\$ 0	\$ 532,234
Supplemental Disclosures of Cash Flow Information:		
Interest paid (net of amounts capitalized for 2014)	\$ 182,448	\$ 38,764

WASHINGTON TEACHERS' UNION LOCAL #6
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

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 organization 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 improving 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, 2015 and 2014, 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 September 12, 2016, which is the date the financial statements were available to be issued.

WASHINGTON TEACHERS' UNION LOCAL #6
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

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 revenue 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 2014 balances have been reclassified to conform with the 2015 financial statement presentation.

WASHINGTON TEACHERS' UNION LOCAL #6
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 2: 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' Center. 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 \$371,925 of costs (net of \$74,441 of tuition received) relating to the VEBA's operations, primarily for the Teachers' Center, and is seeking repayment for \$321,925 from the VEBA under the terms of the VEBA Trust Agreement and the remaining \$50,000 from DCPS 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 the \$321,925, and similarly has refused to pay the \$50,000 due under the memorandum of agreement. 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 expenses (net of tuition received), including \$89,702 incurred prior to July 1, 2014 which had been recorded as receivables (\$39,702 from the VEBA and \$50,000 from DCPS). In addition, \$64,149 of furniture and equipment related to the Teachers' Center has been included in fixed assets in the accompanying June 30, 2015 statement of financial position.

NOTE 3: FIXED ASSETS

The following is a summary of fixed assets at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Land	\$ 505,140	\$ 505,140
Building and improvements	5,165,472	5,125,356
Furniture and equipment	<u>409,640</u>	<u>334,604</u>
 Total	 6,080,252	 5,965,100
 Less: accumulated depreciation	 <u>(283,972)</u>	 <u>(74,128)</u>
 TOTAL FIXED ASSETS - NET	 <u>\$ 5,796,280</u>	 <u>\$ 5,890,972</u>

Depreciation expense for the years ended June 30, 2015 and 2014, amounted to \$210,646 and \$47,479, respectively.

In April 2014, the Union completed renovation of its facility located in Washington, D.C. Costs incurred and capitalized through June 30, 2014 include construction costs, certain professional fees, as well as other related costs that meet the criteria for capitalization as required by accounting principles generally accepted in the United States of America.

WASHINGTON TEACHERS' UNION LOCAL #6
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 4: 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, 2015 and 2014 was \$2,851,657 and \$2,928,746, 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, 2015 and 2014 was \$446,425 and \$457,158, respectively.

The M&T Bank loans have a financial covenant which requires a minimum debt service coverage ratio beginning with the quarter ended June 30, 2014. The Union did not meet this financial covenant for certain quarters during the year ended June 30, 2015.

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 (3.25% at June 30, 2015) 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, 2015 and 2014 was \$1,375,050 and \$1,466,717, respectively.

As of June 30, 2015, scheduled debt maturities are as follows:

<u>Year ended June 30,</u>	
2016	\$ 197,499
2017	205,122
2018	<u>4,270,511</u>
Total	\$ <u>4,673,132</u>

Interest expense for the years ended June 30, 2015 and 2014 was \$182,448 and \$38,764, respectively. Interest capitalized for the years ended June 30, 2015 and 2014 due to the renovation of the office facility was \$0 and \$101,213, respectively.

WASHINGTON TEACHERS' UNION LOCAL #6
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 5: DUE TO D.C. PUBLIC SCHOOLS

The Union owes \$868,441 and \$463,500, as of June 30, 2015 and 2014, respectively, to reimburse DCPS for salaries and benefits of certain Union management personnel who are employees of DCPS. Subsequent to June 30, 2015, the Union has made payments totaling \$597,384.

NOTE 6: 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 due revenue.

Per capita assessment expense to AFT for the years ended June 30, 2015 and 2014, amounted to \$881,904 and \$782,341, respectively.

