



## **2017 CSEA BOARD OF DIRECTORS MEETING**

CSEA Headquarters Building  
1108 O Street, *3<sup>rd</sup> Floor* Valley Quail Conference Room  
Sacramento, Ca 95814

July 1, 2017

### **TIMES CERTAIN**

#### **Saturday – July 1, 2017**

CSEA Headquarters Building, *3<sup>rd</sup> Floor* Valley Quail Conference Room  
1108 O Street, Sacramento, Ca 95814

(10:00 a.m. – 12:00 p.m.)      CSEA Board of Directors Meeting

### **BOARD MEETING AGENDA**

- Call to order on **July 1, 2017, at 10:00 a.m.** by Chair of the Board Arlene Espinoza
- Roll Call – Chair of the Board Arlene Espinoza
- Pledge of Allegiance – Chair of the Board Arlene Espinoza
- Reading and Approval of **the October 15, 2016** Board of Directors Minutes – Chair of the Board Arlene Espinoza
- Nominations of the CSEA Secretary/Treasurer
- Report of Chair of the Board
- Report of General Manager/CEO
- Affiliate Reports
- Closed Session

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Meeting Location: CSEA Headquarters Building, 3<sup>rd</sup> Floor Valley Quail Conference Room  
1108 O Street, Sacramento, Ca 95814

**ROLL CALL**  
**CSEA Board of Directors Meeting**  
**July 1, 2017 10 am**

<b>TITLE:</b>	<b>NAME:</b>	√
<b>Chair of the Board, ACSS, Inc.</b>	<b>Arlene Espinoza</b> Sitting in:	
<b>ACSS, Inc. President</b>	<b>Frank Ruffino</b> Sitting in:	
<b>CSR President</b>	<b>Tim Behrens</b> Sitting in:	
<b>CSUEU President</b>	<b>Pat Gantt</b> Sitting in:	
<b>SEIU Local 1000</b>	<b>Yvonne Walker</b> Sitting in:	
<b>CSUEU VP for Finance</b>	<b>Loretta Seva'aetasi</b> Sitting in:	
<b>SEIU Local 1000 VP/Secretary-Treasurer</b>	<b>Theresa Taylor</b> Sitting in:	
<b>CSR CFO</b>	<b>Jerry Fountain</b> Sitting in:	

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## MINUTES

### 2016 CSEA BOARD OF DIRECTORS MEETING

October 15, 2016

CSEA Headquarters Building  
1108 O Street, 3<sup>rd</sup> Floor Valley Quail Conference Room  
Sacramento, Ca 95814

The meeting was called to order at 10:00 a.m. by Chair of the Board Arlene Espinoza.

Roll Call – Chair of the Board Arlene Espinoza.

The Pledge of Allegiance was led by Louie Espinoza.

#### Members present:

Arlene Espinoza, Chair of the Board, ACSS  
Frank Ruffino, ACSS, Inc. President  
Tim Behrens, CSR President  
Patrick N. Gantt, CSUEU President  
Loretta Seva'aetasi, CSUEU Vice President Finance  
Yvonne Walker, SEIU Local 1000 President  
Theresa Taylor, SEIU Local 1000 VP/Secretary-Treasurer

#### CSEA and Affiliate Staff Present:

Mike Carr, CSEA General Manager/CEO  
Lao Sok, Board Assistant  
Lisa Fong, Director of Member Benefits  
Pam Robison, ACSS, Secretary/Treasurer  
Todd D'Braunstein, ACSS, VP of Governmental Affairs

### COMMUNICATIONS

CSEA General Manager/CEO reported that there were no communications.

### REPORT OF CLOSED SESSION

CSUEU President Pat Gantt reported that bargaining issues were discussed.

### READING AND APPROVAL OF THE AUGUST 26, 2016 BOARD OF DIRECTORS MINUTES.

**BD 7/16/3**      **MOTION:** That the Board of Directors approve the Minutes from the August 26, 2016 Board of Directors meeting. Motion was adopted by general consent. CARRIED.

### REPORT OF CHAIR OF THE BOARD

Chair of the Board Arlene Espinoza had attended memorial services for Barbara La Plante and Gus Lease. Chair of the Board also attended the one day UAW & CSEA & Affiliates bargaining session.

## **REPORT OF SECRETARY-TREASURER**

- The most recent CSEA financial statements reflect no items of concern. We are currently projecting a year end surplus of over \$1,400,000 for 2016. The principal reasons for this projected surplus are due to profits of approximately \$1,700,000 from the Member Benefits Program that has resulted from increased revenues. Additionally we have achieved favorable budget variances in the areas of staff compensation, employee benefits and retiree health insurance expense.
- CSEA's 401K Plan Audit Report for 2015 has been completed. The Report was completed by the audit firm of Gilbert Associates, Inc. There was no management letter issued by the auditors or any findings reported that suggested internal control weaknesses or significant deficiencies. It was a "clean" audit. We are now below 85 plan participants and due to having less than 100 participants future audits will no longer be required.
- The 2015 exempt organization tax returns for CSEA, CSUEU, ACSS and CSR have been completed and were filed in July 2016. All tax return filings for 2015 have been completed including the Foundation, Chapters and the 401K and Benefit plans form 5500.

## **REPORT OF GENERAL MANAGER/CEO**

- As approved by the Board during their August meeting the process of replacing Anthem Blue Cross with New York Life Insurance Company as the carrier of the CSEA Life Program has commenced. Numerous meetings have been held between CSEA staff, New York Life and AGIA, the program administrator. This will be a complicated process requiring much negotiation and cooperation between the parties. We expected the process to be finalized in mid-2017.
- Also, as approved by the Board during their August meeting the CSEA Central Support Reserve has been refunded to the Affiliates. The payment was made on August 30, 2016. The total amount of the refund was \$597,844.
- CSEA received the 2017 estimated renewal rates for the Kaiser medical insurance plans. For active employees Kaiser North rates show a decrease of 5% and Kaiser South rates show a decrease of 1.5% over the current year. The majority of employees are covered under the North plan. The retiree plans show a minor rate decrease for 2017.
- In regards to the Headquarters Building, SEIU Local 1000 will be moving from their office space rented on the fourth floor in October. Their moving will free up approximately 28 parking spaces in the CSEA parking lot. The SEBC plans to sub lease the excess spaces to Priority Parking. The revenue from these spaces will offset approximately 50% of the lost rental revenue from this move. A current building tenant has expressed interest in renting a portion of the vacant office space. SEBC has adequate operating reserve and does not anticipate the need for increasing the current rental rate for 2017.
- **Report of the CSEA Foundation:**  
For 2016 the Foundation received 56 scholarship applications from qualifying members: 18 from CSUEU, 16 from SEIU Local 1000, 14 from CSR and 8 from ACSS. The Foundation awarded seven scholarships in the total amount of \$10,500 for 2016. After the payments to recipients the

Foundation has a cash balance of approximately \$22,000. The Foundation Board has recently initiated a new program through the United Way in which State Employees may donate directly to the Foundation by payroll deduction.

