



July 30, 2012

INDEPENDENT AUDITORS' REPORT

Board of Directors
Institute for Local Government
Sacramento, California

We have audited the accompanying Statement of Financial Position of Institute for Local Government (the Institute) as of December 31, 2011, and the related Statements of Activities and Cash Flows for the year then ended. These financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

John Waddell & Co., CPAs

INSTITUTE FOR LOCAL GOVERNMENT

**Statement of Financial Position
December 31, 2011**

ASSETS

Cash and equivalents	\$	349,168
Certificate of deposit		206,565
Accounts receivable		177,158
Pledges and grants receivable		380,000
Beneficial interest in assets held by others		25,512
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	\$	<u>1,138,403</u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable	\$	<u>123,150</u>
Net Assets		
Unrestricted		
Undesignated		16,992
Designated for reserves		150,000
Temporarily restricted		823,386
Permanently restricted		24,875
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		1,015,253
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	\$	<u>1,138,403</u>

See accompanying notes to financial statements.

INSTITUTE FOR LOCAL GOVERNMENT

Statement of Activities For the Year Ended December 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue				
Grants and contributions	\$ 90,423	\$ 365,000	\$ 6,050	\$ 461,473
Contributions from Associations	260,000	-	-	260,000
Publications	13,939	-	-	13,939
Contract income	578,099	-	-	578,099
Workshops	15,256	-	-	15,256
Investment income	4,403	-	-	4,403
Miscellaneous income	1,665	-	-	1,665
Net assets released from restriction	606,005	(606,005)	-	-
Total Support and Revenue	<u>1,569,790</u>	<u>(241,005)</u>	<u>6,050</u>	<u>1,334,835</u>
Expenses				
Program services:				
Climate Change	336,695	-	-	336,695
Ethics	44,919	-	-	44,919
Public Engagement	379,812	-	-	379,812
Intergovernmental Relations	30,765	-	-	30,765
Land Use Planning and Housing				
Capacity Building	210,077	-	-	210,077
Healthy Neighborhoods	97,936	-	-	97,936
Local Government 101	60,344	-	-	60,344
Website	10,721	-	-	10,721
Total program services	<u>1,171,269</u>	<u>-</u>	<u>-</u>	<u>1,171,269</u>
Supporting services:				
General and administration	318,619	-	-	318,619
Fundraising	15,365	-	-	15,365
Total supporting services	<u>333,984</u>	<u>-</u>	<u>-</u>	<u>333,984</u>
Total Expenses	<u>1,505,253</u>	<u>-</u>	<u>-</u>	<u>1,505,253</u>
Change in Net Assets	64,537	(241,005)	6,050	(170,418)
Net Assets, Beginning of Year	<u>102,455</u>	<u>1,064,391</u>	<u>18,825</u>	<u>1,185,671</u>
Net Assets, End of Year	<u>\$ 166,992</u>	<u>\$ 823,386</u>	<u>\$ 24,875</u>	<u>\$ 1,015,253</u>

See accompanying notes to financial statements.

INSTITUTE FOR LOCAL GOVERNMENT

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

Cash Flows from Operating Activities:	
Change in net assets	\$ (170,418)
Adjustments to reconcile change in net assets to cash provided by operating activities:	
Noncash items included in changes in net assets:	
Dividends reinvested	(2,156)
Realized and unrealized loss on investments	1,028
Changes in operating assets and liabilities:	
Accounts receivable	(92,030)
Pledges and grants receivable	398,000
Accounts payable	3,638
Contributions restricted for long-term purposes	(6,050)
Cash Provided by Operating Activities	<u>132,012</u>
Cash Flows from Investing Activities:	
Purchases of investments	(270,150)
Sales of investments	220,000
Cash Used by Investing Activities	<u>(50,150)</u>
Cash Flows from Financing Activities:	
Collection of support for endowment	6,050
Cash Provided by Financing Activities	<u>6,050</u>
Net Increase in Cash	87,912
Cash and Cash Equivalents, Beginning of Year	<u>261,256</u>
Cash and Cash Equivalents, End of Year	<u>\$ 349,168</u>

See accompanying notes to financial statements.

