

CHICAGO TEACHERS UNION  
COMBINED FINANCIAL REPORT  
JUNE 30, 2019 AND 2018

CHICAGO TEACHERS UNION

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INDEPENDENT AUDITOR'S REPORT

Chicago Teachers Union  
Chicago, Illinois

***Report on the Financial Statements***

We have audited the accompanying combined financial statements of Chicago Teachers Union, which comprise the combined statements of financial position as of June 30, 2019 and 2018, and the related combined statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the combined financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on these combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, 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 combined 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 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of Chicago Teachers Union as of June 30, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matter***

As described in Note 1 to the financial statements, Chicago Teachers Union adopted the provisions of Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* during the year ended June 30, 2019. Our opinion is not modified in respect to this matter.

***Consolidated Financial Statements of Chicago Teachers Union***

We have also audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated financial statements of Chicago Teachers Union, which comprise the consolidated statement of financial position as of June 30, 2019 and 2018 and the related consolidated statements of activities, functional expenses and cash flows for the year then ended (none of which are presented herein), and we expressed an unmodified opinion on those financial statements. Such consolidated financial statements are the general purpose financial statements of Chicago Teachers Union, and the combined financial statements of Chicago Teachers Union presented herein are not a valid substitute for those consolidated financial statements.

*Bansley and Kiener, L.L.P.*

Certified Public Accountants

September 9, 2020

CHICAGO TEACHERS UNIONCOMBINED STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2019 AND 2018

<u>A S S E T S</u>	<u>2019</u>	<u>2018</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 5,346,427	\$ 3,318,179
Certificates of deposit	125,594	125,594
Receivables		
Due from Foundations	3,284,169	2,656,274
Due from affiliates	927,970	884,703
Other receivables	977,910	907,433
Prepaid expenses and other current assets	142,554	157,239
Total current assets	<u>10,804,624</u>	<u>8,049,422</u>
ACCRUED RENTAL REVENUE	<u>81,975</u>	<u>101,639</u>
DEFERRED LEASING COSTS, net	<u>66,582</u>	<u>96,174</u>
PROPERTY AND EQUIPMENT, net	<u>4,322,318</u>	<u>5,409,900</u>
Total	<u>\$15,275,499</u>	<u>\$13,657,135</u>
<u>LIABILITIES AND NET ASSETS</u>		
<b>CURRENT LIABILITIES</b>		
Current maturities of capital lease obligations	\$ 101,109	\$ 90,344
Accounts payable	4,658,475	2,042,298
Accrued expenses	3,484,167	5,467,356
Total current liabilities	<u>8,243,751</u>	<u>7,599,998</u>
<b>LONG-TERM LIABILITIES</b>		
Capital lease obligations, less current maturities	138,263	233,297
Note payable - Foundation	4,708,369	5,021,213
Deferred rent	1,352,668	1,756,831
	<u>6,199,300</u>	<u>7,011,341</u>
<b>NET ASSETS (DEFICIENCY)</b>		
Net assets without donor restrictions	360,166	(1,195,435)
Net assets with donor restrictions	472,282	241,231
Total net assets (deficiency)	<u>832,448</u>	<u>(954,204)</u>
Total	<u>\$15,275,499</u>	<u>\$13,657,135</u>

The accompanying notes are an integral part of the combined financial statements.

