

*Financial Statements*

# California Association of Professional Employees

December 31, 2011

# CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES

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# Haynie & Company

(a professional corporation)

Certified Public Accountants and Management Consultants

4910 Campus Drive Newport Beach, California 92660-2119 (949) 724-1880 FAX (949) 724-1889

## Independent Auditors' Report

To the Board of Directors

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

Los Angeles, California

We have audited the accompanying statement of financial position of the California Association of Professional Employees (a nonprofit organization) as of December 31, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the California Association of Professional Employees as of December 31, 2011, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

*HAYNIE & COMPANY*

July 5, 2012

Newport Beach, California

**CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES**

Statement of Financial Position

December 31, 2011

|                                 | <u>Total</u>               | <u>General<br/>Fund<br/>(Unrestricted)</u> | <u>Political<br/>Action<br/>Committee<br/>(Temporarily<br/>Restricted)</u> | <u>FAIR Political<br/>Action<br/>Committee<br/>(Temporarily<br/>Restricted)</u> |
|---------------------------------|----------------------------|--|--|---|
| <b><u>ASSETS</u></b>            |                            |  |  |   |
| Cash and cash equivalents:      |                            |  |  |   |
| Petty cash                      | \$ 500                     | \$ 500                                     | \$ -   | \$ -  |
| Checking accounts               | 180,826                    | 124,159                                    | 48,543   | 8,124   |
| Interest checking accounts      | 738,139                    | 738,139                                    | -  | -   |
| Money market fund               | <u>254,589</u>             | <u>254,589</u>                             | <u>-</u>   | <u>-</u>  |
| Total cash and cash equivalents | <u>1,174,054</u>           | <u>1,117,387</u>                           | <u>48,543</u>  | <u>8,124</u>  |
| Receivables:                    |                            |  |  |   |
| Trust admin fees receivable     | <u>28,088</u>              | <u>28,088</u>                              | <u>-</u>   | <u>-</u>  |
| Total receivables               | <u>28,088</u>              | <u>28,088</u>                              | <u>-</u>   | <u>-</u>  |
| Other assets:                   |                            |  |  |   |
| Prepaid expenses                | 13,229                     | 13,229                                     | -  | -   |
| Other assets                    | <u>4,475</u>               | <u>4,475</u>                               | <u>-</u>   | <u>-</u>  |
| Total other assets              | <u>17,704</u>              | <u>17,704</u>                              | <u>-</u>   | <u>-</u>  |
| Property and equipment:         |                            |  |  |   |
| Office furniture and equipment  | 110,457                    | 110,457                                    | -  | -   |
| Leasehold improvements          | 61,947                     | 61,947                                     | -  | -   |
| Computer hardware               | 22,233                     | 22,233                                     | -  | -   |
| Computer software               | <u>9,141</u>               | <u>9,141</u>                               | <u>-</u>   | <u>-</u>  |
|                                 | 203,778                    | 203,778                                    | -  | -   |
| Less accumulated depreciation   | <u>(90,082)</u>            | <u>(90,082)</u>                            | <u>-</u>   | <u>-</u>  |
| Total property and equipment    | <u>113,696</u>             | <u>113,696</u>                             | <u>-</u>   | <u>-</u>  |
| <b>Total assets</b>             | <u><u>\$ 1,333,542</u></u> | <u><u>\$ 1,276,875</u></u>                 | <u><u>\$ 48,543</u></u>  | <u><u>\$ 8,124</u></u>  |

See notes to financial statements.

**CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES**

Statement of Financial Position

December 31, 2011

|   | <u>Total</u>                   | <u>General<br/>Fund<br/>(Unrestricted)</u> | <u>Political<br/>Action<br/>Committee<br/>(Temporarily<br/>Restricted)</u> | <u>FAIR Political<br/>Action<br/>Committee<br/>(Temporarily<br/>Restricted)</u> |
|---|--------------------------------|--|--|---|
| <b><u>LIABILITIES AND NET ASSETS</u></b>    |                                |  |  |   |
| Liabilities:                                |                                |  |  |   |
| Expenses payable                            | \$ 27,040                      | 27,040                                     | \$ -   | \$ -  |
| Accrued vacation benefits                   | 81,301                         | 81,301                                     | -  | -   |
| Staff retirement payable                    | <u>47,898</u>                  | <u>47,898</u>                              | -  | -   |
| <br>Total liabilities                       | <br>156,239                    | <br>156,239                                | <br>-  | <br>-   |
| <br>Net assets                              | <br><u>1,177,303</u>           | <br><u>1,120,636</u>                       | <br><u>48,543</u>  | <br><u>8,124</u>  |
| <br><b>Total liabilities and net assets</b> | <br><b><u>\$ 1,333,542</u></b> | <br><b><u>\$ 1,276,875</u></b>             | <br><b><u>\$ 48,543</u></b>  | <br><b><u>\$ 8,124</u></b>  |

See notes to financial statements.

**CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES**

Statement of Activities

For the Year Ended December 31, 2011

|   | <u>Total</u>        | <u>General<br/>Fund<br/>(Unrestricted)</u> | <u>Political<br/>Action<br/>Committee<br/>(Temporarily<br/>Restricted)</u> | <u>FAIR Political<br/>Action<br/>Committee<br/>(Temporarily<br/>Restricted)</u> |
|---|---------------------|--|--|---|
| <b>Revenues:</b>  |                     |  |  |   |
| Dues from members   | \$ 1,160,094        | \$ 1,160,094                               | \$ -   | \$ -  |
| Member contributions  | 53,230              | -  | 47,639   | 5,591   |
| Agency shop fees  | 365,684             | 365,684                                    | -  | -   |
| Affiliated membership fees  | 1,194               | 1,194                                      | -  | -   |
| Administration fees   | 172,568             | 172,568                                    | -  | -   |
| Interest income   | 1,267               | 1,267                                      | -  | -   |
| <b>Total revenues</b>   | <u>1,754,037</u>    | <u>1,700,807</u>                           | <u>47,639</u>  | <u>5,591</u>  |
| <b>Expenses:</b>  |                     |  |  |   |
| Salaries and wages  | 717,637             | 717,637                                    | -  | -   |
| Temporary help  | 13,068              | 13,068                                     | -  | -   |
| Payroll taxes   | 56,332              | 56,332                                     | -  | -   |
| Welfare benefits  | 111,145             | 111,145                                    | -  | -   |
| 401(k) retirement benefits  | 75,047              | 75,047                                     | -  | -   |
| Office and administrative<br>expenses (schedule I)                    | 143,210             | 143,210                                    | -  | -   |
| Legal fees and expenses   | 27,997              | 27,997                                     | -  | -   |
| Accounting and auditing fees  | 31,734              | 31,734                                     | -  | -   |
| Computer programming expenses   | 27,288              | 27,288                                     | -  | -   |
| 401(k) Plan administrative fees                                       | 3,079               | 3,079                                      | -  | -   |
| National Marine Engineers' Beneficial<br>Association affiliation fees | 37,664              | 37,664                                     | -  | -   |
| Delegate and negotiations expense                                     | 4,676               | 4,676                                      | -  | -   |
| Postage and delivery  | 1,984               | 1,984                                      | -  | -   |
| Auto expenses   | 13,072              | 13,072                                     | -  | -   |
| Meeting expenses  | 80,252              | 80,252                                     | -  | -   |
| Member communications   | 60,401              | 60,401                                     | -  | -   |
| Movie tickets   | 1,974               | 1,974                                      | -  | -   |
| Field program   | 15,749              | 15,749                                     | -  | -   |
| Awards expense  | 1,728               | 1,728                                      | -  | -   |
| Los Angeles County Coalition<br>shared expenses                       | 21,371              | 21,371                                     | -  | -   |
| Elections   | 7,402               | 7,402                                      | -  | -   |
| Political contributions   | 8,000               | -  | 8,000  | -   |
| FPPC reports & FTB responses  | 2,851               | -  | 1,422  | 1,429   |
| Depreciation and amortization   | 23,590              | 23,590                                     | -  | -   |
| <b>Total expenses</b>   | <u>1,487,251</u>    | <u>1,476,400</u>                           | <u>9,422</u>   | <u>1,429</u>  |
| <b>Increase in net assets</b>   | 266,786             | 224,407                                    | 38,217   | 4,162   |
| Net assets, beginning of year   | <u>910,517</u>      | <u>896,229</u>                             | <u>10,326</u>  | <u>3,962</u>  |
| <b>Net assets, end of year</b>  | <u>\$ 1,177,303</u> | <u>\$ 1,120,636</u>                        | <u>\$ 48,543</u>   | <u>\$ 8,124</u>   |

See notes to financial statements.

# CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES

Statement of Cash Flows - All Funds  
For the Year Ended December 31, 2011

## Cash flows from operating activities:

Changes in net assets:

|                                 |    |              |
|---------------------------------|----|--------------|
| General fund                    | \$ | 224,407      |
| Political Action Committee      |    | 38,217       |
| FAIR Political Action Committee |    | <u>4,162</u> |
|                                 |    | 266,786      |

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

|                                       |  |              |
|---------------------------------------|--|--------------|
| Depreciation and amortization expense |  | 23,590       |
| Loss on disposal of assets            |  | 198          |
| (Increase) decrease in:               |  |              |
| Receivables                           |  | (18,287)     |
| Prepaid expenses                      |  | 2,923        |
| Other assets                          |  | 844          |
| Increase (decrease) in:               |  |              |
| Expenses payable                      |  | 1,030        |
| Accrued vacation benefits             |  | (6,904)      |
| Staff retirement payable              |  | <u>3,208</u> |

**Total from operating activities** 273,388

## Cash flows from investing activities:

|                                     |  |                 |
|-------------------------------------|--|-----------------|
| Purchases of property and equipment |  | <u>(25,799)</u> |
|-------------------------------------|--|-----------------|

**Total from investing activities** (25,799)

## Cash flows from financing activities:

-

**Net increase in cash and cash equivalents** 247,589

Cash and cash equivalents, beginning of year 926,465

**Cash and cash equivalents, end of year** \$ 1,174,054

## 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. 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 3. 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. The Association is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2008, and they are no longer subject to California income tax examinations by tax authorities for years before 2007.

**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, 2011, 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, 2011, respectively.

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, 2011, the aggregate balances that exceeded these limits approximated \$553,000. The Association performs reviews of the relative credit rating of its banks to lower its risk.

Trust admin fees receivable

The Association receives a fee from a related party trust in connection with costs incurred to administer it (see note 5). The Association considers the receivable related to these admin fees as of December 31, 2011 collectible and, as such, no allowance for doubtful accounts is considered necessary.

**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, 2011.

Subsequent events

Subsequent events have been evaluated through July 5, 2012, which is the date the financial statements were available.

**3. 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 and wages   | \$ 661,015          |
| Other expenses       | 373,021             |
| Supporting expenses: |                     |
| Salaries and wages   | 299,146             |
| Other expenses       | <u>154,069</u>      |
|                      | <u>\$ 1,487,251</u> |

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

**4. 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 \$69,225 for the year ended December 31, 2011.

The Association leases postal equipment under a five year operating lease expiring in April of 2012. Monthly lease payments approximate \$156. Lease expense in connection with office equipment was \$2,012 for the year ended December 31, 2011 (See note 7 regarding subsequent event).

The future annual minimum lease payments required under the above operating leases as of December 31, 2011 are as follows:

|            |                   |
|------------|-------------------|
| 2012       | \$ 77,028         |
| 2013       | 77,939            |
| 2014       | 2,368             |
| 2015       | 2,368             |
| 2016       | 2,368             |
| Thereafter | <u>3,157</u>      |
| Total      | <u>\$ 165,228</u> |

**5. 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, 2011 were \$172,568.

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

**5. RELATED PARTY TRANSACTION - BENEFIT TRUST ADMINISTRATION**  
**CONTINUED**

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, 2011 totaled \$94,581.

**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 \$16,500 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 \$27,000 for the year ended December 31, 2011.

**7. SUBSEQUENT EVENT**

In May of 2012, the Association entered into a new agreement in connection with leasing postal equipment. Based upon the terms of the agreement, payments of \$592 are due quarterly and the lease expires in April of 2017.



# Haynie & Company

(a professional corporation)

Certified Public Accountants and Management Consultants

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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 2011 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 15 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.

*HAYNIE & COMPANY*

July 5, 2012

Newport Beach, California

**CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES**

Schedule I

Office and Administrative Expenses  
For the Year Ended December 31, 2011

|                                |    |                |
|--------------------------------|----|----------------|
| Bank charges                   | \$ | 235            |
| Insurance expense              |    | 8,925          |
| Loss on disposal of assets     |    | 198            |
| Office supplies and expenses   |    | 11,197         |
| Payroll processing fees        |    | 3,332          |
| Photocopier expense            |    | 2,011          |
| Postage and delivery           |    | 11,570         |
| Printing                       |    | 5,424          |
| Recruitment expenses           |    | 2,100          |
| Rent expense                   |    | 75,017         |
| Subscriptions and publications |    | 10,258         |
| Taxes and licenses             |    | 360            |
| Telephone                      |    | <u>12,583</u>  |
|                                | \$ | <u>143,210</u> |

See notes to financial statements.