

Financial Statements

**California Association of
Professional Employees**

December 31, 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 statement of financial position as of December 31, 2013, 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 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, 2013, 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.

July 30, 2014

Newport Beach, California

CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES

Statement of Financial Position

December 31, 2013

	<u>Total</u>	<u>General Fund (Unrestricted)</u>	<u>Political Action Committee (Temporarily Restricted)</u>	<u>FAIR Political Action Committee (Temporarily Restricted)</u>
<u>ASSETS</u>				
Cash and cash equivalents:				
Petty cash	\$ 500	\$ 500	\$ -	\$ -
Checking accounts	320,532	187,344	118,924	14,264
Interest checking accounts	369,284	369,284	-	-
Money market fund	<u>256,658</u>	<u>256,658</u>	<u>-</u>	<u>-</u>
Total cash and cash equivalents	<u>946,974</u>	<u>813,786</u>	<u>118,924</u>	<u>14,264</u>
Investments:				
Certificates of deposit	<u>400,102</u>	<u>400,102</u>	<u>-</u>	<u>-</u>
Total investments	<u>400,102</u>	<u>400,102</u>	<u>-</u>	<u>-</u>
Other assets:				
Prepaid expenses	13,939	13,939	-	-
Other assets	<u>7,134</u>	<u>7,134</u>	<u>-</u>	<u>-</u>
Total other assets	<u>21,073</u>	<u>21,073</u>	<u>-</u>	<u>-</u>
Property and equipment:				
Office furniture and equipment	110,457	110,457	-	-
Leasehold improvements	61,947	61,947	-	-
Computer hardware	25,000	25,000	-	-
Computer software	<u>9,141</u>	<u>9,141</u>	<u>-</u>	<u>-</u>
	206,545	206,545	-	-
Less accumulated depreciation	<u>(127,607)</u>	<u>(127,607)</u>	<u>-</u>	<u>-</u>
Total property and equipment	<u>78,938</u>	<u>78,938</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 1,447,087</u>	<u>\$ 1,313,899</u>	<u>\$ 118,924</u>	<u>\$ 14,264</u>

See notes to financial statements.

CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES
Statement of Financial Position
December 31, 2013

	Total	General Fund (Unrestricted)	Political Action Committee (Temporarily Restricted)	FAIR Political Action Committee (Temporarily Restricted)
<u>LIABILITIES AND NET ASSETS</u>				
Liabilities:				
Expenses payable	\$ 31,362	\$ 31,362	\$ -	\$ -
Accrued vacation benefits	103,147	103,147	-	-
Staff retirement payable	50,403	50,403	-	-
 Total liabilities	 184,912	 184,912	 -	 -
 Net assets	 1,262,175	 1,128,987	 118,924	 14,264
 Total liabilities and net assets	 \$ 1,447,087	 \$ 1,313,899	 \$ 118,924	 \$ 14,264

See notes to financial statements.

CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES

Statement of Activities

For the Year Ended December 31, 2013

	<u>Total</u>	<u>General Fund (Unrestricted)</u>	<u>Political Action Committee (Temporarily Restricted)</u>	<u>FAIR Political Action Committee (Temporarily Restricted)</u>
Revenues:				
Dues from members	\$ 1,179,053	\$ 1,179,053	\$ -	\$ -
Member contributions	57,185	-	48,858	8,327
Agency shop fees	292,326	292,326	-	-
Affiliated membership fees	4,335	4,335	-	-
Administration fees	149,763	149,763	-	-
Unrealized gain on investment	217	217	-	-
Interest income	2,942	2,942	-	-
Total revenues	<u>1,685,821</u>	<u>1,628,636</u>	<u>48,858</u>	<u>8,327</u>
Expenses:				
Salaries and wages	753,815	753,815	-	-
Temporary help	2,431	2,431	-	-
Payroll taxes	57,478	57,478	-	-
Welfare benefits	135,801	135,801	-	-
401(k) retirement benefits	77,005	77,005	-	-
Office and administrative expenses (schedule I)	172,774	172,774	-	-
Legal fees and expenses	69,641	69,641	-	-
Accounting and auditing fees	30,681	30,681	-	-
Computer programming expenses	24,809	24,809	-	-
401(k) Plan administrative fees	1,392	1,392	-	-
National Marine Engineers' Beneficial Association affiliation fees	44,529	44,529	-	-
Delegate and negotiations expense	44,609	44,609	-	-
Postage and delivery	2,958	2,958	-	-
Auto expenses	13,766	13,766	-	-
Meeting expenses	95,723	95,723	-	-
Member communications	47,371	47,371	-	-
Movie tickets	1,846	1,846	-	-
Field program	4,389	4,389	-	-
Awards expense	14,295	14,295	-	-
Public Relations	142	142	-	-
Los Angeles County Coalition shared expenses	20,176	20,176	-	-
Elections	7,581	7,581	-	-
Political contributions	12,700	-	12,700	-
FPPC reports & FTB responses	1,649	-	1,300	349
Depreciation and amortization	16,077	16,077	-	-
Total expenses	<u>1,653,638</u>	<u>1,639,289</u>	<u>14,000</u>	<u>349</u>
Increase (decrease) in net assets	32,183	(10,653)	34,858	7,978
Net assets, beginning of year	<u>1,229,992</u>	<u>1,139,640</u>	<u>84,066</u>	<u>6,286</u>
Net assets, end of year	<u>\$ 1,262,175</u>	<u>\$ 1,128,987</u>	<u>\$ 118,924</u>	<u>\$ 14,264</u>