CHICAGO TEACHERS UNION

COMBINED STATEMENTS OF ACTIVITIES  
YEARS ENDED JUNE 30, 2019 AND 2018

	2019			2018		
	Net assets without donor restrictions	Net assets with donor restrictions	Total	Net assets without donor restrictions	Net assets with donor restrictions	Total
Net assets without donor restrictions						
Support and revenue						
Dues and fees	\$25,322,335	\$ -	\$25,322,335	\$24,574,480	\$ -	\$24,574,480
IFT organizational and other assistance	2,686,003	492,725	3,178,728	2,613,574	460,251	3,073,825
AFT reimbursement and special assistance	519,881	-	519,881	267,896	-	267,896
Contributions	-	630,465	630,465	-	337,747	337,747
Rent	379,050	-	379,050	378,249	-	378,249
Interest	1,001	-	1,001	2,320	-	2,320
Other	19,022	(396)	18,626	16,243	(19,812)	(3,569)
	<u>28,927,292</u>	<u>1,122,794</u>	<u>30,050,086</u>	<u>27,852,762</u>	<u>778,186</u>	<u>28,630,948</u>
Net assets released from restrictions	891,743	(891,743)	-	1,132,671	(1,132,671)	-
Total support and revenue	<u>29,819,035</u>	<u>231,051</u>	<u>30,050,086</u>	<u>28,985,433</u>	<u>(354,485)</u>	<u>28,630,948</u>
Expenses						
Collective bargaining and member services	5,839,691	-	5,839,691	6,773,593	-	6,773,593
Unallocated payments to affiliates	13,557,550	-	13,557,550	13,384,652	-	13,384,652
Member development	2,084,432	-	2,084,432	2,872,250	-	2,872,250
Management and general activities	5,890,018	-	5,890,018	7,140,947	-	7,140,947
Political action committee	889,743	-	889,743	1,132,671	-	1,132,671
RAPP	2,000	-	2,000	-	-	-
Total expenses	<u>28,263,434</u>	<u>-</u>	<u>28,263,434</u>	<u>31,304,113</u>	<u>-</u>	<u>31,304,113</u>
Increase (decrease) in net assets	1,555,601	231,051	1,786,652	(2,318,680)	(354,485)	(2,673,165)
Net assets (deficiency) beginning of year	(1,195,435)	241,231	(954,204)	1,115,178	595,716	1,710,894
Net assets transferred in merger	-	-	-	8,067	-	8,067
Net assets (deficiency) end of year	<u>\$ 360,166</u>	<u>\$ 472,282</u>	<u>\$ 832,448</u>	<u>\$ (1,195,435)</u>	<u>\$ 241,231</u>	<u>\$ (954,204)</u>

The accompanying notes are an integral part of the combined financial statements.

CHICAGO TEACHERS UNION  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2019

	Program Services	Supporting Services					Totals
	Collective Bargaining and Member Services	Unallocated Payments to Affiliates	Member Development	Management and General Activities	Political Action Committee	RAPP	
Affiliations	\$ -	\$13,557,550	\$ -	\$ -	\$ -	\$ -	\$13,557,550
Salaries	2,539,437	-	1,003,496	2,125,755	-	-	5,668,688
Employee benefits	665,917	-	289,232	621,936	-	-	1,577,085
Payroll taxes	210,913	-	77,547	162,801	-	-	451,261
Travel and staff expense	260,609	-	55,563	44,070	-	-	360,242
Collective bargaining	160,600	-	63,980	-	-	-	224,580
Meetings	291,641	-	85,655	28,984	-	-	406,280
Defense	733,805	-	-	-	-	-	733,805
Professional fees	-	-	-	1,049,047	-	-	1,049,047
Publications	130,340	-	5,600	14,097	-	-	150,037
Death benefits	-	-	13,000	-	-	-	13,000
Political Action Committee	-	-	-	-	889,743	-	889,743
All other	12,468	-	166,961	611,248	-	2,000	792,677
Conventions and conferences	-	-	-	136,025	-	-	136,025
Executive board	-	-	-	30,979	-	-	30,979
Election expenses	-	-	-	280,609	-	-	280,609
Rent and utilities	303,361	-	117,639	243,766	-	-	664,766
Telephone	22,937	-	8,895	18,431	-	-	50,263
Office supplies and expense	150,164	-	58,231	120,664	-	-	329,059
Insurance	44,027	-	17,073	35,377	-	-	96,477
Depreciation and amortization	313,472	-	121,560	251,892	-	-	686,924
Interest expense	-	-	-	114,337	-	-	114,337
	<u>\$ 5,839,691</u>	<u>\$13,557,550</u>	<u>\$ 2,084,432</u>	<u>\$ 5,890,018</u>	<u>\$ 889,743</u>	<u>\$ 2,000</u>	<u>\$28,263,434</u>
	21%	48%	7%	21%	3%	0%	100%

The accompanying notes are an integral part of the combined financial statements.

