

*Financial Statements*

# California Association of Professional Employees

December 31, 2015 and 2014

# 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 Auditor's Report

To the Board of Directors

### **California Association of Professional Employees**

Los Angeles, 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, 2015 and 2014, and the related statements of activities, functional expenses, 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.

### **Auditor's 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.

**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, 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.

*HAYNIE & COMPANY*

September 12, 2016  
Newport Beach, California

**CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES**

Statements of Financial Position

December 31, 2015 and 2014

	2015			2014	
	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	445,833	106,547	29,286	581,666	446,356
Money market fund	661,216	-	-	661,216	434,522
Total cash and cash equivalents	<u>1,107,549</u>	<u>106,547</u>	<u>29,286</u>	<u>1,243,382</u>	<u>881,378</u>
Investments:					
Certificates of deposit	-	-	-	-	225,580
Total investments	-	-	-	-	<u>225,580</u>
Other assets:					
Prepaid expenses	7,157	-	-	7,157	13,335
Other assets	10,352	-	-	10,352	3,386
Total other assets	<u>17,509</u>	-	-	<u>17,509</u>	<u>16,721</u>
Property and equipment:					
Office furniture and equipment	98,513	-	-	98,513	98,513
Computer hardware	37,690	-	-	37,690	27,284
Computer software	9,141	-	-	9,141	9,141
	145,344	-	-	145,344	134,938
Less accumulated depreciation	(104,025)	-	-	(104,025)	(87,327)
Total property and equipment	<u>41,319</u>	-	-	<u>41,319</u>	<u>47,611</u>
<b>Total assets</b>	<u>\$ 1,166,377</u>	<u>\$ 106,547</u>	<u>\$ 29,286</u>	<u>\$ 1,302,210</u>	<u>\$ 1,171,290</u>

See notes to financial statements.

**CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES**

Statements of Financial Position

December 31, 2015 and 2014

	2015			2014	
	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	\$ 18,912	\$ -	\$ -	\$ 18,912	\$ 29,261
Accrued vacation benefits	105,376	-	-	105,376	98,689
Staff retirement payable	<u>51,121</u>	<u>-</u>	<u>-</u>	<u>51,121</u>	<u>47,786</u>
 Total liabilities	 175,409	 -	 -	 175,409	 175,736
 Net assets	 <u>990,968</u>	 <u>106,547</u>	 <u>29,286</u>	 <u>1,126,801</u>	 <u>995,554</u>
 <b>Total liabilities and net assets</b>	 <b><u>\$ 1,166,377</u></b>	 <b><u>\$ 106,547</u></b>	 <b><u>\$ 29,286</u></b>	 <b><u>\$ 1,302,210</u></b>	 <b><u>\$ 1,171,290</u></b>

See notes to financial statements.

**CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES**

Statements of Activities

For the Years Ended December 31, 2015 and 2014

	2015			2014	
	General Fund (Unrestricted)	Political Action Committee (Temporarily Restricted)	FAIR Political Action Committee (Temporarily Restricted)	Total	Total
Revenues:					
Dues from members	\$ 1,250,083	\$ -	\$ -	\$ 1,250,083	\$ 1,223,407
Member contributions	-	84,852	7,152	92,004	57,941
Agency shop fees	290,250	-	-	290,250	287,076
Affiliated membership fees	36	-	-	36	251
Administration fees	141,699	-	-	141,699	128,058
Unrealized gain (loss) on investment	(580)	-	-	(580)	261
Interest income	2,497	-	-	2,497	3,972
<b>Total revenues</b>	<b>1,683,985</b>	<b>84,852</b>	<b>7,152</b>	<b>1,775,989</b>	<b>1,700,966</b>
Expenses:					
Program services	1,207,960	9,950	50	1,217,960	1,464,705
Support services:					
General and administrative	426,782	-	-	426,782	445,203
Fundraising	-	-	-	-	-
<b>Total expenses</b>	<b>1,634,742</b>	<b>9,950</b>	<b>50</b>	<b>1,644,742</b>	<b>1,909,908</b>
Loss on disposal of property and equipment	-	-	-	-	57,679
<b>Increase (decrease) in net assets</b>	<b>49,243</b>	<b>74,902</b>	<b>7,102</b>	<b>131,247</b>	<b>(266,621)</b>
Net assets, beginning of year	941,725	31,645	22,184	995,554	1,262,175
<b>Net assets, end of year</b>	<b>\$ 990,968</b>	<b>\$ 106,547</b>	<b>\$ 29,286</b>	<b>\$ 1,126,801</b>	<b>\$ 995,554</b>

See notes to financial statements.

**CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES**

Statement of Functional Expenses

For the Year Ended December 31, 2015

	Program Services	Support Activities		Total
		General and Administrative	Fundraising	
Salaries and wages	\$ 556,869	\$ 205,965	\$ -	\$ 762,834
Temporary help	1,413	522	-	1,935
Payroll taxes	42,963	15,891	-	58,854
Welfare benefits	107,663	39,820	-	147,483
401(k) retirement benefits	53,351	19,733	-	73,084
Legal fees and expenses	51,449	-	-	51,449
Accounting and auditing fees	-	25,525	-	25,525
Computer programming expenses	20,925	9,468	-	30,393
401(k) plan administrative fees	-	3,551	-	3,551
National Marine Engineers' Beneficial Association affiliation fees	42,319	-	-	42,319
Delegate and negotiations expense	57,118	-	-	57,118
Auto expenses	4,273	-	-	4,273
Meeting expenses	46,266	17,112	-	63,378
Member communications	33,312	-	-	33,312
Movie tickets	4,111	-	-	4,111
Field program	6,629	-	-	6,629
Awards expense	1,668	-	-	1,668
Public relations	18	-	-	18
Los Angeles County Coalition shared expenses	20,874	-	-	20,874
Elections	-	7,805	-	7,805
Political contributions	9,900	-	-	9,900
FPPC reports & FTB responses	100	-	-	100
Depreciation and amortization	12,190	4,508	-	16,698
Bank charges	-	763	-	763
Insurance expense	-	12,394	-	12,394
Office supplies and expenses	4,791	3,976	-	8,767
Payroll processing fees	-	5,917	-	5,917
Photocopier expense	2,680	991	-	3,671
Postage and delivery	12,825	4,866	-	17,691
Printing	5,706	2,110	-	7,816
Recruitment expenses	2,975	-	-	2,975
Rent expense	93,125	34,443	-	127,568
Repairs and maintenance	-	2,311	-	2,311
Special events	1,721	-	-	1,721
Subscriptions and publications	9,404	3,478	-	12,882
Taxes and licenses	-	1,445	-	1,445
Telephone	11,322	4,188	-	15,510
	<u>\$ 1,217,960</u>	<u>\$ 426,782</u>	<u>\$ -</u>	<u>\$ 1,644,742</u>

See notes to financial statements.



**CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES**

Statement of Functional Expenses  
For the Year Ended December 31, 2014

		<u>Support Activities</u>		
	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 530,318	\$ 196,145	\$ -	\$ 726,463
Temporary help	9,174	3,393	-	12,567
Payroll taxes	42,490	15,715	-	58,205
Welfare benefits	101,169	37,419	-	138,588
401(k) retirement benefits	55,727	20,612	-	76,339
Legal fees and expenses	42,506	-	-	42,506
Accounting and auditing fees	-	24,639	-	24,639
Computer programming expenses	20,183	8,954	-	29,137
National Marine Engineers' Beneficial Association affiliation fees	28,777	10,644	-	39,421
Delegate and negotiations expense	10,572	3,910	-	14,482
Auto expenses	5,801	-	-	5,801
Meeting expenses	98,312	36,362	-	134,674
Member communications	41,222	-	-	41,222
Movie tickets	2,232	-	-	2,232
Field program	6,893	-	-	6,893
Awards expense	19,101	-	-	19,101
Public relations	22,969	-	-	22,969
Los Angeles County Coalition shared expenses	129,630	-	-	129,630
Elections	-	7,708	-	7,708
Political contributions	137,200	-	-	137,200
FPPC reports & FTB responses	100	-	-	100
Depreciation and amortization	11,140	4,120	-	15,260
Bank charges	-	644	-	644
Education expense	-	1,617	-	1,617
Insurance expense	-	14,455	-	14,455
Office supplies and expenses	12,530	4,634	-	17,164
Payroll processing fees	-	5,806	-	5,806
Photocopier expense	3,371	1,247	-	4,618
Postage and delivery	11,852	4,087	-	15,939
Printing	10,885	4,026	-	14,911
Recruitment expenses	2,950	-	-	2,950
Rent expense	78,744	29,124	-	107,868
Repairs and maintenance	-	1,341	-	1,341
Special events	6,579	-	-	6,579
Subscriptions and publications	11,816	4,370	-	16,186
Taxes and licenses	-	361	-	361
Telephone	10,462	3,870	-	14,332
	<u>\$ 1,464,705</u>	<u>\$ 445,203</u>	<u>\$ -</u>	<u>\$ 1,909,908</u>

