

**ORANGE COUNTY ATTORNEYS ASSOCIATION**

**STATEMENT OF ALLOCATED CHARGEABLE AND NONCHARGEABLE EXPENSES**

**FOR THE YEAR ENDED DECEMBER 31, 2016**

INDEPENDENT AUDITORS' REPORT

Executive Board  
Orange County Attorneys Association  
600 West Santa Ana Boulevard, Suite 114-F  
Santa Ana, California 92701

Members of the Board:

**Report on the Statement**

We have audited the accompanying statement of allocated chargeable and nonchargeable expenses of Orange County Attorneys Association (the "Association") for the year ended December 31, 2016, and the related notes to the statement.

**Management's Responsibility for the Statement**

Association management is responsible for the preparation and fair presentation of this statement including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the statement that is free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on this statement 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 statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statement, 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 statement 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 statement.

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 statement of allocated chargeable and nonchargeable expenses referred to above presents fairly, in all material respects, the chargeable and nonchargeable expenses of the Association for the year ended December 31, 2016, based on the significant factors and assumptions described in Note 4.

**Other Matter**

Based upon the significant factors and assumptions described in Note 4, the accompanying statement of allocated chargeable and nonchargeable expenses was prepared for the purpose of determining the percentage of chargeable and nonchargeable expenses used in calculating fair share fees. This statement is not intended to be a complete presentation of the Association's expenses. The expenses reported in this statement were derived from the Association's financial statements for the year ended December 31, 2016. We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Orange County Attorneys Association for the year ended December 31, 2016, and our report thereon dated October 30, 2017, expressed an unmodified opinion on those financial statements.

**Restriction on Use**

This report is intended solely for the information and use of the Association's management and other authorized related parties and should not be used for any other purpose.



MILLER KAPLAN ARASE LLP  
North Hollywood, California  
October 30, 2017

ORANGE COUNTY ATTORNEYS ASSOCIATION  
STATEMENT OF ALLOCATED CHARGEABLE AND NONCHARGEABLE EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Total</u> <u>Expenses</u>	<u>Chargeable</u> <u>Expenses</u>	<u>Nonchargeable</u> <u>Expenses</u>
<u>EXPENSES - NOTE 4</u>			
Legal Fees	\$ 46,235	\$ 29,772	\$ 16,463
Accounting and Audit Fees	10,475	9,710	765
Political Reporting Fees	5,456	-	5,456
Bookkeeping Services	7,075	7,075	-
Consulting Fees	42,280	37,944	4,336
Meetings	2,159	2,159	-
Rent	6,929	6,929	-
Telephone	728	728	-
Office Supplies and Expenses	1,329	1,329	-
Postage	94	94	-
Fidelity Bond	478	478	-
Website	2,750	2,420	330
Member Insurance	4,955	4,955	-
Member Activities	11,420	-	11,420
Donations	11,000	-	11,000
Political Fund Expenses	30,091	-	30,091
	<u>\$ 183,454</u>	<u>\$ 103,593</u>	<u>\$ 79,861</u>
<u>TOTAL EXPENSES</u>			
	<u>100.00%</u>	<u>56.47%</u>	<u>43.53%</u>
<u>PERCENTAGES</u>			

ORANGE COUNTY ATTORNEYS ASSOCIATION  
NOTES TO STATEMENT OF ALLOCATED CHARGEABLE AND NONCHARGEABLE EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 1 - DESCRIPTION OF THE ORGANIZATION

The Orange County Attorneys Association (the "Association") was created for the improvement of employee relations with the County of Orange, including negotiations on wages, hours and other terms and conditions of employment, grievances arising under the terms and conditions of employment, and matters arising under the Employee Relations Resolutions or Memorandum of Understanding and applicable state law. The Association represents attorneys licensed in the State of California and employed by the office of the District Attorney, County Counsel, Public Defender, Alternate Defender or Associate Defender and Child Support Services office of the County of Orange.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The accompanying statement of allocated chargeable and nonchargeable expenses was prepared solely for the purpose of determining the fair share cost of services rendered by the Association for agency fee payers represented by the Association, who have elected not to be members of the Association. The statement is not intended to be a complete presentation of the expenditures reported on the Association's financial statements.

B. Allocated Expenses

The statement of allocated chargeable and nonchargeable expenses has been prepared on the accrual basis of accounting. Accordingly, expenses are recognized when incurred rather than when paid.

C. Estimates

The preparation of the statement of allocated chargeable and nonchargeable expenses requires management to make estimates and assumptions that affect the reported expenses during the reporting period and the allocation of expenses between chargeable and nonchargeable. Accordingly, actual results may differ from those estimates.