## **AFFILIATES REPORTS**

### **(CSR Report by Tim Behrens)**

President Tim Behrens reported that he participated in the UAW & CSEA & Affiliates Contract bargaining. The bargaining was done in one day for a three and half year contract.

CSR has hired Rocco Paternoster as an Interim Executive Director for their corporation. Rocco Paternoster is going to rollout new business model at the CSR Board meeting in a few weeks. Rocco Paternoster has done a lot of work with CSR staff. President Tim Behrens have been meeting with staff as well.

President Tim Behrens met with Secretary of Corrections and was able to get his assistance in letting CSR send out their papers to every correctional facilities in the state and to be able to do the setup at the prison for new membership campaign.

CSR sent out 18,000 post cards in trying to recruit more members. An incentive on the post card is if you sign up to be a member of CSR you can win a 40" screen TV. In one week CSR had 18 people signed up from the postcards. CSR is hoping that this will help increase their membership.

Caltrans will be the next biggest membership campaign for CSR. CSR has already have a few people that is going to help with Caltrans.

President Tim Behrens was asked to speak on Proposition 61 at the capitol this Monday.

### **(ACSS, Inc. Report by President Frank Ruffino)**

President Frank Ruffino reported that ACSS is doing well. ACSS joined the effort in the appeal of the famous Marin county case. The Marin county case deals with pension so ACSS will be participating and will be following the case.

Representation continues to be the most valued program to ACSS members. ACSS have provided over 266 direct representational cases. ACSS did over 158 meet and confer. ACSS was able to get 3% increase for their members; and POBEC will be staring in July 1, 2017. ACSS will continue to meet and confer with CALHR. President Frank Ruffino already have meetings setup with CALHR in November 2016 to start discussing 2017 and 2018 budget cycle and some compaction.

ACSS Membership Outreach is as strong as ever. ACSS have made some major strives in this area. ACSS finally made it to the new supervisor training. ACSS have 71 new members from Caltrans.

Membership is at its highest ever been in 20 years.

ACSS had experience an excellent increase on website activities by 46.2% since last year.

ACSS have already met with the top candidates that so far have officially made known that they are running for governor. ACSS is doing the meet & greet with the candidates. ACSS is making sure that the candidates know of ACSS.

President Frank Ruffino participated in the one day bargaining session for the UAW & CSEA & Affiliates Contract.

**(CSUEU Report by Pat Gantt)**

President Pat Gantt reported that over the last year CSEA Membership Department had processed over 2,200 new membership application for CSUEU. Statewide membership is above 72% and growing. CSUEU is continuing to do more outreach on the chapters. CSUEU is going to build more outreach and build that into their campaign for a new contract.

CSUEU bargaining team and council are meeting this weekend at the Holiday Inn doing the run through of the articles and issues to re-open a full contract in January 31, 2017. CSUEU will try to put together a successful campaign hoping to get an agreement before the contract expires on June 30, 2017.

CSUEU current member's engagement opportunity is around "Yes On 55." It is a ballot measure designed to extend a higher income tax on upper-income earners it extend proposition 30's tax on the wealthy. CSUEU is working with every chapters in getting the members to understand and support proposition 55.

President Pat Gantt reported that Bill AB 2386 was vetoed by Governor Brown. AB 2386 bill is to add a staff seat to the CSUEU Board of Trustee. CSUEU will bring this bill back up in the future but not with this governor.

President Pat Gantt participated in the one day bargaining session with the UAW. President Pat Gantt thanked everyone that participated.

**(SEIU LOCAL 1000 Report by Yvonne Walker)**

President Yvonne Walker reported that SEIU Local 1000 is in the process of moving into their new building and that they are still in act of negotiation.

**BD 8/16/3** MOTION: Moved by Behrens, second by Gantt to accept and approve Member Benefits packet annual review in toto. Motion was adopted by general consent. CARRIED.

**BEN 3/16/3** (Arlene Espinoza) E-Retailer via Payroll Deduction  
Purchasing Power, LLC – Annual Review

**BD 9/16/3** MOTION: That the Board of Directors adopt the following recommendations:  
1. Conclude that there is no contingency reserve surplus.  
2. Continue the program with Purchasing Power, LLC.  
Motion was adopted by general consent. CARRIED.

**BEN 4/16/3** (Arlene Espinoza) Legal & Identity Theft Plan  
Legal Club of America – Annual Review

**BD 10/16/3** MOTION: That the Board of Directors adopt the following recommendations:  
1. Conclude that there is no contingency reserve surplus.  
2. Continue the plan with the current carrier at current rates.  
Motion was adopted by general consent. CARRIED.

**BEN 5/16/3** (Arlene Espinoza) Auto and Homeowners Insurance Plan  
Kemper Select – Annual Review

**BD 11/16/3** MOTION: That the Board of Directors adopt the following recommendations:  
1. Conclude there is no contingency reserve surplus.



2. Continue the plan with the current carrier at current rates until a new carrier is obtained.
  3. Cease marketing with the current carrier.
- Motion was adopted by general consent. CARRIED.

**BEN 6/16/3      (Arlene Espinoza) Group Term Life Insurance Plan  
Anthem Life Insurance Company – Annual Review**

**BD 12/16/3      MOTION:** That the Board of Directors adopt the following recommendations:

1. Earned Premium has not exceeded Plan Benefits and Expenses for 2014 and 2015 causing a Plan Loss and a reduction in the Claim Reserve.
2. The Claim Reserve is fully funded.
3. Continue to market/promote the Group Term LifePLUS and 10 Year Level Term Life Insurance Plans to bring in new Plan participants and premium.
4. Continue Plans with Anthem Life Insurance Company during the assumption reinsurance transition to New York Life Insurance Company.