CHICAGO TEACHERS UNIONSTATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2018

	Program	Supporting Services				Totals
	Services	Unallocated	Member	Management	Political	
	Collective	Payments to	Development	and General	Action	
	Bargaining	Affiliates		Activities	Committee	
	and Member					
	Services					
Affiliations	\$ -	\$13,384,652	\$ -	\$ -	\$ -	\$13,384,652
Salaries	2,491,175	-	1,197,105	2,713,887	-	6,402,167
Employee benefits	629,884	-	283,204	818,850	-	1,731,938
Payroll taxes	163,994	-	70,754	275,469	-	510,217
Travel and staff expense	254,297	-	64,444	62,905	-	381,646
Collective bargaining	65,749	-	288,626	-	-	354,375
Meetings	224,527	-	60,802	-	-	285,329
Defense	892,053	-	-	-	-	892,053
Professional fees	-	-	-	704,081	-	704,081
Publications	232,771	-	-	32,147	-	264,918
Death benefits	-	-	15,500	-	-	15,500
Political Action Committee	-	-	-	-	1,132,671	1,132,671
All other	43,870	-	81,506	242,421	-	367,797
Conventions and conferences	-	-	-	71,375	-	71,375
Executive board	-	-	-	50,176	-	50,176
Election expenses	-	-	-	340	-	340
Rent and utilities	1,272,330	-	580,745	1,391,592	-	3,244,667
Telephone	18,651	-	8,513	20,400	-	47,564
Office supplies and expense	156,452	-	71,411	171,116	-	398,979
Insurance	35,812	-	16,346	39,170	-	91,328
Depreciation and amortization	292,028	-	133,294	319,402	-	744,724
Interest expense	-	-	-	227,616	-	227,616
	<u>\$ 6,773,593</u>	<u>\$13,384,652</u>	<u>\$ 2,872,250</u>	<u>\$ 7,140,947</u>	<u>\$ 1,132,671</u>	<u>\$31,304,113</u>
	22%	43%	9%	23%	4%	100%

The accompanying notes are an integral part of the combined financial statements.



CHICAGO TEACHERS UNIONCOMBINED STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	<u>\$ 1,786,652</u>	<u>\$(2,673,165)</u>
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	686,924	744,724
Deferred rent	(404,163)	30,687
Amortization of deferred leasing costs	29,592	29,592
Interest accrued on note payable	100,561	208,248
Changes in assets and liabilities:		
(Increase) decrease in:		
Due from Foundations	(627,895)	(1,060,540)
Due from affiliates	(43,267)	(302,572)
Other receivables	(70,477)	(302,884)
Prepaid expenses and other current assets	14,685	42,863
Accrued rental revenue	19,664	(101,639)
Increase (decrease) in:		
Accounts payable	2,616,177	(583,960)
Accrued expenses	(1,983,189)	803,382
Total adjustments	<u>338,612</u>	<u>(492,099)</u>
Net cash provided by (used in) operating activities	<u>2,125,264</u>	<u>(3,165,264)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(12,747)	(391,616)
Purchase of certificates of deposit	-	(325)
Proceeds from maturities of certificates of deposit	-	109,527
Net cash used in investing activities	<u>(12,747)</u>	<u>(282,414)</u>
Cash flows from financing activities:		
Reduction of capital lease obligations	<u>(84,269)</u>	<u>(102,261)</u>
Net cash used in financing activities	<u>(84,269)</u>	<u>(102,261)</u>
Assets transferred in merger	-	8,067
Net increase (decrease) in cash and cash equivalents	2,028,248	(3,541,872)
Cash and cash equivalents		
Beginning of year	<u>3,318,179</u>	<u>6,860,051</u>
End of year	<u>\$ 5,346,427</u>	<u>\$ 3,318,179</u>
Supplemental disclosures of cash flow information		
Cash payment for:		
Interest	\$ 13,677	\$ 19,281
Non-cash investing and financing activities:		
Reduction in note payable and leasehold improvements due to revised estimate of construction costs	\$ 413,406	\$ -

The accompanying notes are an integral part of the combined financial statements.

