

Financial Statements

California Association of Professional Employees

December 31, 2012

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 statement of financial position as of December 31, 2012, 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.

Auditor's 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 auditor's 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, 2012, 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 15, 2013
Newport Beach, California

CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES

Statement of Financial Position

December 31, 2012

	<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	195,869	105,517	84,066	6,286
Interest checking accounts	430,640	430,640	-	-
Money market fund	<u>254,466</u>	<u>254,466</u>	<u>-</u>	<u>-</u>
Total cash and cash equivalents	<u>881,475</u>	<u>791,123</u>	<u>84,066</u>	<u>6,286</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	13,920	13,920	-	-
Other assets	<u>5,465</u>	<u>5,465</u>	<u>-</u>	<u>-</u>
Total other assets	<u>19,385</u>	<u>19,385</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>(111,530)</u>	<u>(111,530)</u>	<u>-</u>	<u>-</u>
Total property and equipment	<u>95,015</u>	<u>95,015</u>	<u>-</u>	<u>-</u>
Total assets	<u><u>\$ 1,395,977</u></u>	<u><u>\$ 1,305,625</u></u>	<u><u>\$ 84,066</u></u>	<u><u>\$ 6,286</u></u>

See notes to financial statements.

CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES
Statement of Financial Position
December 31, 2012

	Total	General Fund (Unrestricted)	Political Action Committee (Temporarily Restricted)	FAIR Political Action Committee (Temporarily Restricted)
<u>LIABILITIES AND NET ASSETS</u>				
Liabilities:				
Expenses payable	\$ 28,474	\$ 28,474	\$ -	\$ -
Accrued vacation benefits	90,077	90,077	-	-
Staff retirement payable	47,434	47,434	-	-
 Total liabilities	 165,985	 165,985	 -	 -
 Net assets	 1,229,992	 1,139,640	 84,066	 6,286
 Total liabilities and net assets	 \$ 1,395,977	 \$ 1,305,625	 \$ 84,066	 \$ 6,286

See notes to financial statements.

CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES

Statement of Activities

For the Year Ended December 31, 2012

	<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	\$ 1,170,012	\$ 1,170,012	\$ -	\$ -
Member contributions	56,882	-	48,472	8,410
Agency shop fees	296,760	296,760	-	-
Affiliated membership fees	1,876	1,876	-	-
Administration fees	155,381	155,381	-	-
Interest income	1,567	1,567	-	-
Total revenues	<u>1,682,478</u>	<u>1,625,596</u>	<u>48,472</u>	<u>8,410</u>
Expenses:				
Salaries and wages	721,422	721,422	-	-
Temporary help	17,223	17,223	-	-
Payroll taxes	54,449	54,449	-	-
Welfare benefits	123,542	123,542	-	-
401(k) retirement benefits	74,337	74,337	-	-
Office and administrative expenses (schedule I)	156,802	156,802	-	-
Legal fees and expenses	65,691	65,691	-	-
Accounting and auditing fees	29,977	29,977	-	-
Computer programming expenses	28,789	28,789	-	-
401(k) Plan administrative fees	3,182	3,182	-	-
National Marine Engineers' Beneficial Association affiliation fees	37,383	37,383	-	-
Delegate and negotiations expense	3,481	3,481	-	-
Postage and delivery	6,282	6,282	-	-
Auto expenses	13,931	13,931	-	-
Meeting expenses	85,684	85,684	-	-
Member communications	58,261	58,261	-	-
Movie tickets	1,544	1,544	-	-
Field program	7,676	7,676	-	-
Awards expense	22,767	22,767	-	-
Public Relations	12,231	2,231	-	10,000
Los Angeles County Coalition shared expenses	59,914	59,914	-	-
Elections	10,347	10,347	-	-
Political contributions	11,250	-	11,250	-
FPPC reports & FTB responses	1,947	-	1,699	248
Unrealized loss on investment	228	228	-	-
Depreciation and amortization	21,448	21,448	-	-
Total expenses	<u>1,629,788</u>	<u>1,606,591</u>	<u>12,949</u>	<u>10,248</u>
Increase (decrease) in net assets	52,690	19,005	35,523	(1,838)
Net assets, beginning of year	<u>1,177,302</u>	<u>1,120,635</u>	<u>48,543</u>	<u>8,124</u>
Net assets, end of year	<u>\$ 1,229,992</u>	<u>\$ 1,139,640</u>	<u>\$ 84,066</u>	<u>\$ 6,286</u>

See notes to financial statements.

CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES

Statement of Cash Flows - All Funds
For the Year Ended December 31, 2012

Cash flows from operating activities:

Changes in net assets:

General fund	\$	19,005
Political Action Committee		35,523
FAIR Political Action Committee		<u>(1,838)</u>
		52,690

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

Depreciation and amortization expense		21,448
(Increase) decrease in:		
Receivables		28,088
Prepaid expenses		(691)
Other assets		(990)
Increase (decrease) in:		
Expenses payable		1,434
Accrued vacation benefits		8,776
Staff retirement payable		<u>(464)</u>

Total from operating activities 110,291

Cash flows from investing activities:

Purchases of certificates of deposit		(400,102)
Purchases of property and equipment		<u>(2,768)</u>

Total from investing activities (402,870)

Cash flows from financing activities:

-

Net decrease in cash and cash equivalents (292,579)

Cash and cash equivalents, beginning of year 1,174,054

Cash and cash equivalents, end of year \$ 881,475

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. The Association is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2009, and they are no longer subject to California income tax examinations by tax authorities for years before 2008.

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, 2012, 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, 2012.

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, 2012, the aggregate balances that exceeded these limits approximated \$193,000. 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, 2012.

Subsequent events

Subsequent events have been evaluated through July 15, 2013, 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, 2012, 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	\$ 711,237
Other expenses	510,349
Supporting expenses:	
Salaries, wages and benefits	262,513
Other expenses	<u>145,689</u>
	<u>\$ 1,629,788</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 \$74,433 for the year ended December 31, 2012.

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 \$2,613 for the year ended December 31, 2012.

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, 2012 are as follows:

2013	\$ 77,939
2014	2,368
2015	2,368
2016	2,368
2017	<u>789</u>
Total	<u>\$ 85,832</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, 2012 were \$172,560.

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, 2012 totaled \$108,171.

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 \$17,000 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 \$74,337 for the year ended December 31, 2012.



Haynie & Company

(a professional corporation)

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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 2012 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 15, 2013

Newport Beach, California

CALIFORNIA ASSOCIATION OF PROFESSIONAL EMPLOYEES

Schedule I

Office and Administrative Expenses
For the Year Ended December 31, 2012

Bank charges	\$	127
Education expense		2,355
Insurance expense		9,733
Office supplies and expenses		10,235
Payroll processing fees		3,106
Photocopier expense		3,531
Postage and delivery		9,157
Printing		3,177
Recruitment expenses		1,875
Rent expense		80,701
Repairs and maintenance		890
Special events		3,591
Subscriptions and publications		18,046
Taxes and licenses		331
Telephone		<u>9,947</u>
	\$	<u>156,802</u>

See notes to financial statements.