Motion was adopted by general consent. CARRIED.

**BEN 7/16/3      (Arlene Espinoza) Group Ordinary Life Insurance Plan  
Anthem Life Insurance Company – Annual Review**

**BD 13/16/3      MOTION:** That the Board of Directors adopt the following recommendations:

1. Earned Premium has not exceeded Plan Benefits and Expenses for 2014 and 2015 causing a Plan Loss and reduction in the Claim Reserve.
2. Claim Reserve is fully funded.
3. Continue to market Group Ordinary Life Plan to increase participants and premium.
4. Continue Plans with Anthem Insurance Company during the assumption reinsurance transition to New York Life Insurance Company. Motion was adopted by general consent. CARRIED.

**BEN 8/16/3      (Arlene Espinoza) Group Final Expense Insurance Plan  
Anthem Life Insurance Company – Annual Review**

**BD 14/16/3      MOTION:** That the Board of Directors adopt the following recommendations:

1. There has been no demand for this type of insurance plan from the CSEA membership to date.
2. The Plan may continue to have a presence on the CSEA Group Insurance Plan web site but there should be no direct mail marketing campaigns planned for this line of insurance.
3. Continue the Plan with Anthem Life Insurance Company during the assumption reinsurance transition to New York Life Insurance Company.

Motion was adopted by general consent. CARRIED.

**BEN 9/16/3      (Arlene Espinoza) Accidental Death and Dismemberment Insurance Plan  
New York Life Insurance Company – Annual Review**

**BD 15/16/3      MOTION:** That the Board of Directors adopt the following recommendations:

1. Premium rates are adequate to support current Plan expenses as long as the Premium Surplus Reserve maintains its current level.
2. The Premium Surplus Reserve is fully funded.
3. Continue plan upgrade and cross-sell strategies to generate new insureds and premium.
4. Continue the Plan with New York Life Insurance Company at current premium rates

and benefits. Motion was adopted by general consent. CARRIED.

**BEN 10/16/3 (Arlene Espinoza) Disability Income Insurance Plans (Short and Long Term)  
New York Life Insurance Company – Annual Review**

**BD 16/16/3 MOTION:** That the Board of Directors adopt the following recommendations:

1. Premium rates are more than adequate to support Plan Expenses and fund the Premium Surplus Reserve.
2. The Premium Surplus Reserve is fully funded.
3. Consider improving Plan (additional benefits) for current and new participants. A reduction in premium rates, a premium credit or a benefit bonus program can now be considered.
4. Continue the Plan with New York Life Insurance Company as the underwriter.

Motion was adopted by general consent. CARRIED.

**BEN 11/16/3 (Arlene Espinoza) Cancer Insurance Plans  
Monumental Life Insurance Company – Annual Review**

**BD 17/16/3 MOTION:** That the Board of Directors adopt the following recommendations:

1. Premium rates are more than adequate to support Plan expenses and fund the Premium Surplus Reserve.
2. The Premiums Surplus Reserve is fully funded and a Surplus is available.
3. If 2016 Policy Year ends with positive Premium Surplus Reserve, consider increasing lump sum benefits or a low percentage premium credit.
4. Continue the Plans with Monumental Life Insurance Company as the underwriter.

Motion was adopted by general consent. CARRIED.

**BEN 12/16/3 (Arlene Espinoza) Comprehensive Accident Plan (CAP)  
Hartford Life and Accident Insurance Company – Annual Review**

**BD 18/16/3 MOTION:** That the Board of Directors adopt the following recommendations:

1. Premium rates are adequate to support the current Plan benefits and expenses.
2. Consider placing the Plan on a retention basis when Total Annual Premium approaches \$1 million.
3. No benefits or premium changes recommended at this time.

Motion was adopted by general consent. CARRIED.

**BEN 13/16/3 (Arlene Espinoza) Travel Accident Insurance Plan  
New York Life Insurance Company – Annual Review**

**BD 19/16/3 MOTION:** That the Board of Directors adopt the following recommendations:

1. Premium rates are adequate to support current Plan Expenses and the combined Premium Surplus Reserve.
2. Continue to combine the Travel Accident Plan with the ADD Plan for retention purposes.
3. Continue the Plan with New York Life Insurance Company at the current premium rates and benefits levels. Motion was adopted by general consent. CARRIED.

- BEN 14/16/3 (Arlene Espinoza) Emergency Assistance Plan (EA+) Worldwide Rescue and Security – Annual Review**
- BD 20/16/3 MOTION:** That the Board of Directors adopt the following recommendations:
1. Continue testing marketing offers and billing notices to add new participants and increase retention of current program participants.
  2. This is a Service Program, not an insurance plan, and is not available for retention/profit sharing.
  3. Continue the program with Worldwide Rescue and Security at the current benefit and fee levels. Motion was adopted by general consent. CARRIED.
- BEN 15/16/3 (Arlene Espinoza) Emergency Roadside Service Program Road America Motor Club – Annual Review**
- BD 21/16/3 MOTION:** That the Board of Directors adopt the following recommendations:
1. Look to incorporate the availability of these benefits into the new auto program. Motion was adopted by general consent. CARRIED.
- BEN 16/16/3 (Arlene Espinoza) Long Term Care Insurance Program Long Term Care Resources – Annual Review**
- BD 22/16/3 MOTION:** That the Board of Directors adopt the following recommendations:
1. Review marketing trends and Plan/Benefit designs to stay current and offer the most up to date Long Term Care coverages available.
  2. Continue with one direct mail campaign per year.
  3. Continue the Program with Long Term Care Resources. Motion was adopted by general consent. CARRIED.
- BEN 17/16/3 (Arlene Espinoza) Pet Insurance Program United Fire Insurance Company – Annual Review**
- BD 23/16/3 MOTION:** That the Board of Directors adopt the following recommendations:
1. Review meaningful and cost efficient ways to promote the Plan. Use e-newsletters, e-blasts and word of mouth.
  2. Continue the program with United Fire Insurance Company, administered by PetsmarketingInsurance.com Agency. Motion was adopted by general consent. CARRIED.
- BEN 18/16/3 (Arlene Espinoza) Hearing Aid Benefit Program EPIC Hearing Service Plan – Annual Review**
- BD 24/16/3 MOTION:** That the Board of Directors adopt the following recommendations:
1. Continue marketing to increase plan participation.
  2. Continue the Plan with the current carrier. Motion was adopted by general consent. CARRIED.
- BEN 19/16/3 (Arlene Espinoza) Discount Drug Prescription Program Paramount RX – Annual Review**
- BD 25/16/3 MOTION:** That the Board of Directors adopt the following recommendations:
1. Review meaningful ways for members to obtain discount prescription card including e-newsletter, e-blasts and distributing printed flyers at meetings and events.