CHICAGO TEACHERS UNIONNOTES TO COMBINED FINANCIAL STATEMENTS

## Note 1 – Nature of Activities and Significant Accounting Policies

*Nature of Activities*

The Chicago Teachers Union (“Union”) is an organization whose objective is to improve the status of teachers, educational workers and other workers in the City of Chicago.

The Chicago Teachers Union Political Action Committee (PAC) was organized on January 4, 1975. The PAC is comprised of the officers and a trustee of the Union. Contributions to the PAC are voluntary from Union members.

The Chicagoans United for Economic Security Political Action Committee (CUES) was organized on February 5, 2014 and terminated effective January 29, 2019. CUES is also comprised of the officers and a trustee of the Union.

Chicago Teachers Union Local 1 PAC (CTU Local 1 PAC) was organized on February 14, 2018. CTU Local 1 PAC is also comprised of the officers and a trustee of the Union.

*Principles of Combination*

The combined financial statements include the accounts of the Union, the PAC, CUES and CTU Local 1 PAC after elimination of all significant interfund balances and transactions.

The Union is affiliated with the Chicago Teachers Union Foundation, Inc. (Foundation) which is not combined herein. During 2017, the Union relocated its offices from the Merchandise Mart to the building owned by the Foundation (See Note 4). Management evaluated its present relationship with the Foundation and determined both control and an economic interest exist. Consequently, the Union prepared separate general purpose financial statements as of and for the years ended June 30, 2019 and 2018 consolidating the activities of the Foundation.

The Union has a controlling financial interest in the Children and Teachers Foundation of Chicago Teachers Union (Children and Teachers Foundation). The Union has elected not to combine this entity in the combined financial statements; however, it is included in the general purpose financial statements of the Union.

*Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

*Cash and Cash Equivalents*

For purposes of the statement of cash flows, the Union considers all cash accounts, which are not subject to withdrawal restrictions or penalties, and all money market funds to be cash equivalents.

CHICAGO TEACHERS UNION

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 1 – Nature of Activities and Significant Accounting Policies (Continued)

*Property and Depreciation*

Depreciation of property and equipment is computed principally on the straight-line method over the following estimated useful lives:

	Years
Office equipment	5-7
Leasehold improvements	5-15

Maintenance and repairs of property and equipment are charged to operations and major improvements are capitalized. When assets (including equipment under capital lease) are sold, retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the change in net assets.

*Restricted and Unrestricted Revenue and Support*

Net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Union and changes therein are classified as follows:

*Net assets without donor restrictions:* Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Union. The Union's Executive Board may designate assets without restrictions for specific operational purposes from time to time.

*Net assets with donor restrictions:* Net assets subject to stipulations imposed by donors. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

*Deferred Leasing Costs and Tenant Improvements*

Leasing commissions, other leasing costs, and tenant improvements directly attributable to the tenant sublease are capitalized as deferred leasing costs or leasehold improvements and are amortized or depreciated over the term of the sublease agreement.

*Rental Revenue*

The Union records rental revenue on a straight-line basis for "free rent" and for minimum rental revenue increases scheduled over the lease term as required by accounting principles generally accepted in the United States of America. The difference between rental revenue earned on a straight-line basis and the cash rent due under provisions of the lease agreement is recorded as accrued rent revenue on the accompanying statement of financial position.

*Death Benefits*

The Union provides a discretionary death benefit for beneficiaries of individuals who are Union members at the time of death. The benefit is a one-time payment ranging from \$300 to \$1,000 based on the individual's length of membership. The Union's policy is to expense these benefits as they are incurred. Death benefit expense for the years ended June 30, 2019 and 2018 was \$13,000 and \$15,500, respectively.

