

**WASHINGTON TEACHERS UNION
LOCAL #6**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY
INFORMATION**

JUNE 30, 2014 AND 2013

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Washington Teachers Union Local #6

We have audited the accompanying financial statements of Washington Teachers Union Local #6, which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and cash flows for the year 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 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 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, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Board of Directors
Washington Teachers Union Local #6
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Prior Period Financial Statements

The financial statements of Washington Teachers Union Local #6 as of and for the year ended June 30, 2013, were audited by other auditors whose report dated November 20, 2013, on those statements included an emphasis-of-matter paragraph that the June 30, 2013 financial statements were prepared assuming that the Union would continue as a going concern. As discussed in Note G to their financial statements, the Union's financial obligations for the construction of its new headquarters building raised substantial doubt about its ability to continue as a going concern.

In addition, as discussed in Note 8 to the financial statements, the Union has restated its June 30, 2013 financial statements during the current year to correct the accounting for a deposit that had been previously refunded. The other auditors reported on the June 30, 2013 financial statements before the restatement. As part of our audit of the June 30, 2014 financial statements, we also audited adjustments described in Note 8 that were applied to restate the June 30, 2013 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the June 30, 2013 financial statements of the Union other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the June 30, 2013 financial statements as a whole.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The 2014 supplementary information on page 13 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 audit 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. The 2013 supplementary information on page 14 was subjected to the auditing procedures applied in the 2013 audit of the basic financial statements by other auditors, whose report on such information stated that it was fairly stated in all material respects in relation to the 2013 financial statements as a whole.

Katz Abosch Windesheim Gushman + Freedman, PA

Timonium, Maryland
March 25, 2015

WASHINGTON TEACHERS UNION LOCAL #6
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 AND 2013

ASSETS

	<u>2014</u>	<u>2013</u>
<u>CURRENT ASSETS</u>		
Cash	\$ 234,956	\$ 62,598
Escrow - construction	1,817	534,051
Due from D.C. Public Schools	212,189	253,662
Other receivables	43,997	26,766
Prepaid expenses	10,189	0
Deposits	<u>25,667</u>	<u>0</u>
 TOTAL CURRENT ASSETS	 528,815	 877,077
 <u>FIXED ASSETS - NET</u>	 <u>5,890,972</u>	 <u>3,494,546</u>
 TOTAL ASSETS	 <u>\$ 6,419,787</u>	 <u>\$ 4,371,623</u>

The Accompanying Notes are an Integral Part of the Financial Statements

LIABILITIES AND NET ASSETS

	<u>2014</u>	<u>2013</u>
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 101,111	\$ 260,162
Current portion of long-term debt	190,847	74,063
Accrued salaries, vacation, and payroll taxes	37,886	46,475
Accrued retirement contribution	25,125	90,443
Due to D.C. Public Schools	463,500	247,848
Due to American Federation of Teachers	<u>108,083</u>	<u>0</u>
 TOTAL CURRENT LIABILITIES	 <u>926,552</u>	 <u>718,991</u>
 <u>LONG-TERM LIABILITIES</u>		
Long-term debt	4,661,774	2,928,719
Due to American Federation of Teachers	<u>281,028</u>	<u>63,965</u>
 TOTAL LONG-TERM LIABILITIES	 <u>4,942,802</u>	 <u>2,992,684</u>
 TOTAL LIABILITIES	 5,869,354	 3,711,675
 <u>NET ASSETS</u>		
Unrestricted	<u>550,433</u>	<u>659,948</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 6,419,787</u>	 <u>\$ 4,371,623</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, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<u>REVENUE, GAINS AND OTHER SUPPORT</u>		
Membership dues	\$ 3,681,888	\$ 3,605,546
Dental/optical - administration fees	52,087	86,786
Other revenue	<u>43,718</u>	<u>356,627</u>
 TOTAL REVENUE, GAINS AND OTHER SUPPORT	 <u>3,777,693</u>	 <u>4,048,959</u>
<u>EXPENSES AND LOSSES</u>		
Functional expenses:		
Program services	2,935,818	3,001,835
Management and general	<u>947,571</u>	<u>906,348</u>
 TOTAL EXPENSES	 3,883,389	 3,908,183
Loss on disposal of fixed assets	<u>3,819</u>	<u>0</u>
 TOTAL EXPENSES AND LOSSES	 <u>3,887,208</u>	 <u>3,908,183</u>
 Change in Net Assets	 <u>(109,515)</u>	 <u>140,776</u>
 Net Assets - Beginning of the Year, as previously reported	 659,948	 559,702
 Prior period adjustment	 <u>0</u>	 <u>(40,530)</u>
 Net Assets - Beginning of the Year, as restated	 <u>659,948</u>	 <u>519,172</u>
 Net Assets - End of the Year	 <u>\$ 550,433</u>	 <u>\$ 659,948</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, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ (109,515)	\$ 140,776
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	47,479	12,419
Loss on disposal of fixed assets	3,819	0
Changes in operating assets and liabilities:		
Other receivables	(17,231)	(39,627)
Due from D.C. Public Schools	41,473	(112,368)
Prepaid expenses	(10,189)	0
Deposits	(25,667)	0
Accounts payable	(159,051)	183,745
Accrued salaries, vacation, and payroll taxes	(8,589)	(93,311)
Accrued retirement contribution	(65,318)	(50,157)
Due to D.C. Public Schools	215,652	125,427
Due to American Federation of Teachers	<u>325,146</u>	<u>(7,885)</u>
 Net Cash Provided by Operating Activities	 <u>238,009</u>	 <u>159,019</u>
 <u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchases of fixed assets	<u>(1,915,490)</u>	<u>(390,663)</u>
 Net Cash Used in Investing Activities	 <u>(1,915,490)</u>	 <u>(390,663)</u>
 <u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Proceeds from debt	1,958,000	0
Principal payments on debt	<u>(108,161)</u>	<u>0</u>
 Net Cash Provided by Financing Activities	 <u>1,849,839</u>	 <u>0</u>
 NET INCREASE (DECREASE) IN CASH	 172,358	 (231,644)
 CASH AT THE BEGINNING OF THE YEAR	 <u>62,598</u>	 <u>294,242</u>
 CASH AT THE END OF THE YEAR	 <u>\$ 234,956</u>	 <u>\$ 62,598</u>