2. Continue the program with Paramount Rx. Motion was adopted by general consent. CARRIED.

BEN 20/16/3    **(Arlene Espinoza) Discounted Online Hotel Booking**

**BD 26/16/3**    **MOTION:** Moved by Behrens, second by Gantt that the following recommendation: The CSEA Member Benefits Committee had a conference call on September 30, 2016 and would like the approval of the CSEA Board to place a hotel booking agent on the web site with the understanding that there are hotels listed on the Do Not Patronize List and that CSEA Member Benefits would promote the selected online booking agent for leisure travel only. Motion was adopted by general consent. CARRIED.

FIS 3/16/3    **(Arlene Espinoza) Approval of the CSEA 2015 401K Audit Report & Required Communications**

**BD 27/16/3**    **MOTION:** Moved by Behrens, second by Gantt that the Board of Directors adopt the acceptance of the 2015 401K Plan audit report. Motion was adopted by general consent. CARRIED.

**BD 28/16/3**    **MOTION:** Moved by Espinoza, second by Walker that the Board of Directors approve going on forward after 2018 the CSEA Board of Directors meeting is set for the 3<sup>rd</sup> Saturday of July and 3<sup>rd</sup> Saturday of October. Motion was adopted by general consent. CARRIED.

#### **MEETING ADJOURNMENT**

The meeting was adjourned at 10:55 am in memory of Gus Lease.

Respectfully submitted,  
Lao Sok

**BOARD AGENDA ITEM****BP 1/17/1****ACTION ITEM**

Date: 7/1/17

**SUBJECT:**CSEA Policy File  
Division 5; Section 502.09 (a)**SOURCE AND/OR PROPONENT:**

Arlene Espinoza, Chair of the Board

**PRESENTATION BY:**

Arlene Espinoza

**ASSIGNED TO:**

Arlene Espinoza

**RECOMMENDED ACTION:**

That the Board of Directors approved the recommended changes to CSEA Policy File Division 5, Section 502.09 (a).

**Division 5: Association Elections****502.09 Affiliate Chapter/DLC Delegate Election Process****(a) Mailing of Ballots**

Ballots shall be mailed by headquarters no later than April 20 to each active member in good standing, by nonprofit ~~or~~ first-class or electronic mail to those members with an address within the state, by first-class or electronic mail for all others and shall comply with the following rules: (BD 138/83/3, BD 100/98/5, BD 18/11/2, BD 24/11/2)

**BACKGROUND:**

CSEA Affiliate, ACSS, is seeking use an online voting service for portions of their elections in 2018, including election of Delegate Assembly and General Council delegates. Affiliate conduct elections for both corporations' delegates with a single process thereby requiring both corporate election processes to have mutual procedural compliance obligations. Currently, the CSEA policy file only makes reference to "first class mail" notice and ballot procedures. This change will allow the affiliates to move to an online election process for their delegates and still comply with CSEA's election procedures.

**ESTMATED COST/SAVINGS:** N/A**FUNDING SOURCE:** N/A**BOARD ACTION:**

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**BOARD AGENDA ITEM** FIS 1/17/1 (Arlene Espinoza)

**ACTION ITEM** Date: 7/1/17

**SUBJECT:** Approval of the 2016 CSEA Audit Report

**SOURCE AND/OR PROPONENT:** Arlene Espinoza

**PRESENTATION BY:** Arlene Espinoza

**ASSIGNED TO:** Mike Carr

**RECOMMENDED ACTION:**

That the Board of Directors adopt the 2016 Audit Report of CSEA.

**BACKGROUND:**

The 2016 Audit Report of CSEA and the Required Communications with Those Charged with Governance has been reviewed by the Finance Committee and the Committee recommends adoption of the Audit Report and findings by the Board.

**ESTMATED COST/SAVINGS:** N/A

**FUNDING SOURCE:** N/A

**BOARD ACTION:**

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**CALIFORNIA STATE  
EMPLOYEES ASSOCIATION**

**FINANCIAL STATEMENTS WITH  
INDEPENDENT AUDITOR'S REPORT**

**YEARS ENDED  
DECEMBER 31, 2016 AND 2015**

## INDEPENDENT AUDITOR'S REPORT

**Board of Directors  
California State Employees Association  
Sacramento, California**

We have audited the accompanying financial statements of the California State Employees Association (the Association), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and of 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.

### *Auditor's 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 of 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 the Association as of December 31, 2016 and 2015, 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.