NOTE 7: 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 makes a safe harbor contribution of 3% of eligible compensation. Union contributions were \$13,769 and \$27,709 for the years ended June 30, 2015 and 2014, respectively.

As of January 1, 2015, the Plan was amended to remove the safe harbor contribution requirement and allow a discretionary employer profit sharing contribution. For the six month period ended June 30, 2015, there were no profit sharing contributions made into the Plan.

NOTE 8: OPERATING LEASES

The Union leases office equipment under leases expiring through June 2019. During the year ended June 30, 2014, the Union was leasing office space. This lease agreement ended in April 2014, when the Union occupied its current building.

The minimum future rental payments required under non-cancelable operating leases having terms in excess of one year as of June 30, 2015 are as follows:

2016	\$ 18,426
2017	17,115
2018	13,181
2019	<u>7,632</u>
Total	\$ <u>56,354</u>

WASHINGTON TEACHERS' UNION LOCAL #6
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 8: OPERATING LEASES (Continued)

Equipment leasing and rent expense for the years ended June 30, 2015 and 2014 was \$31,376 and \$212,261, respectively.

NOTE 9: CONTINGENCIES

During the year ended June 30, 2015, the Union had been threatened with a lawsuit by counsel retained by certain former Union employees. These former employees claim that the Union owed them a combined amount of \$100,000 in unpaid 401(k) employer contributions, together with fees, costs, and interest of an additional \$82,000. The Union and the former employees reached a settlement in July 2015 in which the Union agreed to pay \$55,000 as a final resolution of all claims. This amount has been recorded as a liability as of June 30, 2015.

In addition to the above matter, the Union is involved from time to time in other claims, proceedings and litigation arising from its operations. The Union does not believe that any such other 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, 2015 AND 2014**

	2015		
	Program	Management & General	Total
AFT per capita assessment	\$ 881,904	\$ 0	\$ 881,904
Accounting fees	14,312	152,050	166,362
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
Equipment leasing expense	23,532	7,844	31,376
Employee benefits	44,431	14,810	59,241
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
Moving expense	0	0	0
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	221,212	19,236	240,448
Rent expense	0	0	0
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 - net	<u>230,832</u>	<u>76,944</u>	<u>307,776</u>
TOTAL	<u>\$ 3,197,597</u>	<u>\$ 1,026,161</u>	<u>\$ 4,223,758</u>

	2014		
	Program	Management & General	Total
AFT per capita assessment	\$ 782,341	\$ 0	\$ 782,341
Accounting fees	5,147	97,803	102,950
Advertising	0	729	729
Depreciation	35,451	12,028	47,479
Donations	0	10,620	10,620
Dues and subscriptions	969	0	969
Equipment leasing expense	15,285	5,095	20,380
Employee benefits	69,588	23,610	93,198
Governance - other	44,373	8,862	53,235
Insurance	21,427	7,270	28,697
Interest expense	28,944	9,820	38,764
Legal fees	165,572	302,000	467,572
Licenses	0	994	994
Membership expenses	170,345	0	170,345
Miscellaneous	0	8,104	8,104
Moving expense	0	21,038	21,038
Officer expenses	332,969	51,225	384,194
Payroll taxes	53,720	18,226	71,946
Penalties	0	627	627
Postage and delivery	8,239	8,239	16,478
Printing and publications	20,892	5,223	26,115
Professional fees	359,267	51,324	410,591
Rent expense	143,911	47,970	191,881
Repairs and maintenance	9,921	16,535	26,456
Retirement plan expense	20,689	7,020	27,709
Salaries and wages	555,630	185,210	740,840
Security	0	4,139	4,139
Supplies	0	19,302	19,302
Taxes	22,891	7,766	30,657
Utilities	63,496	21,543	85,039
VEBA related expenses - net	<u>0</u>	<u>0</u>	<u>0</u>
	<u>\$ 2,931,067</u>	<u>\$ 952,322</u>	<u>\$ 3,883,389</u>