D. Tax-Exempt Status

No provision for federal or state income tax is made. 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 Fund is subject to taxation under Internal Revenue Code Section 527 and the state of California Revenue and Taxation Code Section 23701r on investment income in excess of \$100.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Association and recognize a tax liability if the Association has taken a tax position that more likely than not would not be sustained upon examination by a tax authority. The Association is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

ORANGE COUNTY ATTORNEYS ASSOCIATION  
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NOTE 3 - FAIR SHARE/AGENCY FEES

A. Background

In 1986, the United States Supreme Court issued a decision in Chicago Teachers Union vs. Hudson regarding certain procedures that must be followed by labor organizations that collect fair share fees from nonmembers under a collective bargaining agreement with a public employer. In its decision, the United States Supreme Court reaffirmed the constitutionality of such fair share fee agreements, originally upheld in Abood vs. Detroit Board of Education. In other cases, Ellis vs. Railway Clerks and Lehnert vs. Ferris Faculty Association, the United States Supreme Court held that certain union expenditures could be charged to fair share fee payers, but that certain others could not be charged.

B. Definitions

An agency fee payment is a proportionate share of the costs of operation of the Association limited to certain operating costs and costs of collective bargaining, contract administration, and representation of the Attorney Unit or Attorney Unit members with respect to matters affecting wages, hours and other terms and conditions of employment. Nonchargeable expenses are those involving expenditures used to pay expenses not legally attributable to costs of collective bargaining, contract administration, and representation of the Attorney Unit or Attorney Unit members with respect to matters affecting wages, hours and other terms and conditions of employment.

The allocation criteria set forth below are based on the Association's understanding of applicable state law.

The following activities are fully chargeable:

1. Gathering information in preparation for negotiation of collective bargaining agreements, including gathering information from employees concerning collective bargaining positions.
2. Negotiating collective bargaining agreements.
3. Public advertising of the Association's position on the negotiation, ratification or implementation of collective bargaining agreements.
4. Adjusting grievances pursuant to the provisions of collective bargaining agreements, enforcing collective bargaining agreements and representing employees in proceedings under civil service laws or regulations.
5. Purchasing publications used in negotiating and administering collective bargaining agreements.
6. Paying technicians and professionals in labor law, economics, and other subjects for services used in negotiating and administering collective bargaining agreements, processing grievances and representing employees in civil service or similar proceedings.
7. Membership meetings and conventions held at least in part to determine the positions of employees on collective bargaining issues, contract administration, and other matters affecting wages, hours and other working conditions, including travel and related expenses.

ORANGE COUNTY ATTORNEYS ASSOCIATION  
NOTES TO STATEMENT OF ALLOCATED CHARGEABLE AND NONCHARGEABLE EXPENSES  
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NOTE 3 - FAIR SHARE/AGENCY FEES (Continued)

B. Definitions (Continued)

8. Internal communications concerning collective bargaining issues, contract administration, and other matters affecting wages, hours and other working conditions.
9. Administration of balloting procedures on the ratification of negotiated agreements.
10. Impasse procedures so long as they are legal under state law. These costs may include preparation for work stoppages, slowdowns, strikes or other activities in support of collective bargaining positions or positions with respect to the administration of collective bargaining agreements so long as no illegal conduct actually occurs.
11. Lobbying for the negotiation, ratification or implementation of a collective bargaining agreement.
12. Prosecution or defense of arbitration, litigation, unfair practice charges or other similar litigation to obtain interpretation, ratification, implementation or enforcement of collective bargaining agreements and any other litigation before agencies or in the courts, which concerns bargaining unit employees and is normally conducted by an exclusive representative.
13. Costs of preparation and dissemination of agency fee-related information.

The following activities are chargeable to the extent they are germane to collective bargaining or other similar representational activity:

1. Purchasing books, reports and advance sheets used for purposes or in connection with activities other than collective bargaining, contract administration, and other matters affecting wages, hours and other working conditions.
2. Paying technicians and professionals in labor law, economics or other subjects for services used in connection with activities other than collective bargaining, contract administration, and other matters affecting wages, hours and other working conditions.
3. Membership meetings and conventions held for purposes entirely other than to determine the positions of employees on collective bargaining issues, contract administration, and other matters affecting wages, hours and other working conditions, including travel and related expenses.
4. Supporting and paying affiliation fees, assessments or other similar costs to other labor or other organizations that do not negotiate or administer the collective bargaining agreements covering the agency fee payer's employment.
5. Internal communications that concern subjects other than collective bargaining issues, contract administration, public employment generally, employee development, unemployment, job opportunities, award programs, and other matters affecting wages, hours and other working conditions.