The Accompanying Notes are an Integral Part of the Financial Statements

	<u>2014</u>	<u>2013</u>
Supplemental Schedule of Noncash Investing and Financing Activities:		
Debt proceeds deposited into escrow - construction funds	\$ 0	\$ 623,611
Building and improvements acquired from expenditures of escrow - construction funds	532,234	89,560
Supplemental Disclosures of Cash Flow Information:		
Interest paid (net of amounts capitalized)	\$ 38,764	\$ 0

WASHINGTON TEACHERS UNION LOCAL #6
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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, 2014 and 2013, 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.

The Union's Forms 990, Return of Organization Exempt from Income Tax, for the years ended June 30, 2014, 2013 and 2012 are subject to examination by the IRS, generally for three years after they were filed.

Subsequent events

The Union has evaluated subsequent events through March 25, 2015, which is the date the financial statements were available to be issued.

WASHINGTON TEACHERS UNION LOCAL #6
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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 2013 balances have been reclassified to conform with the 2014 financial statement presentation.

NOTE 2: FIXED ASSETS

The following is a summary of fixed assets at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Land	\$ 505,140	\$ 505,140
Building and improvements	5,125,356	0
Construction in process	0	2,861,323
Furniture and equipment	<u>334,604</u>	<u>373,163</u>
Total	5,965,100	3,739,626
Less: accumulated depreciation	<u>(74,128)</u>	<u>(245,080)</u>
TOTAL FIXED ASSETS - NET	<u>\$ 5,890,972</u>	<u>\$ 3,494,546</u>

Depreciation expense for the years ended June 30, 2014 and 2013, amounted to \$47,479 and \$12,419, respectively.

WASHINGTON TEACHERS UNION LOCAL #6
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 2: FIXED ASSETS (Continued)

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.

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, 2014 and 2013 was \$2,928,746 and \$3,002,782, 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, 2014 was \$457,158.

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 satisfy this covenant for the quarters ended June 30, 2014 and September 30, 2014. However, M&T Bank has granted a written waiver of these covenant violations.

As required by the M&T Bank loan agreement, a construction escrow bank account was established during the year ended June 30, 2013. Disbursements from such account are restricted by M&T Bank to the construction costs of the office renovation.

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, 2014) 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 Unions'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, 2014 was \$1,466,717.

WASHINGTON TEACHERS UNION LOCAL #6
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 3: DEBT (Continued)

As of June 30, 2014, debt matures as follows:

<u>Year ended June 30,</u>	
2015	\$ 190,847
2016	197,499
2017	205,122
2018	<u>4,259,153</u>
Total	\$ <u>4,852,621</u>

Interest expense for the years ended June 30, 2014 and 2013 was \$38,764 and \$0, respectively. Interest capitalized for the years ended June 30, 2014 and 2013 due to the renovation of the office facility was \$101,213 and \$104,555, respectively.

NOTE 4: DUE TO D.C. PUBLIC SCHOOLS

The Union owes \$463,500 to reimburse DCPS for salaries and benefits of certain Union management personnel who are employees of DCPS.

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 due revenue.

