

Financial Statements

California Association of Professional Employees

December 31, 2017 and 2016

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, 2017 and 2016, 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.

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.

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, 2017 and 2016, 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

August 9, 2018
Newport Beach, California

CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES

Statements of Financial Position

December 31, 2017 and 2016

	2017			2016	
	General Fund (Unrestricted)	Political Action Committee (Temporarily Restricted)	FAIR Political Action Committee (Temporarily Restricted)	Total	Total
<u>ASSETS</u>					
Cash and cash equivalents:					
Petty cash	\$ 170	\$ -	\$ -	\$ 170	\$ 500
Checking accounts	772,931	182,121	41,847	996,899	802,735
Money market fund and certificate of deposit	<u>763,478</u>	<u>-</u>	<u>-</u>	<u>763,478</u>	<u>661,132</u>
Total cash and cash equivalents	<u>1,536,579</u>	<u>182,121</u>	<u>41,847</u>	<u>1,760,547</u>	<u>1,464,367</u>
Other assets:					
Prepaid expenses	7,302	-	-	7,302	7,215
Other assets	5,704	-	-	5,704	7,186
Trust admin fees receivable	<u>22,555</u>	<u>-</u>	<u>-</u>	<u>22,555</u>	<u>26,581</u>
Total other assets	<u>35,561</u>	<u>-</u>	<u>-</u>	<u>35,561</u>	<u>40,982</u>
Property and equipment:					
Office furniture and equipment	98,513	-	-	98,513	98,513
Computer hardware	37,690	-	-	37,690	37,690
Computer software	<u>12,536</u>	<u>-</u>	<u>-</u>	<u>12,536</u>	<u>12,536</u>
	148,739	-	-	148,739	148,739
Less accumulated depreciation	<u>(130,364)</u>	<u>-</u>	<u>-</u>	<u>(130,364)</u>	<u>(119,631)</u>
Total property and equipment	<u>18,375</u>	<u>-</u>	<u>-</u>	<u>18,375</u>	<u>29,108</u>
Total assets	<u>\$ 1,590,515</u>	<u>\$ 182,121</u>	<u>\$ 41,847</u>	<u>\$ 1,814,483</u>	<u>\$ 1,534,457</u>

See notes to financial statements.

CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES

Statements of Financial Position

December 31, 2017 and 2016

	2017			2016	
	General Fund (Unrestricted)	Political Action Committee (Temporarily Restricted)	FAIR Political Action Committee (Temporarily Restricted)	Total	Total
<u>LIABILITIES AND NET ASSETS</u>					
Liabilities:					
Expenses payable	\$ 19,114	\$ -	\$ -	\$ 19,114	\$ 17,888
Accrued vacation benefits	86,461	-	-	86,461	91,533
Staff retirement payable	-	-	-	-	42,892
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	105,575	-	-	105,575	152,313
Net assets	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	1,484,940	182,121	41,847	1,708,908	1,382,144
Total liabilities and net assets	<u>\$ 1,590,515</u>	<u>\$ 182,121</u>	<u>\$ 41,847</u>	<u>\$ 1,814,483</u>	<u>\$ 1,534,457</u>

See notes to financial statements.

CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES

Statements of Activities

For the Years Ended December 31, 2017 and 2016

	2017			2016	
	General Fund (Unrestricted)	Political Action Committee (Temporarily Restricted)	FAIR Political Action Committee (Temporarily Restricted)	Total	Total
Revenues:					
Dues from members	\$ 1,310,328	\$ -	\$ -	\$ 1,310,328	\$ 1,273,771
Member contributions	-	87,126	6,182	93,308	92,378
Agency shop fees	302,320	-	-	302,320	289,832
Affiliated membership fees	8	-	-	8	36
Administration fees	107,915	-	-	107,915	137,056
Interest income	1,248	-	-	1,248	837
Total revenues	1,721,819	87,126	6,182	1,815,127	1,793,910
Expenses:					
Program services	1,063,693	16,050	50	1,079,793	1,164,894
Support services:					
General and administrative	408,570	-	-	408,570	373,672
Total expenses	1,472,263	16,050	50	1,488,363	1,538,566
Increase in net assets	249,556	71,076	6,132	326,764	255,344
Net assets, beginning of year	1,235,384	111,045	35,715	1,382,144	1,126,800
Net assets, end of year	\$ 1,484,940	\$ 182,121	\$ 41,847	\$ 1,708,908	\$ 1,382,144

See notes to financial statements.

CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES

Statement of Functional Expenses
For the Year Ended December 31, 2017

		<u>Support Activities</u>		
	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 470,340	\$ 173,961	\$ -	\$ 644,301
Temporary help	37,977	14,171	-	52,148
Payroll taxes	37,329	13,806	-	51,135
Welfare benefits	86,801	32,104	-	118,905
401(k) retirement benefits	19,329	7,149	-	26,478
Legal fees and expenses	36,481	13,493	-	49,974
Accounting and auditing fees	-	32,224	-	32,224
Computer programming expenses	18,839	6,968	-	25,807
National Marine Engineers' Beneficial Association affiliation fees	40,952	-	-	40,952
Delegate and negotiations expense	3,549	-	-	3,549
Auto expenses	3,862	-	-	3,862
Meeting expenses	83,841	31,512	-	115,353
Member communications	17,153	-	-	17,153
Movie tickets	3,521	-	-	3,521
Field program	17,136	-	-	17,136
Public relations	2,500	-	-	2,500
Los Angeles County Coalition shared expenses	26,577	-	-	26,577
Elections	-	8,537	-	8,537
Political contributions	16,000	-	-	16,000
FPPC reports & FTB responses	100	-	-	100
Depreciation and amortization	7,835	2,898	-	10,733
Bank charges	-	546	-	546
Insurance expense	-	6,064	-	6,064
Office supplies and expenses	4,825	4,493	-	9,318
Payroll processing fees	-	6,219	-	6,219
Photocopier expense	931	345	-	1,276
Postage and delivery	10,413	3,861	-	14,274
Printing	777	288	-	1,065
Recruitment expenses	925	-	-	925
Rent expense	105,855	39,152	-	145,007
Repairs and maintenance	-	2,048	-	2,048
Education expense	-	184	-	184
Special events	5,302	-	-	5,302
Subscriptions and publications	9,487	3,509	-	12,996
Taxes and licenses	-	912	-	912
Telephone	11,156	4,126	-	15,282
	<u>\$ 1,079,793</u>	<u>\$ 408,570</u>	<u>\$ -</u>	<u>\$ 1,488,363</u>

See notes to financial statements.

CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES

Statement of Functional Expenses
For the Year Ended December 31, 2016

	Program Services	Support Activities		Total
		General and Administrative	Fundraising	
Salaries and wages	\$ 450,620	\$ 166,668	\$ -	\$ 617,288
Temporary help	17,768	6,647	-	24,415
Payroll taxes	36,355	13,447	-	49,802
Welfare benefits	90,885	33,615	-	124,500
401(k) retirement benefits	48,422	17,910	-	66,332
Legal fees and expenses	48,498	-	-	48,498
Accounting and auditing fees	-	19,265	-	19,265
Computer programming expenses	21,774	9,812	-	31,586
401(k) plan administrative fees	-	951	-	951
National Marine Engineers' Beneficial Association affiliation fees	40,328	-	-	40,328
Delegate and negotiations expense	23,037	-	-	23,037
Auto expenses	3,306	-	-	3,306
Meeting expenses	58,871	21,774	-	80,645
Member communications	42,855	-	-	42,855
Movie tickets	994	-	-	994
Field program	4,534	-	-	4,534
Awards expense	11,873	-	-	11,873
Public relations	12,500	-	-	12,500
Los Angeles County Coalition shared expenses	18,494	-	-	18,494
Elections	-	8,627	-	8,627
Political contributions	81,350	-	-	81,350
FPPC reports & FTB responses	100	-	-	100
Depreciation and amortization	11,392	4,214	-	15,606
Bank charges	-	634	-	634
Insurance expense	-	8,923	-	8,923
Office supplies and expenses	3,398	4,202	-	7,600
Payroll processing fees	-	6,176	-	6,176
Photocopier expense	1,977	731	-	2,708
Postage and delivery	10,436	3,907	-	14,343
Printing	1,456	538	-	1,994
Recruitment expenses	2,325	-	-	2,325
Rent expense	95,310	35,252	-	130,562
Repairs and maintenance	-	1,110	-	1,110
Special events	3,545	-	-	3,545
Subscriptions and publications	10,144	3,752	-	13,896
Taxes and licenses	-	951	-	951
Telephone	12,347	4,566	-	16,913
	<u>\$ 1,164,894</u>	<u>\$ 373,672</u>	<u>\$ -</u>	<u>\$ 1,538,566</u>