*Gilbert Associates, Inc.*

GILBERT ASSOCIATES, INC.  
Sacramento, California

April 13, 2017

# CALIFORNIA STATE EMPLOYEES ASSOCIATION

## STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2016 AND 2015

ASSETS	<u>2016</u>	<u>2015</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 9,760,554	\$ 8,930,222
Accounts receivable, net	238,048	141,246
Prepaid expenses and other assets	66,158	73,737
Deferred tax asset	<u>                    </u>	<u>21,000</u>
Total current assets	10,064,760	9,166,205
 INVESTMENT IN BUILDING CORPORATION	 472,535	 435,568
 PROPERTY AND EQUIPMENT, Net	 <u>201,834</u>	 <u>245,367</u>
 TOTAL ASSETS	 <u>\$ 10,739,129</u>	 <u>\$ 9,847,140</u>
 <b>LIABILITIES AND ACCUMULATED DEFICIT</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 82,606	\$ 141,037
Due to affiliates	52,741	117,647
Accrued payroll and benefits	324,104	252,926
Accrued vacation	140,534	186,972
Accrued income taxes	19,000	
Current portion of note payable	71,253	65,793
Current portion of post-retirement benefit liability	<u>1,387,000</u>	<u>1,551,000</u>
Total current liabilities	2,077,238	2,315,375
 <b>LONG-TERM LIABILITIES:</b>		
Deposits due to affiliates		597,844
Note payable, net	392,474	463,727
Post-retirement benefit liability, net	30,232,000	33,172,000
Supplemental retirement plan liability	<u>143,257</u>	<u>147,536</u>
Total long-term liabilities	30,767,731	34,381,107
 TOTAL LIABILITIES	 32,844,969	 36,696,482
 ACCUMULATED DEFICIT	 <u>(22,105,840)</u>	 <u>(26,849,342)</u>
 TOTAL LIABILITIES AND ACCUMULATED DEFICIT	 <u>\$ 10,739,129</u>	 <u>\$ 9,847,140</u>

The accompanying notes are an integral part of these financial statements.

# CALIFORNIA STATE EMPLOYEES ASSOCIATION

## STATEMENTS OF ACTIVITIES YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<b>REVENUES:</b>		
Affiliate support	\$ 4,150,179	\$ 5,716,654
Royalty fees	1,921,535	1,823,354
Administrative service fees	156,693	153,791
Equity gain on investment in Building Corporation	36,967	35,498
Interest income	10,131	10,154
Dues and fees	10,128	9,674
Miscellaneous	20,736	22,149
Total revenues	<u>6,306,369</u>	<u>7,771,274</u>
<b>EXPENSES:</b>		
Salaries and related expenses	3,806,333	3,969,874
Rent, office expense, general and administrative	377,953	438,915
Professional fees	285,731	469,367
Depreciation and amortization	82,303	145,656
Interest expense	39,984	45,024
Travel, meetings and conferences	18,867	115,940
Other expenses	15,696	19,922
Total expenses	<u>4,626,867</u>	<u>5,204,698</u>
<b>OTHER INCREASES (DECREASES):</b>		
Post-retirement changes other than net periodic benefit cost	3,061,000	(1,109,000)
Net post-retirement periodic benefit cost, net of contributions	43,000	1,958,000
Income tax expense	(40,000)	(27,000)
Total other increases	<u>3,064,000</u>	<u>822,000</u>
<b>DECREASE IN ACCUMULATED DEFICIT</b>	4,743,502	3,388,576
<b>ACCUMULATED DEFICIT, Beginning of year</b>	<u>(26,849,342)</u>	<u>(30,237,918)</u>
<b>ACCUMULATED DEFICIT, End of year</b>	<u>\$ (22,105,840)</u>	<u>\$ (26,849,342)</u>

The accompanying notes are an integral part of these financial statements.

# CALIFORNIA STATE EMPLOYEES ASSOCIATION

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Decrease in accumulated deficit	\$ 4,743,502	\$ 3,388,576
Reconciliation to net cash provided by operating activities:		
Depreciation and amortization	82,303	145,656
Equity gain in subsidiary	(36,967)	(35,498)
Changes in:		
Accounts receivable	(96,802)	(59,574)
Prepaid expenses and other assets	7,579	18,792
Deferred tax asset	21,000	27,000
Accounts payable and accrued expenses	(14,691)	140,641
Due to affiliates	(662,750)	30,022
Post-retirement benefit liability	(3,104,000)	(849,000)
Supplemental retirement plan liability	(4,279)	(3,548)
Net cash provided by operating activities	<u>934,895</u>	<u>2,803,067</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	<u>(38,770)</u>	<u>(49,945)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments on note payable	<u>(65,793)</u>	<u>(60,750)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>830,332</b>	<b>2,692,372</b>
<b>CASH AND CASH EQUIVALENTS, Beginning of year</b>	<u><b>8,930,222</b></u>	<u><b>6,237,850</b></u>
<b>CASH AND CASH EQUIVALENTS, End of year</b>	<u><b>\$ 9,760,554</b></u>	<u><b>\$ 8,930,222</b></u>
<b>OTHER CASH FLOW INFORMATION:</b>		
Cash paid during the year for interest	<u><b>\$ 39,984</b></u>	<u><b>\$ 45,024</b></u>

The accompanying notes are an integral part of these financial statements.

# CALIFORNIA STATE EMPLOYEES ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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### 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The California State Employees Association (the Association) is a nonprofit, mutual benefit corporation, whose purpose is to provide shared administrative services to three affiliated entities: Association of California State Supervisors, Inc. (ACSS), the California State University Employees Union S.E.I.U. Local 2579 (CSUEU), and the CSEA Retirees, Inc. (Retirees). Local 1000 restructured its service agreement with the Association and beginning January 2013, they started performing a majority of its own administrative services.

The Association recognizes United Automobile, Aerospace, and Agricultural Implement Workers of America, AFL-CIO Local 2350 as the sole and exclusive bargaining agent for the non-management employees of the Association.

**Basis of presentation** – The Association's financial statements are prepared on the accrual basis of accounting and in conformity with professional standards applicable to not-for-profit entities.

**Revenue recognition** – The principal revenue source of the Association is support from its affiliates based on a negotiated fixed fee for central support costs. These costs are governed by the service agreements with affiliates. Affiliate support, royalty fees, administrative service fees, and other income are recognized when earned.

**Cash and cash equivalents** – For financial statement purposes, the Association considers all investments with an initial maturity of three months or less to be cash equivalents.

**Accounts receivable** are stated at the amount management expects to collect from outstanding balances. The Association uses the allowance method to determine uncollectible receivables. The allowance is based on prior years' experience and management's analysis of specific accounts. The allowance for doubtful accounts at December 31, 2016 and 2015 was \$11,700 and \$14,700, respectively.

**Investment in affiliate** – The Association accounts for its fifty percent interest in the State Employees Building Corporation under the equity method.

**Property and equipment** is stated at cost and depreciated using the straight-line method over estimated useful lives of 3 to 15 years. The Association capitalizes all expenditures for property and equipment in excess of \$5,000.