CHICAGO TEACHERS UNIONNOTES TO COMBINED FINANCIAL STATEMENTS

## Note 1 – Nature of Activities and Significant Accounting Policies (Continued)

*Income Tax Status*

The Union is exempt from federal income taxes under Section 501(c)(5) of the Internal Revenue Code. The PAC, CUES and CTU Local 1 PAC, as political organizations under Section 527 of the Internal Revenue Code, are exempt from income taxes with the exception of their net investment income. No provision for income taxes was required for 2019 or 2018. The Union's and political organizations' tax filings for the prior three years are subject to review by the Internal Revenue Service, generally for three years after the returns have been filed.

*Functional Expenses*

Expenses are categorized based upon their functional classifications on the statements of activities. The statements of functional expenses present the natural classification of expenses by function. Certain expenses are allocated among program and supporting services benefitted. Expenses attributable to both program services and supporting services are allocated on a reasonable basis that is consistently applied. Certain expenditures are allocated based upon direct expenditures incurred, while others are allocated based upon estimated time and effort.

*Reclassifications*

Certain reclassifications have been made in the prior year financial statements to conform to the current year presentation. The reclassifications had no impact on previously reported net assets.

*Evaluation of Subsequent Events*

Management has evaluated subsequent events through September 9, 2020, the date the financial statements were available to be issued.

*New Accounting Pronouncement*

On August 18, 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). The Union has adjusted the presentation of its financial statements accordingly, applying the changes retrospectively to the comparative period presented. The new standards changed the following aspects of the Union's financial statements:

- The temporarily restricted and permanently restricted net assets classes have been combined into a single net asset class renamed net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The addition of a statement of functional expenses for each year presented.
- The financial statements include a new disclosure about liquidity and availability of resources (Note 11).

CHICAGO TEACHERS UNIONNOTES TO COMBINED FINANCIAL STATEMENTS

## Note 1 – Nature of Activities and Significant Accounting Policies (Continued)

*New Accounting Pronouncement (Continued)*

The changes have the following effect on net assets at June 30, 2018.

<u>Net Asset Class</u>	<u>As Originally Presented</u>	<u>After Adoption of ASU 2016-14</u>
Unrestricted net assets (deficiency)	\$(1,195,435)	\$ -
Temporarily restricted net assets	239,231	-
Permanently restricted net assets	2,000	-
Net assets (deficiency) without donor restrictions	-	(1,195,435)
Net assets with donor restrictions	<u>-</u>	<u>241,231</u>
Total net assets (deficiency)	<u>\$ (954,204)</u>	<u>\$ (954,204)</u>

## Note 2 – Property and Equipment

Property and equipment at June 30, 2019 and 2018 consist of the following:

	<u>2019</u>	<u>2018</u>
Office equipment	\$2,052,858	\$2,040,111
Office equipment held under capital lease	551,116	551,116
Leasehold improvements	<u>3,805,586</u>	<u>4,218,991</u>
	6,409,560	6,810,218
Less accumulated depreciation and amortization	<u>2,087,242</u>	<u>1,400,318</u>
	<u>\$4,322,318</u>	<u>\$5,409,900</u>

## Note 3 – Cash and Certificates of Deposit Concentration

The Union maintains cash balances and certificates of deposit at several banks. Accounts at these institutions may from time to time exceed amounts insured by the Federal Deposit Insurance Corporation.

## Note 4 – Due from Foundations

The Union is affiliated with the Children and Teachers Foundation. Beginning in 2019, major transactions with the Children and Teachers Foundation include payment by the Union of salary, taxes and benefits on behalf of the Children and Teachers Foundation. These expenses amounted to \$168,239 for the year ended June 30, 2019. The Union also advanced \$50,000 to the Children and Teachers Foundation to fund the Children and Teachers Foundation's operations during 2019. The total amount due from the Children and Teachers Foundation at June 30, 2019 is \$218,239.