ORANGE COUNTY ATTORNEYS ASSOCIATION  
NOTES TO STATEMENT OF ALLOCATED CHARGEABLE AND NONCHARGEABLE EXPENSES  
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NOTE 3 - FAIR SHARE/AGENCY FEES (Continued)

B. Definitions (Continued)

6. Prosecution or defense of arbitration, litigation or other charges before any court or agency involving matters other than: interpretation, ratification, implementation or enforcement of collective bargaining agreements and any other litigation before agencies or in the courts which concerns bargaining unit employees and is normally conducted by an exclusive representative. Litigation in this category includes, but is not limited to, litigation that relates to the Association's institutional existence.
7. Social activities.
8. Administration expenses for activities for which agency fee payers are charged.

The following activities, if engaged in by the Association, would not be chargeable:

1. Voter registration, get out the vote and political campaign techniques, including training.
2. Supporting and contributing to charitable organizations, political organizations, candidates for public office, initiative measures, ideological causes and international affairs.
3. Public advertising of the Association's position on issues other than the negotiation, ratification or implementation of collective bargaining agreements.
4. Lobbying for purposes other than the negotiation, ratification or implementation of a collective bargaining agreement.
5. Organizing bargaining units of employees whose wages, hours and terms and condition of employment have no impact, direct or indirect, upon the wages, hours and terms and conditions of employment of employees represented by the Association.
6. Other organizing costs, including organizing within the bargaining unit in which agency fee payers are employed.

NOTE 4 - SIGNIFICANT FACTORS AND ASSUMPTIONS USED IN THE ALLOCATION OF EXPENSES BETWEEN CHARGEABLE AND NONCHARGEABLE

A. Legal Fees

The Association's legal fees were analyzed in order to determine the representational character of underlying matters and allocated accordingly. Fees associated with contract negotiations, internal union matters, etc. were allocated as chargeable. Fees associated with political issues were allocated as nonchargeable.

B. Accounting and Audit Fees

The Association's accounting and audit fees were analyzed in order to determine the representational character of underlying matters. Fees associated with general accounting requirements such as the annual audit, audit of the statement of allocated chargeable and



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NOTES TO STATEMENT OF ALLOCATED CHARGEABLE AND NONCHARGEABLE EXPENSES  
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NOTE 4 - SIGNIFICANT FACTORS AND ASSUMPTIONS USED IN THE ALLOCATION OF EXPENSES BETWEEN CHARGEABLE AND NONCHARGEABLE (Continued)

B. Accounting and Audit Fees (Continued)

nonchargeable expenses and preparation of the annual informational returns, etc. were allocated as chargeable. Fees associated with preparation of income tax returns for the Political Action Committee were allocated as nonchargeable.

C. Political Reporting Fees

These expenses were allocated as nonchargeable.

D. Bookkeeping Services

The Association's bookkeeping services were analyzed for the nature of expense and were allocated as chargeable.

E. Consulting Fees

The Association's consulting fees were analyzed in order to determine the representational character of underlying matters. Fees associated with consulting services for administrative matters were allocated as chargeable. Fees associated with member only activities were allocated as nonchargeable.

F. Meetings

These expenses were analyzed for the nature of the expense. Expenses associated with Executive Board meetings were allocated as chargeable.

G. Rent

Rent is paid for shared office space per contract with Orange County Managers Association. These expenses were allocated as chargeable.

H. Telephone, Office Supplies and Expenses, Postage and Fidelity Bond

These expenses were analyzed for the nature of the expense and are related to general administration of the Association. They were allocated as chargeable.

I. Website

Expenses associated with the Association's website hosting and maintenance were analyzed and a portion was allocated as nonchargeable since part of the website is exclusive to member only content.

J. Member Insurance

Personal accident insurance is available to all members and agency fee payers and was allocated as chargeable.

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NOTE 4 - SIGNIFICANT FACTORS AND ASSUMPTIONS USED IN THE ALLOCATION OF  
EXPENSES BETWEEN CHARGEABLE AND NONCHARGEABLE (Continued)

K. Member Activities

These expenses were for discount movie tickets purchased for members only and therefore, were allocated as nonchargeable.

L. Donations

These expenses were allocated as nonchargeable.

M. Political Fund Expenses

These expenses were allocated as nonchargeable.