**Software development costs** – Costs for the Association's internally developed software are accounted for in accordance with professional standards. Capitalized costs include those costs directly associated with developing the software and upgrade and enhancement costs resulting in additional functionality, following the preliminary project-planning phase up to its implementation and operational stage. Capitalized costs are amortized over the estimated useful life of the software on a straight-line basis. Amortization begins when the software is available for its intended use.

**Income taxes** – The Association is exempt from income taxes under Section 501(c)(5) of the Internal Revenue Code, but is subject to income taxes from activities unrelated to its tax-exempt purpose. The Association has applied the accounting principles related to accounting for uncertainty in income taxes and has determined that there is no material impact on the financial statements. With some exceptions, the Association is no longer subject to U.S. federal and state income tax examinations by tax authorities for years prior to 2012.

# CALIFORNIA STATE EMPLOYEES ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

**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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Accrued post-retirement benefit liabilities** – The Association accounts for its post-retirement benefit liabilities in accordance with professional standards, which requires employers to (a) recognize the overfunded or underfunded status of a single-employer defined benefit post-retirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in unrestricted net assets in the year in which the changes occur, and (b) measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions.

**Subsequent events** have been evaluated through April 13, 2017, the date the financial statements were available to be issued.

**Reclassifications** – Certain 2015 amounts have been reclassified to conform to the 2016 financial statement presentation.

### 2. INVESTMENT IN STATE EMPLOYEES BUILDING CORPORATION

The Association holds a fifty percent interest in the State Employees Building Corporation (the Building Corporation). The remaining fifty percent interest is held by Golden One Credit Union (Credit Union). The Association and the Credit Union are tenants of the property owned by the Building Corporation, and each hold 4,500 shares of common stock in the Building Corporation, which represents the total shares outstanding. The Association accounts for its interest in the Building Corporation at cost plus its share of undistributed earnings or loss.

Summarized information for the Building Corporation as of December 31, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Property, net	\$ 1,240,751	\$ 1,231,881
Cash	170,803	159,615
Other assets	2,686	2,469
Liabilities	<u>(469,170)</u>	<u>(522,829)</u>
Stockholders' equity	945,070	871,136
Net gain	73,934	70,995
Carrying amount of the Association's investment	<u>472,535</u>	<u>435,568</u>
Equity gain on investment	<u>\$ 36,967</u>	<u>\$ 35,498</u>



# CALIFORNIA STATE EMPLOYEES ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

### 3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2016</u>	<u>2015</u>
Buildings and improvements	\$ 755,693	\$ 755,693
Furniture and equipment	1,568,349	1,582,690
Software	866,207	867,537
Total	3,190,249	3,205,920
Less accumulated depreciation and amortization	<u>(2,988,415)</u>	<u>(2,960,553)</u>
Property and equipment, net	<u>\$ 201,834</u>	<u>\$ 245,367</u>

### 4. NOTE PAYABLE

Effective June 1, 2010, the California State Employees Association Retirement Plan (Pension Plan) was merged into the SEIU Affiliates Officers and Employees Pension Plan (SEIU Plan) (see Note 7).

Prior to the merger of the Pension Plan into the SEIU Plan, the Association became aware that the Pension Plan failed to provide automatic actuarial increases to participants whose benefits do not commence at or before their normal retirement date. As a result, the Pension Plan filed a Voluntary Compliance Plan (VCP) with the Internal Revenue Service (IRS) in 2010 offering to correct this plan failure for all affected participants on or after January 1, 2004. The IRS completed its review in November 2011 and accepted the proposed assessment of \$713,000. The SEIU Plan agreed to finance this assessment over 10 years at a monthly payment amount of \$8,885 through 2022 including interest at 8% per annum. As of December 31, 2016 and 2015, the remaining liability was \$463,727 and \$529,520, respectively. The Association has included this liability in note payable on the statements of financial position.

Principal payments on note payable as of December 31, 2016, are as follows:

2017	\$ 71,253
2018	77,167
2019	83,572
2020	90,509
2021	98,021
Thereafter	<u>43,205</u>
Total	463,727
Less current portion	<u>(71,253)</u>
Long-term portion	<u>\$ 392,474</u>

# CALIFORNIA STATE EMPLOYEES ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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### 5. REVOLVING LOAN

The Association had a revolving loan with Wells Fargo Bank that expired March 1, 2017 and was not renewed. The maximum principal amount available was \$250,000. Interest was subject to the greater of 5% or prime rate plus 1.75% and was due and payable monthly. The loan was collateralized by inventory and equipment of the Association. As of December 31, 2016 and 2015, there were no draws taken from this account and no outstanding balance due.

### 6. OPERATING LEASE AGREEMENT

The Association has an operating lease agreement for office facilities which operates on a month to month basis. Rent expense under this lease for the years ended December 31, 2016 and 2015 was \$154,785 and \$156,812, respectively.

### 7. RETIREMENT PLANS

#### SEIU Defined Benefit Plan

Plan name:	SEIU Affiliates Officers and Employees Pension Plan
Plan's EIN:	52-0812348
Plan number:	001
Certified zone status:	Green Zone

Qualified employees are covered under the SEIU Affiliates Officers and Employees Pension Plan (SEIU Plan). The SEIU Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The SEIU Plan is a multiple-employer plan administered by the Service Employees International Union (SEIU), which acts as a common investment and administrative agent for participating organizations. The SEIU Plan selects optional benefit provisions by contract with SEIU and adopts those benefits through Board approval. Multiple-employer plans differ from single-employer plans in that much of the fiduciary responsibilities and risks under a single-employer plan would lie with the Association. Under this multiple-employer plan, the fiduciary responsibilities and risks lie with SEIU.

The Association is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members based on the actuarial methods and assumptions adopted by the SEIU Board of Directors. The required employer contribution rate for 2016 and 2015 was 20% of annual covered payroll, respectively. The Association's contributions to the SEIU Plan for 2016 and 2015 were \$295,211 and \$241,358, respectively, and equaled 100% of the required contributions. Future contribution rates as a percentage of covered annual payrolls have been adopted as follows:

2017	20%
2018 and thereafter	21%

# CALIFORNIA STATE EMPLOYEES ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

### Retiree Health Plan

In addition to the SEIU Plan, the Association provides health, dental, and vision coverage to eligible retired participants through the California State Employees Association Retiree Health Benefit Plan (Retiree Health Plan). The participant must have at least 10 years of service; 15 years of services are required for full coverage. The Association allows the participant to choose between several health benefit plan options provided by Kaiser Permanente and Pacificare. All the plan options are HMO plans, except that transitionally, some employees were allowed to choose a PPO-type plan option. The Association pays the premiums for each retiree and the retiree's dependents according to the plan vesting schedule. In addition, for retirees covered by Medicare, the Association reimburses retirees for their Medicare premium payments.