CHICAGO TEACHERS UNION

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 4 – Due from Foundations (Continued)

A summary of the Children and Teachers Foundation's statement of financial position as of June 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 73,127	\$17,149
Other	-	100
Total	<u>\$ 73,127</u>	<u>\$17,249</u>
<u>Liabilities and Net Assets</u>		
Accounts payable and accrued expenses	\$ 48,396	\$ 8,510
Due to CTU	218,239	-
Other	<u>152,825</u>	-
	419,460	8,510
Net assets (deficiency)	<u>(346,333)</u>	<u>8,739</u>
Total	<u>\$ 73,127</u>	<u>\$17,249</u>

The Union is also affiliated with the Chicago Teachers Union Foundation, Inc. (Foundation). Major transactions with the Foundation include payment by the Union of salary, taxes and benefits on behalf of the Foundation. Also, during the year ended June 30, 2019, rent to be paid by the Union to the Foundation was offset against the receivable. The amount due from the Foundation at June 30, 2019 and 2018 is \$3,065,930 and \$2,656,374, respectively.

The Union also leases its office space from the Foundation (See Note 5).

A summary of the Foundation's statement of financial position as of June 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
<u>Assets</u>		
Cash and investments	\$10,911,250	\$13,507,868
Property and equipment - net	32,960,967	32,570,446
Note receivable - CTU	4,708,369	5,021,213
Other assets	<u>1,694,667</u>	<u>1,290,935</u>
Total	<u>\$50,275,253</u>	<u>\$52,390,462</u>
<u>Liabilities and Net Assets</u>		
Accounts payable and accrued expenses	\$ 813,558	\$ 1,025,870
Deferred grant and rental income	700	50,000
Due to CTU	<u>3,065,930</u>	<u>2,656,374</u>
	3,880,188	3,732,244
Net assets	<u>46,395,065</u>	<u>48,658,218</u>
Total	<u>\$50,275,253</u>	<u>\$52,390,462</u>

CHICAGO TEACHERS UNIONNOTES TO COMBINED FINANCIAL STATEMENTS

## Note 5 – Leases

*Operating Lease with the Merchandise Mart*

The Union has a lease agreement for office space which expires on October 31, 2021. The agreement provides that the lessee pay its proportionate share of the operating costs plus a base rental amount. As an inducement, the lessor agreed to provide the Union allowances to be used for leasehold improvements and monthly rental payments as detailed in the lease agreement. In conformity with accounting requirements, the Union is recognizing the deferred rent credit over the lease term.

During 2015, Union management decided to relocate its offices to the building owned by the Foundation. Negotiations for a buyout of this lease with the lessor and efforts to sublease this former office space were not finalized until July 2019.

During the buyout negotiations, the lessor was cooperative in attracting new tenants to mitigate any potential losses. However, the Union incurred losses on the lease for its former office space after its relocation. The amount of loss is the amount by which costs to be incurred exceed the amounts reasonably expected to be received from any subleases. These amounts are adjusted annually for amounts paid while the property is vacant. The Union recorded an expense and a liability related to the projected shortfall between the rent obligation under the lease and the rental income to be received over the term of the sublease (as discussed below). During 2017, the Union recorded a loss of \$3,042,000. During 2018, the Union recorded an additional loss totaling \$705,000 based upon the revised projected shortfall at June 30, 2018. During 2019, the Union agreed to pay the lessor a termination fee of \$678,000 and agreed to a reduced rent schedule based upon a reduction in the rentable space from 41,598 square feet to 24,022 square feet.

The revised minimum future rental payments under the non-cancelable operating lease which has a remaining term in excess of one year as of June 30, 2019, for each of the next three years are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 872,166
2021	901,950
2022	<u>303,114</u>
Total minimum future rental payments	<u>\$2,077,230</u>

Consequently, the Union recorded a \$1,900,000 reduction in the accrued loss in 2019 as a result of the favorable outcome from the buyout negotiations. The amount of loss included in accrued expenses at June 30, 2019 and 2018 was \$1,847,000 and \$3,747,000, respectively.

Rent expense under this operating lease was \$1,612,801 in 2019 and \$1,297,975 in 2018.

On July 18, 2017, a portion of the leased space in the Merchandise Mart was subleased. Amounts expected to be received from this sublease reduce the accrued loss on the operating lease as described above. The sublease provides for noncancelable terms for four years and three months at lease inception. Rents are scheduled to increase \$0.75 per square foot on each anniversary of the lease commencement date. The lease also provides for the abatement of monthly rents for the first three months during the first year of the lease. The Union recognizes such rental revenue earned on a straight-line basis. The difference between rental revenue earned and the cash rent due under the provision of the lease agreement is recorded as accrued rent revenue on the accompanying statement of financial position.