INSTITUTE FOR LOCAL GOVERNMENT

Notes to Financial Statements December 31, 2011

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

The Institute for Local Government promotes good government at the local level with practical, impartial, and easy to use resources for California communities. The Institute is the nonprofit research affiliate of the League of California Cities and the California State Association of Counties. The Institute's materials help city, county and special district officials.

In 2011, the Institute pursued its mission with programs by focusing on the following activities:

Climate Change: Develops and disseminates information about how local agencies can reduce greenhouse gas emissions and conserve energy, and designing a recognition program for agencies that do so.

Ethics: Promotes public confidence and trust in the local decision-making process by helping local officials understand public service ethics principles and laws, as well as the tools available to help promote public service ethics.

Public Engagement: Promotes public confidence and trust in local decision-making processes by helping local officials make good decisions in designing and using public engagement.

Intergovernmental Collaboration: Provides staffing services for the Cities-Counties-Schools Partnership, a collaboration among the California School Boards Association, the California State Association of Counties, and the League of California Cities to promote joint efforts among local agencies relating to children and families.

Land Use Planning: Supporting local land use decision-making with an array of resources on current land use issues.

Healthy Communities: Helps local officials make the connection between land use and other decisions and public health.

Local Government 101: Promotes good decision-making at the local level with resources explaining key concepts relating local government structures and processes for newly-elected officials, newly-hired staff, the media and members of the public.

INSTITUTE FOR LOCAL GOVERNMENT

Notes to Financial Statements December 31, 2011

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Cash

The Institute considers demand deposit accounts with banks to be cash for purposes of the Statement of Cash Flows.

Certificate of Deposit

The certificate of deposit currently earns a rate of 0.9% and matures in February 2012.

Accounts Receivable

Accounts receivable are stated at unpaid balances. Management believes all balances are collectible; accordingly, no allowance for doubtful accounts has been established. Receivables are determined to be past due based on contractual terms.

Beneficial Interest in Assets Held by Others

The endowment fund is held in a pooled investment account of the Sacramento Region Community Foundation. The balance in the pooled investment fund is reported at fair value as reported to the Institute by the Community Foundation.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions that are temporarily restricted are then reclassified to unrestricted net assets upon satisfaction of the restrictions.

Income Taxes

The Institute is exempt from income taxes under Internal Revenue Code Section 501(c)(3). The Institute's federal and state exempt organization returns are subject to examination for three and four years, respectively, from the date they were filed.

INSTITUTE FOR LOCAL GOVERNMENT

Notes to Financial Statements December 31, 2011

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Allocation of Expenses

The Institute allocates administrative costs to programs based on direct program hours.

Subsequent Events

Subsequent events have been evaluated through the date the financial statements were available to be issued, which was July 30, 2012.

NOTE 2 PLEDGES AND GRANTS RECEIVABLE

Pledges and grants receivable are due within one year.

NOTE 3 RELATED PARTY TRANSACTIONS

The Institute is closely affiliated with the League of California Cities and the California State Association of Counties (CSAC). The League provides personnel, management, office space and financial services to the Institute pursuant to a written agreement. Included in accounts payable is \$112,622 due to the League. See Note 6 for expenses paid to the League. Contributions from the League amounted to \$180,000 during the year ended December 31, 2011. Contributions from CSAC amounted to \$80,000 during the year ended December 31, 2011.

In 2011, the Institute began managing the administrative functions of the Cities-Counties-Schools Partnership (CCS), in which the League and CSAC are partners, under a professional services agreement for one year ending June 30, 2012. Total revenue earned under this agreement was \$38,394 for the year ended December 31, 2011. In addition, the Institute has a subcontract with CCS related to a CCS grant. The total amount due to the Institute under the administrative agreement and subcontract was \$33,347 as of December 31, 2011.

NOTE 4 CONCENTRATIONS

The majority of the Institute's revenues and receivables are from a few grantors and contributors.

