

*Financial Statements*

**California Association of  
Professional Employees**

December 31, 2014 and 2013

# CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES

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# HAYNIE & COMPANY

(A PROFESSIONAL CORPORATION)

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
**California Association of Professional Employees**  
Pasadena, California

We have audited the accompanying financial statements of California Association of Professional Employees (a nonprofit organization), which comprise the statements of financial position as of December 31, 2014 and 2013, 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 entity'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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT

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**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of California Association of Professional Employees as of December 31, 2014 and 2013, 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.

**Other Matter**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. Schedule 1 Office and Administrative Expenses on page 17 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

*HANNE & Company*

September 8, 2015  
Newport Beach, California

**CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES**

Statements of Financial Position

December 31, 2014 and 2013

	2014			2013	
	General Fund (Unrestricted)	Political Action Committee (Temporarily Restricted)	FAIR Political Action Committee (Temporarily Restricted)	Total	Total
<b>ASSETS</b>					
Cash and cash equivalents:					
Petty cash	\$ 500	\$ -	\$ -	\$ 500	\$ 500
Checking accounts	392,527	31,645	22,184	446,356	320,532
Interest checking accounts	-	-	-	-	369,284
Money market fund	434,522	-	-	434,522	256,658
<b>Total cash and cash equivalents</b>	<b>827,549</b>	<b>31,645</b>	<b>22,184</b>	<b>881,378</b>	<b>946,974</b>
Investments:					
Certificates of deposit	225,580	-	-	225,580	400,102
<b>Total investments</b>	<b>225,580</b>	<b>-</b>	<b>-</b>	<b>225,580</b>	<b>400,102</b>
Other assets:					
Prepaid expenses	13,335	-	-	13,335	13,939
Other assets	3,386	-	-	3,386	7,134
<b>Total other assets</b>	<b>16,721</b>	<b>-</b>	<b>-</b>	<b>16,721</b>	<b>21,073</b>
Property and equipment:					
Office furniture and equipment	98,513	-	-	98,513	110,457
Leasehold improvements	-	-	-	-	61,947
Computer hardware	27,284	-	-	27,284	25,000
Computer software	9,141	-	-	9,141	9,141
	134,938	-	-	134,938	206,545
Less accumulated depreciation	(87,327)	-	-	(87,327)	(127,607)
<b>Total property and equipment</b>	<b>47,611</b>	<b>-</b>	<b>-</b>	<b>47,611</b>	<b>78,938</b>
<b>Total assets</b>	<b>\$ 1,117,461</b>	<b>\$ 31,645</b>	<b>\$ 22,184</b>	<b>\$ 1,171,290</b>	<b>\$ 1,447,087</b>

See notes to financial statements.

**CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES**

Statements of Financial Position

December 31, 2014 and 2013

	2014			2013	
	General Fund (Unrestricted)	Political Action Committee (Temporarily Restricted)	FAIR Political Action Committee (Temporarily Restricted)	Total	Total
<b><u>LIABILITIES AND NET ASSETS</u></b>					
Liabilities:					
Expenses payable	\$ 29,261	\$ -	\$ -	\$ 29,261	\$ 31,362
Accrued vacation benefits	98,689	-	-	98,689	103,147
Staff retirement payable	47,786	-	-	47,786	50,403
Total liabilities	175,736	-	-	175,736	184,912
Net assets	941,725	31,645	22,184	995,554	1,262,175
<b>Total liabilities and net assets</b>	<b>\$ 1,117,461</b>	<b>\$ 31,645</b>	<b>\$ 22,184</b>	<b>\$ 1,171,290</b>	<b>\$ 1,447,087</b>

See notes to financial statements.

**CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES**  
**Statements of Activities**  
For the Years Ended December 31, 2014 and 2013