The Association's funding policy is to make contributions on a pay-as-you-go basis. The following information has been computed by the Association's actuary (in thousands):

	<u>2016</u>	<u>2015</u>
Net post-retirement periodic benefit cost (income)	\$ 1,499	\$ (305)
Employer contributions	1,542	1,653

The following table sets forth the Retiree Health Plan's funded status at years ended December 31 (in thousands):

	<u>2016</u>	<u>2015</u>
Actuarial present value of accumulated post-retirement benefit obligation	\$ (31,619)	\$ (34,723)
Funded status (liability)	\$ (31,619)	\$ (34,723)
Current liability recorded on the statements of financial position	\$ (1,387)	\$ (1,551)
Noncurrent liability recorded on the statements of financial position	\$ (30,232)	\$ (33,172)

Net post-retirement periodic benefit cost (income) for the years ended December 31 included the following components (in thousands):

	<u>2016</u>	<u>2015</u>
Service cost – benefits earned during the period	\$ 369	\$ 347
Interest cost	1,392	1,110
Amortization of prior service cost during the year	(262)	
Amortization of gain		(1,762)
Net post-retirement periodic benefit cost (income)	<u>\$ 1,499</u>	<u>\$ (305)</u>

# CALIFORNIA STATE EMPLOYEES ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Net Retiree Health Plan changes other than net post-retirement periodic benefit cost (income) for the years ended December 31 included the following components (in thousands):

	<u>2016</u>	<u>2015</u>
Loss (gain) during the year	\$ (3,323)	\$ 6,459
Curtailment gain*		(5,188)
Amortization of gain		(424)
Amortization of prior service cost during the year	<u>262</u>	<u>262</u>
Post-retirement changes other than net periodic benefit cost (income)	<u>\$ (3,061)</u>	<u>\$ 1,109</u>

\*In 2015 a curtailment gain was calculated by the Association's actuary due to the change from the Association paying for vested terminated employees and certain retirees to Local 1000 paying for such costs.

Amounts in unrestricted net assets that are expected to be recognized as components of net post-retirement periodic benefit cost for the year ending December 31, 2017, included the following components (in thousands):

Amortization of prior service cost	\$ (262)
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The following is a summary of the key assumptions used at December 31:

	<u>2016</u>	<u>2015</u>
Discount rate	4.00%	4.10%

Expected medical inflation trend assumptions for the Retiree Health Plan are as follows:

	<u>Pre 65</u>	<u>Post 65</u>
2017	8.00%	5.50%
2018	7.75%	5.25%
2019	7.50%	5.00%
2020	7.25%	5.00%
2021	7.00%	5.00%
2022	6.75%	5.00%
2023	6.50%	5.00%
2024	6.25%	5.00%
2025	6.00%	5.00%
2026	5.75%	5.00%
2027	5.50%	5.00%
2028	5.25%	5.00%
2029 and thereafter	5.00%	5.00%

# CALIFORNIA STATE EMPLOYEES ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. Increasing the health care cost trend rate by 1% in each future year would increase the accumulated post-retirement benefit obligation by \$4,674,000 and the aggregate annual service and interest cost by \$284,000.

The estimated annual benefit payments required for the Retiree Health Plan for the next ten years are as follows (in thousands):

Year ending December 31:

2017	\$ 1,387
2018	1,445
2019	1,502
2020	1,549
2021	1,610
2022-2026	<u>8,509</u>
Total	<u>\$ 16,002</u>

Defined Contribution Plan

The Association sponsors a defined contribution plan under IRC Section 401(k) in which all employees 21 years of age and over are eligible to participate. It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). Participants may contribute by salary reduction of their annual wages before bonuses and overtime. This amount is limited by the IRS to a maximum dollar amount per year. Each participant's account is credited with the participant's contribution and allocation of plan earnings. The Association makes matching contributions of 200% of the first 1.50% of employee contributions to a maximum of 1.50% of gross wages. Employer contributions are not vested until the participant reaches three years of service. Plan expenses amounted to \$44,221 and \$32,334 for 2016 and 2015, respectively.

Supplemental Retirement Plan

In addition, the Association has a supplemental retirement plan that is an eligible deferred compensation plan as defined in Section 457(a) of the Internal Revenue Code. The plan is not intended to conform to the requirements of Internal Revenue Code Section 401. Participants are a select group of management or highly compensated employees. Currently, there is one prior employee benefitting under the plan. No other participants have been identified at December 31, 2016. Plan contributions are actuarially determined to fund current costs. This plan and the Association's liability under it will terminate upon the Association's legal dissolution, adjudication as bankrupt, or the making of a general assignment to or for the benefit of creditors. The Association's financial statements include the activity of the plan. At December 31, 2016 and 2015, no assets were held for the plan. At December 31, 2016 and 2015, liabilities of \$143,257 and \$147,536, respectively, were held for the plan and shown as supplemental retirement plan liability on the statements of financial position.

# CALIFORNIA STATE EMPLOYEES ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

### 8. FUNCTIONAL EXPENSES

The Association allocates expenditures functionally between direct expenditures on behalf of affiliates and indirect general and administrative costs. Accordingly, certain costs have been allocated based on employees' time incurred directly on behalf of affiliates and direct utilization of resources. For 2016 and 2015, 74% of the Association's expenses consist of services provided on behalf of affiliates, while 26% are general and administrative costs.

### 9. TAX STATUS

The Association is subject to Federal and State unrelated business income tax in any year they have activities that are unrelated to their exempt purpose. The Association is subject to tax on advertising revenues, discount ticket sale revenues and administrative service fees, net of any related expenses. A provision for unrelated business income taxes has been made for the years ended December 31, 2016 and 2015 to reflect changes in the deferred tax balances.