Per capita assessment expense to AFT for the years ended June 30, 2014 and 2013, amounted to \$782,341 and \$808,736, 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 not covered by the terms of a collective bargaining agreement, 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 \$27,709 and \$61,911 for the years ended June 30, 2014 and 2013, respectively.

NOTE 7: OPERATING LEASES

The Union leases office equipment under leases expiring through June 2019. During both years ended June 30, 2014 and 2013, the Union was leasing office space. This lease agreement ended in April 2014, when the Union occupied its current building.

WASHINGTON TEACHERS UNION LOCAL #6
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 7: OPERATING LEASES (Continued)

The minimum future rental payments required under non-cancelable operating leases having terms in excess of one year as of June 30, 2014 are as follows:

2015		\$	12,876
2016			12,876
2017			11,565
2018			7,632
2019			<u>7,632</u>
Total		\$	<u>52,581</u>

Rent expense for the years ended June 30, 2014 and 2013 was \$212,261 and \$221,267, respectively.

NOTE 8: PRIOR PERIOD ADJUSTMENT

The accompanying June 30, 2013 financial statements have been restated to remove a \$40,530 deposit asset which had in fact been refunded to the Union prior to July 1, 2012. There was no effect on the change in net assets for the year ended June 30, 2013.

The effects of the restatement on financial position as of June 30, 2013 are as follows:

		<u>Restated</u>		<u>As previously reported</u>
Deposits	\$	0	\$	40,530
Net assets		659,949		700,479

NOTE 9: CONTINGENCIES

The Union has been threatened with a lawsuit by counsel retained by five former Union employees. These former employees claim that the Union owes them a combined amount of \$100,000 in unpaid 401(k) employer contributions, together with fees, costs, and interest of an additional \$82,000. Counsel for the claimants has given the Union thirty days from March 12, 2015 to resolve the matter or a formal complaint will be filed. The Union and its outside counsel are in the process of investigating the factual basis of these claims, and may attempt to resolve through settlement. However, outside counsel cannot yet offer an opinion as to the probable outcome of this matter. Accordingly, no amounts are reflected in the accompanying financial statements relating to this matter.

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, processing 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, 2014 AND 2013**

	2014		
	Program	Management & General	Total
Accounting fees	\$ 5,147	\$ 97,803	\$ 102,950
Advertising	0	729	729
Professional Development	0	0	0
Depreciation	35,451	12,028	47,479
Dues and subscriptions	969	0	969
AFT per capita assessment	782,341	0	782,341
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
Officer expenses	332,969	51,225	384,194
Legal fees	165,572	302,000	467,572
Licenses	0	994	994
Miscellaneous	0	8,104	8,104
Penalties	0	627	627
Payroll taxes	53,720	18,226	71,946
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
Membership expenses	170,345	0	170,345
Rent expense	158,488	53,773	212,261
Retirement plan expense	20,689	7,020	27,709
Moving expense	0	21,038	21,038
Salaries and wages	561,089	190,371	751,460
Security	0	4,139	4,139
Supplies	0	19,302	19,302
Repairs and Maintenance	9,921	16,535	26,456
Taxes	22,891	7,766	30,657
Utilities	63,496	21,543	85,039
TOTAL	<u>\$ 2,935,818</u>	<u>\$ 947,571</u>	<u>\$ 3,883,389</u>

	2013		
	Program	Management & General	Total
Accounting fees	\$ 3,970	\$ 75,440	\$ 79,410
Advertising	0	19,260	19,260
Professional Development	54,018	0	54,018
Depreciation	9,273	3,146	12,419
Dues and subscriptions	403	0	403
AFT per capita assessment	808,736	0	808,736
Employee benefits	68,519	23,248	91,767
Governance - other	29,116	15,492	44,608
Insurance	16,768	5,689	22,457
Interest expense	0	0	0
Officer expenses	203,896	18,536	222,432
Legal fees	237,300	237,300	474,600
Licenses	0	17,973	17,973
Miscellaneous	0	47,408	47,408
Penalties	0	0	0
Payroll taxes	46,127	15,650	61,777
Postage and delivery	14,103	14,103	28,206
Printing and publications	48,338	12,085	60,423
Professional fees	143,222	15,914	159,136
Membership expenses	285,496	0	285,496
Rent expense	165,213	56,054	221,267
Retirement plan expense	46,227	15,684	61,911
Moving expense	0	0	0
Salaries and wages	718,849	243,896	962,745
Security	0	4,192	4,192
Supplies	0	28,883	28,883
Repairs and Maintenance	1,281	2,134	3,415
Taxes	30,753	10,434	41,187
Utilities	70,227	23,827	94,054
	<u>\$ 3,001,835</u>	<u>\$ 906,348</u>	<u>\$ 3,908,183</u>