	2014			2013	
	General Fund (Unrestricted)	Political Action Committee (Temporarily Restricted)	FAIR Political Action Committee (Temporarily Restricted)	Total	Total
<b>Revenues:</b>					
Dues from members	\$ 1,223,407	-	-	\$ 1,223,407	\$ 1,179,053
Member contributions	-	49,971	7,970	57,941	57,185
Agency shop fees	287,076	-	-	287,076	292,326
Affiliated membership fees	251	-	-	251	4,335
Administration fees	128,058	-	-	128,058	149,763
Unrealized gain on investment	261	-	-	261	217
Interest income	3,972	-	-	3,972	2,942
<b>Total revenues</b>	<b>1,643,025</b>	<b>49,971</b>	<b>7,970</b>	<b>1,700,966</b>	<b>1,685,821</b>
<b>Expenses:</b>					
Salaries and wages	726,463	-	-	726,463	753,815
Temporary help	12,567	-	-	12,567	2,431
Payroll taxes	58,205	-	-	58,205	57,478
Welfare benefits	138,588	-	-	138,588	135,801
401(k) retirement benefits	76,339	-	-	76,339	77,005
Office and administrative expenses (schedule I)	223,970	-	-	223,970	172,774
Legal fees and expenses	42,506	-	-	42,506	69,641
Accounting and auditing fees	24,639	-	-	24,639	30,681
Computer programming expenses	29,137	-	-	29,137	24,809
401(k) plan administrative fees	-	-	-	-	1,392
National Marine Engineers' Beneficial Association affiliation fees	39,421	-	-	39,421	44,529
Delegate and negotiations expense	14,482	-	-	14,482	44,609
Postage and delivery	801	-	-	801	2,958
Auto expenses	5,801	-	-	5,801	13,766
Meeting expenses	134,674	-	-	134,674	95,723
Member communications	41,222	-	-	41,222	47,371
Movie tickets	2,232	-	-	2,232	1,846
Field program	6,893	-	-	6,893	4,389
Awards expense	19,101	-	-	19,101	14,295
Public relations	22,969	-	-	22,969	142
Los Angeles County Coalition shared expenses	129,630	-	-	129,630	20,176
Elections	7,708	-	-	7,708	7,581
Political contributions	-	137,200	-	137,200	12,700
FPPC reports & FTB responses	-	50	50	100	1,649
Depreciation and amortization	15,260	-	-	15,260	16,077
<b>Total expenses</b>	<b>1,772,608</b>	<b>137,250</b>	<b>50</b>	<b>1,909,908</b>	<b>1,653,638</b>
Loss on disposal of property and equipment	57,679	-	-	57,679	-
<b>Increase (decrease) in net assets</b>	<b>(187,262)</b>	<b>(87,279)</b>	<b>7,920</b>	<b>(266,621)</b>	<b>32,183</b>
Net assets, beginning of year	1,128,987	118,924	14,264	1,262,175	1,229,992
<b>Net assets, end of year</b>	<b>\$ 941,725</b>	<b>\$ 31,645</b>	<b>\$ 22,184</b>	<b>\$ 995,554</b>	<b>\$ 1,262,175</b>

See notes to financial statements.

**CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES**

Statements of Cash Flows - All Funds

For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Cash flows from operating activities:</b>		
Changes in net assets:		
General fund	\$ (187,262)	\$ (10,653)
Political Action Committee	(87,279)	34,858
FAIR Political Action Committee	<u>7,920</u>	<u>7,978</u>
	(266,621)	32,183
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Loss on disposal of property and equipment	57,679	-
Depreciation and amortization expense	15,260	16,077
(Increase) decrease in:		
Prepaid expenses	604	(19)
Other assets	3,748	(1,669)
Increase (decrease) in:		
Expenses payable	(2,101)	2,888
Accrued vacation benefits	(4,458)	13,070
Staff retirement payable	<u>(2,617)</u>	<u>2,969</u>
<b>Total from operating activities</b>	<u>(198,506)</u>	<u>65,499</u>
<b>Cash flows from investing activities:</b>		
Proceeds from investments	174,522	-
Purchase of property and equipment	<u>(41,612)</u>	<u>-</u>
<b>Total from investing activities</b>	<u>132,910</u>	<u>-</u>
<b>Cash flows from financing activities:</b>	<u>-</u>	<u>-</u>
<b>Net (decrease) increase</b>	(65,596)	65,499
Cash and cash equivalents, beginning of year	<u>946,974</u>	<u>881,475</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 881,378</u>	<u>\$ 946,974</u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the year for:		
Income taxes	<u>\$ -</u>	<u>\$ -</u>
Interest	<u>\$ -</u>	<u>\$ -</u>

See notes to financial statements.



**CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES**  
Notes to Financial Statements

**1. DESCRIPTION OF ENTITY**

General Fund

The California Association of Professional Employees (the "Association") was formed in 1964 in Los Angeles, California, as a nonprofit corporation to initiate, sponsor, promote and carry out plans, policies and activities, which will tend to advance the health, comfort, morale and economic welfare of all member employees of public agencies or public corporations. The Association represents approximately 2,700 employees of the County of Los Angeles and sanitation districts of Los Angeles County in collective bargaining matters and its primary source of revenues are dues from approximately 1,600 members.