The Association fully utilized the Federal and State NOLs during 2016 and as a result there is no deferred tax asset recorded for the year ended December 31, 2016.

The Association's net deferred tax balances are as follows for the year ended December 31, 2015:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
Deferred tax asset, current	\$ 15,000	\$ 6,000	\$ 21,000

The components of the income tax provision are as follows for the years ended December 31:

	<u>2016</u>	<u>2015</u>
Current:		
Federal	\$ 16,000	
State and local	<u>3,000</u>	<u>          </u>
Total	<u>19,000</u>	<u>          </u>
Deferred tax expense:		
Federal	15,000	\$ 21,000
State and local	<u>6,000</u>	<u>6,000</u>
Total	<u>21,000</u>	<u>27,000</u>
Provision for taxes	<u>\$ 40,000</u>	<u>\$ 27,000</u>

# CALIFORNIA STATE EMPLOYEES ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

### 10. CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject the Association to credit risk consist primarily of cash and cash equivalents and amounts due from affiliates.

The Association minimizes credit risk associated with cash and cash equivalents by periodically evaluating the credit quality of its primary financial institution. The balance at times may exceed federally insured limits. The Association has not experienced any losses in such accounts and management believes the Association is not exposed to any significant credit risk related to cash and cash equivalents.

Amounts due from affiliates, as disclosed in Note 11, are for services provided during the year and are generally collected within three months after they are billed.

### 11. AFFILIATES

The Association is affiliated with the ACSS, Local 1000, CSUEU, and Retirees. The affiliates are charged a negotiated fixed fee for providing central support services that include accounting, information technology, human resources, and membership services.

The Association earned the following affiliate support revenue amounts for 2016 and 2015:

<u>2016</u>	<u>ACSS</u>	<u>Local 1000</u>	<u>CSUEU</u>	<u>Retirees</u>	<u>Total</u>
Central support	\$ 539,004	\$ 2,280,171	\$ 923,004	\$ 408,000	\$ 4,150,179
<u>2015</u>	<u>ACSS</u>	<u>Local 1000</u>	<u>CSUEU</u>	<u>Retirees</u>	<u>Total</u>
Central support	\$ 539,004	\$ 3,846,646	\$ 923,004	\$ 408,000	\$ 5,716,654

The Association had the following amounts due from (due to) the affiliates:

<u>December 31, 2016</u>	<u>ACSS</u>	<u>Local 1000</u>	<u>CSUEU</u>	<u>Retirees</u>	<u>Total</u>
Central support	\$ 23,863	\$ (77,171)	\$ (1,062)	\$ 1,629	\$ (52,741)
<u>December 31, 2015</u>	<u>ACSS</u>	<u>Local 1000</u>	<u>CSUEU</u>	<u>Retirees</u>	<u>Total</u>
Central support	\$ 12,341	\$ (163,491)	\$ 35,200	\$ (1,697)	\$ (117,647)

# CALIFORNIA STATE EMPLOYEES ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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The Association maintained a one-month central support service reserve (as required by the service agreements) which was initially established for payment of the affiliate's direct costs and their share of central support and indirect costs. During 2016 the Association determined the affiliate reserve balances were no longer necessary for the central support funding due to the fixed cost sharing arrangement for the services and refunded the reserve balances to affiliates. For the year ended December 31, 2015, these reserves were included in deposits due to affiliates and cash and cash equivalents on the statements of financial position as follows:

	<u>ACSS</u>	<u>Local 1000</u>	<u>CSUEU</u>	<u>Retirees</u>	<u>Total</u>
Central support service reserve	\$ 80,000	\$ 337,744	\$ 140,000	\$ 40,000	\$ 597,844



# CALIFORNIA STATE EMPLOYEES ASSOCIATION

## Communications With Those Charged With Governance

*Submitted by*

**Gilbert Associates, Inc.**

We have audited the financial statements of California State Employees Association (the Association) for the year ended December 31, 2016. We are providing the Association's Board of Directors (Board) with information regarding the scope and results of the audit to assist the Board in overseeing management's financial reporting and disclosure process. This information is intended solely for the use of the Board and management of the Association and is not intended to be, and should not be, used by anyone other than these specified parties. The following pages summarize these required communications.

April 13, 2017



**Gilbert Associates, Inc.**  
CPAs and Advisors

*Relax. We got this.™*

## RESPONSIBILITIES AND OPINIONS

**Auditors' Responsibilities under Generally Accepted Auditing Standards (GAAS)**

The financial statements are the responsibility of management. As stated in our engagement letter, our responsibility is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

We issued an unmodified opinion on the financial statements of the Association for the years ended December 31, 2016 and 2015.

## INTERACTIONS WITH MANAGEMENT

### Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Association's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts.

To our knowledge, there were no such consultations with other accountants.

### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report.

We are pleased to report that no such disagreements arose during the course of our audit.

### Management Representations

We have requested certain representations from management that are included in their letter to us.

### Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit. Management and staff were well prepared and cooperative.



**Gilbert Associates, Inc.**  
CPAs and Advisors

*Relax. We got this.™*

## QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

<p><b>Significant Accounting Policies</b></p> <p>Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application.</p>	<p>The significant accounting policies used by the Association are described in notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2016.</p> <p>We noted no transactions entered into by the Association during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.</p>
<p><b>Management Judgments and Accounting Estimates</b></p> <p>Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.</p>	<p>We considered the methodologies and judgments used in assessing the collectability of accounts receivable, selection of useful lives of property and equipment, the valuation of the State Employees Building Company investments, the valuation of the post-retirement benefit liability, and the allocation of functional expenses. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole. In addition, the related financial statement disclosures are neutral, consistent and clear.</p>

## RESULTS OF THE AUDIT

<p><b>Planned Scope and Timing of the Audit</b></p>	<p>We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter.</p>
<p><b>Other Audit Findings or Issues</b></p>	<p>We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Association auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.</p>
<p><b>Significant Adjustments or Disclosures Not Reflected in the Financial Statements</b></p> <p>Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.</p>	<p>No significant adjustments or omitted disclosures were identified during our audit.</p>



**Gilbert Associates, Inc.**  
CPAs and Advisors

*Relax. We got this.™*

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