See notes to financial statements

**CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES**

Statements of Cash Flows - All Funds

For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>Cash flows from operating activities:</b>		
Changes in net assets:		
General fund	\$ 49,243	\$ (187,262)
Political Action Committee	74,902	(87,279)
FAIR Political Action Committee	<u>7,102</u>	<u>7,920</u>
	131,247	(266,621)
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	16,698	15,260
(Increase) decrease in:		
Prepaid expenses	6,178	604
Other assets	(6,966)	3,748
Increase (decrease) in:		
Expenses payable	(10,349)	(2,101)
Accrued vacation benefits	6,687	(4,458)
Staff retirement payable	<u>3,335</u>	<u>(2,617)</u>
<b>Total from operating activities</b>	<u>146,830</u>	<u>(198,506)</u>
<b>Cash flows from investing activities:</b>		
Proceeds from investments	225,580	174,522
Purchase of property and equipment	<u>(10,406)</u>	<u>(41,612)</u>
<b>Total from investing activities</b>	<u>215,174</u>	<u>132,910</u>
<b>Cash flows from financing activities:</b>	<u>-</u>	<u>-</u>
<b>Net increase (decrease)</b>	362,004	(65,596)
Cash and cash equivalents, beginning of year	<u>881,378</u>	<u>946,974</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 1,243,382</u>	<u>\$ 881,378</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 of \$3 was raised to \$5 per member in 2015, 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 the statements of functional expenses. All revenues and expenses pertain to unrestricted net assets for the general fund. All revenue and expenses pertain to temporarily restricted net assets for the PAC and FAIR PAC.

##### 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, 2015 and 2014, 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, 2015 and 2014.

##### Contributions

The Association adopted the Financial Accounting Standards Board ("FASB") authoritative guidance in connection with accounting for contributions received and contributions made. The guidance by the FASB requires the Association to distinguish between any contributions that increase permanently restricted net assets, temporarily restricted net assets, and unrestricted net assets. It also requires recognition of contributions, including contributed services meeting certain criteria, at fair values. Unconditional promises by the Association to make contributions are recognized as expenses in the period when the promise is made.

##### 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, 2015 and 2014, the aggregate balances that exceeded these limits approximated \$224,000 and \$165,000, respectively. The Association performs reviews of the relative credit rating of its banks to lower its risk.

## CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES

### Notes to Financial Statements

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

##### 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.

##### 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, 2015 and 2014.

##### Subsequent events

Subsequent events have been evaluated through September 12, 2016, which is the date the financial statements were available.

## CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES

### Notes to Financial Statements

#### 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, 2015 and 2014, the Association's investments consist of certificates of deposits and are categorized using level 1 inputs.

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. LEASE COMMITMENTS

In 2014, the Association entered into a new five year lease agreement with a related party for office space in 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 \$127,600 and \$107,900 for the years ended December 31, 2015 and 2014, 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 \$2,368 and \$2,737 for the years ended December 31, 2015 and 2014, respectively.

The future annual minimum lease payments required under the above lease commitments as of December 31, 2015 are as follows:

2016	\$	122,032
2017		120,453
2018		119,664
2019		<u>29,916</u>
Total	\$	<u>392,065</u>

## CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES

### Notes to Financial Statements

#### 5. **RELATED PARTY TRANSACTIONS-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, 2015 and 2014 were \$141,699 and \$128,058 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, 2015 and 2014 were \$133,202 and \$124,550, respectively.

As indicated in note 4, the Association entered into a new five year lease agreement in 2014.

#### 6. **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 \$73,084 and \$76,339 for the years ended December 31, 2015 and 2014, respectively.