Political Action Committee ("PAC")

The Association formed a Political Action Committee ("PAC") for the purpose of supporting state and local candidates to further the goals of organized labor and collective bargaining within the State of California. The PAC is funded by voluntary dues allocations from the General Fund and voluntary contributions from members of the Association. The monthly allocation is \$3 per member, and the PAC has been in effect since January 1, 1994.

FAIR Political Action Committee ("FAIR PAC")

In February 2005, the Board of Directors formed a second political action committee, the Fight Arnold's Irresponsible Reforms Political Action Committee ("FAIR PAC"), for the purpose of protecting the pension and post-retirement benefits of its members by supporting certain state-wide elections and propositions in California. FAIR PAC is funded by voluntary contributions from the Association's members, certain vendors of the Association and special events organized to further the goals of FAIR PAC.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Method of accounting

Dues from members, affiliation fees, interest income, reimbursements and other revenues are reported on the accrual basis. All expenses are reported on the accrual basis except for a nominal amount of recurring monthly expenses.

**CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES**  
Notes to Financial Statements

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Functional allocation of expenses

The costs of providing programs and support services have been summarized on a functional basis in note 4. All revenues and expenses pertain to unrestricted net assets.

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 that 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. Actual results may differ from those estimates.

Fair value of financial instruments

The carrying value of cash and cash equivalents, receivables, prepaid expenses, and expenses payable approximate their fair values due to the short-term nature of these instruments.

Tax-exempt status

No provision is made in the General Fund for federal or state income tax. The Association has received tax-exempt status from the federal government under Internal Revenue Code Section 501(c)(5) and the State of California under Revenue and Taxation Code Section 23701a. The Political Action Committees (PAC and FAIR-PAC) are subject to federal and California income taxes assessed on the lesser of investment earnings (net of a \$100 exclusion) or the amount of political contributions.

The Association files income tax returns in the U.S. federal and California jurisdictions. Generally, the Association's tax returns remain open for federal income tax examination for three years from the date of filing and four years for California.

**CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES**  
Notes to Financial Statements

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Tax-exempt status (continued)

The Association follows the provisions of uncertain tax positions as addressed in FASB Accounting Standards Codification 740-10-65-1. The Association recognized no increase in the liability for unrecognized tax benefits. The Association has no tax position as of December 31, 2014 and 2013, for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. The Association recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. No such interest or penalties were recognized during the periods presented. The Association had no accruals for interest and penalties as of December 31, 2014 and 2013.

Cash and cash equivalents

Cash and cash equivalents consists of cash on hand and cash deposited with financial institutions in checking accounts and money market funds. For purposes of the statement of cash flows, the Association considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Association, from time to time, maintains cash balances in excess of Federal Deposit Insurance Corporation (FDIC) insurance coverage limits. As of December 31, 2014 and 2013, the aggregate balances that exceeded these limits approximated \$165,000 and \$343,000, respectively. The Association performs reviews of the relative credit rating of its banks to lower its risk.

Investments

The Association has adopted the FASB authoritative guidance in connection with accounting for certain investments held by not-for-profit organizations. Accordingly, investments are stated at market value as of the balance sheet date. Fluctuations between the market value and the historical cost are reported as unrealized gains or losses in the statement of activities. The Association, from time to time, maintains certain concentrations that exceed the Securities Investor Protection Corporation limits.

**CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES**  
Notes to Financial Statements

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Property and equipment

Property and equipment are stated at cost. Depreciation is determined for related groups of assets under the straight-line and accelerated methods based upon their estimated useful lives, ranging from three to ten years. Minor renewals or replacements and maintenance and repairs are expensed. Major replacements and improvements are capitalized.

Long-lived assets

Management reviews long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable based on the undiscounted future cash flows of the asset. If the carrying amount of an asset may not be recoverable, a write-down to fair value is recorded. Fair values are determined based on the discounted cash flows, quoted market values, or external appraisals, as applicable. Long-lived assets are reviewed for impairment at the individual asset or the asset group level for which the lowest level of independent cash flows can be identified. Management has evaluated the long-lived assets and has not identified any impairment as of December 31, 2014 and 2013.

Subsequent events

Subsequent events have been evaluated through September 8, 2015, which is the date the financial statements were available.