CHICAGO TEACHERS UNIONNOTES TO COMBINED FINANCIAL STATEMENTS

## Note 5 – Leases (Continued)

*Operating Lease with the Merchandise Mart (Continued)*

Minimum future rentals under this lease are as follows:

<u>Year ending June 30</u>	<u>Amount</u>
2020	\$397,265
2021	407,327
2022	<u>104,348</u>
Total	<u>\$908,940</u>

Rental income under this operating lease was \$367,539 in each of the years ending June 30, 2019 and 2018.

*Operating Lease with the Foundation*

On December 1, 2016, a portion of the building owned by the Foundation was leased to the Union. The lease provides for noncancelable terms for 15 years at lease inception. Rents are scheduled to increase every five years by a fixed rate of 2.5% compounded annually. The lease also provides for the abatement of monthly rents for the first three months during each of the first five years of the lease. The Union is recognizing office rent expense on a straight-line basis over the lease term.

Minimum future rentals under this lease are as follows:

<u>Year ending June 30</u>	<u>Amount</u>
2020	\$ 700,489
2021	700,489
2022	1,004,742
2023	1,055,283
2024	1,055,283
Thereafter	<u>8,512,875</u>
Total	<u>\$13,029,161</u>

Rent expense under this operating lease was \$1,467,564 in 2019 and \$1,208,931 in 2018.

As an additional lease incentive, the Foundation agreed to provide the Union with an improvement allowance of \$3,561,300 towards the costs and expenses incurred by the Foundation in the design and construction of the Union premises including the purchase of the Union's furniture and fixtures; however, the cost exceeded the allowance by \$4,293,650. The Foundation agreed to provide the Union with financing necessary to repay the cost exceeding the allowance. A promissory note was entered into, with an interest rate of 3.75% per annum, payable monthly, with the principal amortized over 30 years, but subject to a balloon payment of all unpaid principal and accrued interest on the fifth anniversary of the note, presently January 1, 2022. Scheduled repayments of the note have not commenced as of June 30, 2019. The note is secured by the Union's assets, including furniture, fixtures, equipment and other personal property. As of June 30, 2019 and 2018, the balance of the note, including accrued interest was \$4,708,369 and \$5,021,213, respectively.



CHICAGO TEACHERS UNIONNOTES TO COMBINED FINANCIAL STATEMENTS

## Note 5 – Leases (Continued)

*Operating Lease with the Foundation (Continued)*

At June 30, 2018, the design and construction costs in excess of the improvement allowance were determined based on estimates of the Union's share of the original schematic design, change orders and other fees totaling \$4,707,056. During 2019, the Foundation revised these estimates and reallocated \$413,406 of construction costs to the Foundation's fixed assets and reduced the promissory note balance by the same amount.

Also, the interest rate was renegotiated and reduced from 4.5% per annum to 3.75% per annum. Adjustments made to the accounting records to account for these revisions did not have a significant effect on the Union's net assets or its change in net assets as of or for the year ended June 30, 2019.

*Capital Leases*

The Union leases office equipment under contracts qualifying as capital leases. Such contracts have original terms between four and six years. The contracts qualifying as capital leases each contain a bargain purchase option. Some of the leases also provide for a monthly charge for equipment maintenance which is included in the lease payment.