See notes to financial statements.

CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES

Statements of Cash Flows - All Funds

For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Changes in net assets:		
General fund	\$ 249,556	\$ 244,416
Political Action Committee	71,076	4,498
FAIR Political Action Committee	<u>6,132</u>	<u>6,430</u>
	326,764	255,344
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	10,733	15,606
(Increase) decrease in:		
Prepaid expenses	(87)	(58)
Other assets	1,482	3,166
Trust admin fees receivable	4,026	(26,581)
Increase (decrease) in:		
Expenses payable	1,226	(1,024)
Accrued vacation benefits	(5,072)	(13,843)
Staff retirement payable	<u>(42,892)</u>	<u>(8,229)</u>
Total from operating activities	<u>296,180</u>	<u>224,381</u>
Cash flows from investing activities:		
Purchase of property and equipment	<u>-</u>	<u>(3,396)</u>
Total from investing activities	<u>-</u>	<u>(3,396)</u>
Cash flows from financing activities:	<u>-</u>	<u>-</u>
Net increase	296,180	220,985
Cash and cash equivalents, beginning of year	<u>1,464,367</u>	<u>1,243,382</u>
Cash and cash equivalents, end of year	<u>\$ 1,760,547</u>	<u>\$ 1,464,367</u>
Supplemental disclosure of cash flow information:		
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 1,700 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, 2017 and 2016, 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, 2017 and 2016.

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, 2017 and 2016, the aggregate balances that exceeded these limits approximated \$645,000 and \$501,000, 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, 2017 and 2016.

Subsequent events

Subsequent events have been evaluated through August 9, 2018, 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, 2017 and 2016, 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 rent expense was approximately \$145,000 and \$130,600 for the years ended December 31, 2017 and 2016, respectively.

The Association leases postal equipment under a five year operating lease expiring in April of 2017, and extended for an additional 63 months. Monthly lease payments approximate \$223 through July of 2022. Lease expense in connection with office equipment was \$3,718 and \$2,368 for the years ended December 31, 2017 and 2016, respectively.

The future annual minimum lease payments required under the above lease commitments as of December 31, 2017 are as follows:

2018	\$	122,340
2019		32,592
2020		2,676
2021		2,676
2022		<u>1,561</u>
Total	\$	<u>161,845</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 alternative 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, 2017 and 2016 were \$107,915 and \$137,056 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, 2017 and 2016 were \$112,000 and \$110,900, respectively.

As indicated in note 4, the Association has a lease agreement with the Trust.

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 the maximum amount allowable by law 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 \$26,478 and \$63,430 for the years ended December 31, 2017 and 2016, respectively.

7. SUBSEQUENT EVENT

During 2018, the United States Supreme Court ruled that public employees who choose not to join a union cannot be charged for the cost of collective bargaining. During the year ended December 31, 2017, the Association's fees (agency shop fees) related to this decision approximated \$302,000. In the opinion of management, there will be no significant impact on the financial condition or operating results of the Association in connection with this ruling.