See notes to financial statements.

CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES

Statement of Cash Flows - All Funds
For the Year Ended December 31, 2013

Cash flows from operating activities:

Changes in net assets:

General fund	\$ (10,653)
Political Action Committee	34,858
FAIR Political Action Committee	7,978
	<u>32,183</u>

Adjustments to reconcile changes in net assets to
net cash provided by operating activities:

Depreciation and amortization expense	16,077
(Increase) decrease in:	
Prepaid expenses	(19)
Other assets	(1,669)
Increase (decrease) in:	
Expenses payable	2,888
Accrued vacation benefits	13,070
Staff retirement payable	2,969

Total from operating activities 65,499

Cash flows from investing activities: -

Cash flows from financing activities: -

Net increase in cash and cash equivalents 65,499

Cash and cash equivalents, beginning of year 881,475

Cash and cash equivalents, end of year \$ 946,974

Supplemental disclosure of cash flow information:

Cash paid during the year for:

Income taxes	\$ -
Interest	\$ -

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, 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, 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, 2013, the aggregate balances that exceeded these limits approximated \$343,000. 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, 2013.

Subsequent events

Subsequent events have been evaluated through July 30, 2014, 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, 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 table provides a summary of the Association's total expenses by their functional classification:

Program expenses:		
Salaries, wages and benefits	\$	747,593
Other expenses		490,455
Supporting expenses:		
Salaries, wages and benefits		276,507
Other expenses		<u>139,083</u>
	\$	<u>1,653,638</u>

5. LEASE COMMITMENTS

The Association leases office space located in Los Angeles, California. In December of 2011, the Association entered into a new lease agreement commencing in January of 2012 and continuing through December of 2013, with monthly rent payments ranging from \$6,187 to \$6,373. Total rent expense related to this office space amounted to \$79,690 for the year ended December 31, 2013. See note 8 regarding new lease agreement.

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 the year ended December 31, 2013.

CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES

Notes to Financial Statements

5. LEASE COMMITMENTS (CONTINUED)

The future annual minimum lease payments required under the above operating leases as of December 31, 2013 are as follows:

2014	\$	2,368
2015		2,368
2016		2,368
2017		<u>789</u>
Total	\$	<u>7,893</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 year ended December 31, 2013 were \$149,763.

The Association also is a contributing employer to the Trust. Total employer contributions to the Trust for health and welfare benefits for the year ended December 31, 2013 totaled \$122,779.

As indicated in note 8, the Association entered into a lease agreement with a related party subsequent to year end.

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 approximated \$77,005 for the year ended December 31, 2013.

8. SUBSEQUENT EVENT

In June 2014, the Association entered into an agreement with a related party in connection with leasing office space located in Pasadena, California. Based upon the terms of the agreement, the Association will pay an initial monthly rent of \$9,772 and will be adjusted annually based on the changes in the U.S. Consumer Price Index. The lease agreement expires in March 2019.



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INDEPENDENT AUDITORS' REPORT ON ACCOMPANYING INFORMATION

To the Board of Directors
California Association of Professional Employees
Los Angeles, California

Our report on our audit of the basic financial statements of the **California Association of Professional Employees** for 2013 appears on page 3. We conducted our audit in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the basic financial statements taken as a whole. The supporting schedule on page 16 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

July 30, 2014
Newport Beach, California

CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES

Schedule I

Office and Administrative Expenses
For the Year Ended December 31, 2013

Bank charges	\$	190
Education expense		767
Insurance expense		7,873
Communications - Periodical		72
Office supplies and expenses		9,754
Payroll processing fees		5,516
Photocopier expense		3,469
Postage and delivery		21,722
Printing		4,336
Recruitment expenses		1,750
Rent expense		86,526
Repairs and maintenance		866
Special events		5,108
Subscriptions and publications		13,521
Taxes and licenses		836
Telephone		10,468
		<hr/>
	\$	<u>172,774</u>

See notes to financial statements.