The capitalized leased assets included in office equipment at June 30, 2019 and 2018 are detailed as follows:

	<u>2019</u>	<u>2018</u>
Office equipment	\$551,116	\$551,116
Less: accumulated depreciation	<u>249,181</u>	<u>174,799</u>
	<u>\$301,935</u>	<u>\$376,317</u>

Minimum future rental payments under capital leases having remaining terms in excess of one year as of June 30, 2019, for each of the next three years and in the aggregate are:

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$119,330
2021	112,104
2022	<u>41,599</u>
Total minimum lease payments	273,033
Less amount representing maintenance	17,965
Less amount representing interest	<u>15,696</u>
Present value of net minimum capital lease payments	239,372
Less current portion of obligations under capital leases	<u>101,109</u>
Obligations under capital leases, excluding current portion	<u>\$138,263</u>

CHICAGO TEACHERS UNION

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 6 – Pension Plans

The Union contributes to various defined contribution pension plans that cover substantially all of the Union’s employees. Contribution expense for the years ended June 30, 2019 and 2018, amounted to \$857,578 and \$966,447, respectively, and is based on a percentage of each participating employee’s salary.

Note 7 – Affiliations

The Union is affiliated with the American Federation of Teachers (“AFT”) and the Illinois Federation of Teachers (“IFT”). Major transactions with these affiliates include receipt of organizational assistance funds and COPE reimbursements from IFT, and special assistance and legal fee reimbursements from AFT. The Union is also required to pay fees to both IFT and AFT based on the number of Union members. The amounts due from affiliates at June 30, 2019 and 2018 are \$927,970 and \$884,703, respectively.

Note 8 – Net Assets with Donor Restrictions

A summary of net assets with donor restrictions and net assets released from restriction for the years ended June 30, 2019 and 2018 follows:

	2019			
	Beginning Balance	Additions	Net Assets Released	Ending Balance
RAPP Memorial	\$ 2,000	\$ -	\$ 2,000	\$ -
Political action committees	<u>239,231</u>	<u>1,122,794</u>	<u>889,743</u>	<u>472,282</u>
	<u>\$241,231</u>	<u>\$1,122,794</u>	<u>\$891,743</u>	<u>\$472,282</u>
	2018			
	Beginning Balance	Additions	Net Assets Released	Ending Balance
RAPP Memorial	\$ 2,000	\$ -	\$ -	\$ 2,000
Political action committees	<u>593,716</u>	<u>778,186</u>	<u>1,132,671</u>	<u>239,231</u>
	<u>\$595,716</u>	<u>\$778,186</u>	<u>\$1,132,671</u>	<u>\$241,231</u>

Net assets are released from donor restrictions when the Union incurs expenses satisfying the restricted purposes, or by occurrence of other events specified by the donors.

Following is a summary of net assets with donor restrictions:

- RAPP Memorial – Earnings on the fund may be used to benefit the deaf and hard of hearing children attending the Chicago public schools.
- Political action committees – committees support candidates in state and local governmental elections.

CHICAGO TEACHERS UNIONNOTES TO COMBINED FINANCIAL STATEMENTS

## Note 9 – Contingencies

The Union is currently involved in various litigations and disputes, the ultimate dispositions of which the Union believes will not have a material effect upon the Union’s financial position.

## Note 10 – Merger of Alliance Charter Teachers and Staff Local 4343

On March 1, 2018, the members of the Chicago Alliance of Charter Teachers and Staff Local 4343 (Local 4343) merged with the Union. Local 4343 transferred net assets totaling \$8,067 to the Union. The merger of Local 4343 had no significant effect on the Union’s operating activities.

## Note 11 – Liquidity

The Union’s financial assets available within one year of the balance sheet date for general expenditure are as follows:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 5,346,427	\$3,318,179
Certificates of deposit	125,594	125,594
Due from Foundations	3,284,169	2,656,274
Due from affiliates	927,970	884,703
Other receivables	<u>931,245</u>	<u>907,433</u>
	\$10,615,405	\$7,892,183
Less assets not available for general expenditure - Purpose restricted	<u>472,282</u>	<u>241,231</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$10,143,123</u>	<u>\$7,650,952</u>

As part of the Union’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

## Note 12 – Subsequent Event

On January 30, 2020, the World Health Organization (WHO) declared the COVID-19 outbreak a “Public Health Emergency of International Concern” and on March 10, 2020, declared it to be a pandemic. Business disruption as a result of the spread of the COVID-19 coronavirus is expected to be temporary, though there is considerable uncertainty around the duration. The financial impact as a result of the spread of the COVID-19 coronavirus cannot be reasonably estimated at this time.