INSTITUTE FOR LOCAL GOVERNMENT

Notes to Financial Statements December 31, 2011

NOTE 5 RESTRICTIONS ON ASSETS

Temporarily restricted net assets are restricted for the following purposes:

Public Engagement Collaborative Governance	\$ 666,397
Sustainable Communities Learning Network	143,742
Don Benninghoven Fellowship Fund	<u>13,247</u>
	<u>\$ 823,386</u>

Temporarily restricted net assets were released from restriction by incurring expenses satisfying the program restriction. Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable.

NOTE 6 FAIR VALUE MEASUREMENTS

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis. There have been no changes in the methodologies used for the year ended December 31, 2011.

Beneficial interest in assets held by others: Fair value was determined based on the fair value of the underlying investments as reported to the Institute by the Community Foundation.

The following table sets forth the level, within the fair value hierarchy, of the Institute's assets at fair value:

	Level 1 (quoted prices for identical assets in an active market)	Level 2 (significant observable inputs)	Level 3 (significant unobservable inputs)
Beneficial interest in assets held by others	\$ -	\$ -	25,512
	\$ -	\$ -	\$ 25,512

INSTITUTE FOR LOCAL GOVERNMENT

Notes to Financial Statements December 31, 2011

NOTE 6 FAIR VALUE MEASUREMENTS – CONTINUED

The following table sets forth a summary of changes in fair value of the Institute's Level 3 fair value measurements for the year ended December 31, 2011:

	Level 3 Assets
Balance at beginning of year	\$ 19,254
Unrealized losses and fees	(892)
Purchases	7,150
Balance at end of year	\$ 25,512

NOTE 7 ENDOWMENT FUND

The Institute has a donor-restricted endowment fund that is held and managed by the Community Foundation. Accordingly, the investment return objectives, risk parameters and strategies, and spending policy are all determined by the Community Foundation. The Board of Trustees of the Institute has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Institute classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Changes in the endowment fund for the year ended December 31, 2011 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 1,529	\$ -	\$ 17,725	\$ 19,254
Contributions	-	-	7,150	7,150
Investment loss	(560)	-	-	(560)
Administrative fees	(332)	-	-	(332)
Endowment funds, end of year	\$ 637	\$ -	\$ 24,875	\$ 25,512

INSTITUTE FOR LOCAL GOVERNMENT

Notes to Financial Statements December 31, 2011

NOTE 8 EXPENSES BY FUNCTION

Expenses were incurred for the following:

	Climate Change	Ethics	Public Engagement	Inter- governmental Collaboration	Land Use Planning	Healthy Communities	Local Government 101	Website	General & Administration	Fundraising	Total
League personnel & office support	\$ 304,850	\$ 42,808	\$ 278,626	\$ 30,073	\$ 133,628	\$ 94,139	\$ 55,072	\$ 10,721	\$ 152,409	\$ 14,254	\$ 1,116,580
League rent	-	-	-	-	-	-	-	-	58,248	-	58,248
Consultants	12,578	-	77,483	25	67,306	138	-	-	8,500	-	166,030
Printing	2,256	256	1,521	26	1,361	115	1,373	-	1,548	75	8,531
Travel	8,050	1,469	11,083	367	5,000	1,813	1,782	-	2,308	267	32,139
Meetings & seminars	883	-	6,047	55	1,886	985	-	-	14,155	24	24,035
Accounting & audit fees	-	-	-	-	-	-	-	-	9,025	-	9,025
Postage	216	263	198	117	122	5	195	-	1,006	14	2,136
Insurance	-	-	-	-	-	-	-	-	3,231	-	3,231
Library, phone & other	7,862	123	4,854	102	774	741	1,922	-	68,189	731	85,298
	<u>\$ 336,695</u>	<u>\$ 44,919</u>	<u>\$ 379,812</u>	<u>\$ 30,765</u>	<u>\$ 210,077</u>	<u>\$ 97,936</u>	<u>\$ 60,344</u>	<u>\$ 10,721</u>	<u>\$ 318,619</u>	<u>\$ 15,365</u>	<u>\$ 1,505,253</u>