**3. INVESTMENTS**

The authoritative guidance issued by FASB relating to fair value measurements, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 consists of unadjusted quoted prices in active markets for identical assets and have the highest level of reliability, level 2 inputs are those that are observable, either directly or indirectly, for the asset or liability other than quoted prices included in level 1, and level 3, which are unobservable, are used when level 1 and 2 inputs are not available. As of December 31, 2014 and 2013, the Association's investments consist of certificates of deposits and are categorized using level 1 inputs.

**CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES**  
Notes to Financial Statements

**3. INVESTMENTS (CONTINUED)**

Fair values of investments are measured using valuation techniques under a market, income or cost approach. The Association uses a market approach for valuing its investments wherein prices or relevant information derived from market transactions for identical or comparable assets are used in determining the respective fair values.

**4. SUMMARY OF EXPENSES BY FUNCTIONAL CLASSIFICATION**

The following is an allocation of the Association's expenses by function at December 31st:

	<u>2014</u>	<u>2013</u>
Program services:		
Salaries, wages and benefits	\$ 729,705	\$ 747,593
Other expenses	602,342	490,455
Supporting activities:		
Salaries, wages and benefits	269,890	276,507
Other expenses	<u>170,671</u>	<u>139,083</u>
	<u>\$ 1,772,608</u>	<u>\$ 1,653,638</u>

**5. LEASE COMMITMENTS**

The Association leased office space located in Los Angeles, California for approximately \$6,400 per month through December 2013. In 2014, the Association entered into a new five year lease agreement with a related party and moved offices to Pasadena, California. Based on the terms of the agreement, the Association's initial rent is approximately \$10,000 per month and will be adjusted annually based on the changes in the U.S. Consumer Price Index. The lease agreement expires in March 2019. The total office rent expense was approximately \$107,900 and \$86,500 for the years ended December 31, 2014 and 2013, respectively.

The Association leases postal equipment under a five year operating lease expiring in April of 2017. Quarterly lease payments approximate \$592. Lease expense in connection with office equipment was \$2,737 for both years ended December 31, 2014 and 2013.

**CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES**  
Notes to Financial Statements

**5. LEASE COMMITMENTS (CONTINUED)**

The future annual minimum lease payments required under the above lease commitments as of December 31, 2014 are as follows:

2015	\$ 122,032
2016	122,032
2017	120,453
2018	119,664
2019	<u>29,916</u>
Total	<u>\$ 514,097</u>

**6. RELATED PARTY TRANSACTION - BENEFIT TRUST ADMINISTRATION**

The Association established the California Association of Professional Employees Benefit Trust ("the Trust") to provide alternate health and welfare coverage for its members and other participants affiliated with the County of Los Angeles. The Trust is governed by a board of trustees consisting of 5 members appointed by the officers of the Association.

The Association charges the Trust an administrative fee based on an estimate of the costs incurred by the Association to administer the Trust. Administration fees for the years ended December 31, 2014 and 2013 were \$128,058 and \$149,763, respectively.

The Association also is a contributing employer to the Trust. Total employer contributions to the Trust for health and welfare benefits for the years ended December 31, 2014 and 2013 were \$124,550 and \$122,779, respectively.

As indicated in note 5, the Association entered into a new five year lease agreement in 2014.

**CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES**  
Notes to Financial Statements

**7. RETIREMENT PLAN**

The Association has a retirement savings 401(k) plan covering substantially all employees. The plan provides that employees who have attained age 21 and completed one year of service with the Association may voluntarily contribute up to \$17,500 of their compensation for the plan year. Employer contributions are equal to 100% of the employee's contributions up to 4% of that employee's compensation. Employer contributions were approximately \$76,339 and \$77,005 for the years ended December 31, 2014 and 2013, respectively.

**8. SUBSEQUENT EVENT**

During 2015, the Board approved an increase in the PAC contribution allocation amount per member from \$3 to \$5.

SUPPLEMENTARY INFORMATION



**CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES**

Schedule I

Office and Administrative Expenses

For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Bank charges	\$ 644	\$ 190
Education expense	1,617	767
Insurance expense	14,455	7,873
Communications - Periodical	-	72
Office supplies and expenses	17,164	9,754
Payroll processing fees	5,806	5,516
Photocopier expense	4,618	3,469
Postage and delivery	15,138	21,722
Printing	14,911	4,336
Recruitment expenses	2,950	1,750
Rent expense	107,868	86,526
Repairs and maintenance	1,341	866
Special events	6,579	5,108
Subscriptions and publications	16,186	13,521
Taxes and licenses	361	836
Telephone	14,332	10,468
	<u>\$ 223,970</u>	<u>\$ 172,774</u>

See notes to financial statements.