

**INSTITUTE FOR LOCAL GOVERNMENT**

Financial Statements  
with  
Independent Auditor's Report  
For the Year Ended  
December 31, 2016

**INSTITUTE FOR LOCAL GOVERNMENT**  
**DECEMBER 31, 2016**

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Institute for Local Government  
Sacramento, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Institute for Local Government, which comprise the statement of financial position as of December 31, 2016, and the related statement of activities and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in financial statements. The procedures selected depend on the auditors' judgement, 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.

To the Board of Directors  
Institute for Local Government  
Sacramento, California

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Institute for Local Government as of December 31, 2016, and the changes in their net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

## **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 13 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Fechter & Company,  
Certified Public Accountants

A handwritten signature in cursive script that reads "Fechter & Company, CPAs".

Sacramento, California  
June 30, 2017

**INSTITUTE FOR LOCAL GOVERNMENT  
STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2016**

**ASSETS**

**CURRENT:**

Cash and cash equivalents	\$	1,078,917
Certificate of deposit		200,440
Accounts receivable		105,712
Pledges and grant receivable		165,000
Prepaid expenses		<u>1,209</u>
 Total current assets		 1,551,278

**OTHER ASSETS:**

Endowment fund - Community Foundation		<u>90,512</u>
 Total other assets		 <u>90,512</u>
 Total Assets	 \$	 <u><u>1,641,790</u></u>

**LIABILITIES AND NET ASSETS**

**LIABILITIES**

Accounts payable - vendors	\$	178,394
Deferred revenue		<u>10,000</u>
 Total Liabilities		 <u>188,394</u>

**NET ASSETS**

Unrestricted		
Undesignated		862,163
Designated for reserves		
Temporarily restricted		515,890
Permanently restricted		<u>75,343</u>
 Total Net Assets		 <u>1,453,396</u>

Total Liabilities and Net Assets	\$	<u><u>1,641,790</u></u>
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**INSTITUTE FOR LOCAL GOVERNMENT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Support and Revenue</b>				
Grant and contributions	\$ -	\$ 917,500	\$ 7,418	\$ 924,918
Contributions from associations	592,200	-	-	592,200
Publications	3,042	-	-	3,042
Contract income	440,513	-	-	440,513
Program income	112,287	-	-	112,287
Investment income	1,490	4,921	-	6,411
Miscellaneous income	1,222	-	-	1,222
Net assets released from restrictions	895,248	(895,248)	-	-
<b>Total Support and Revenue</b>	<b>2,046,002</b>	<b>27,173</b>	<b>7,418</b>	<b>2,080,593</b>
<b>Expenses</b>				
Program services:				
Sustainability	516,363	-	-	516,363
Ethics	110,689	-	-	110,689
Public Engagement	382,051	-	-	382,051
Intergovernmental Collaboration	367,069	-	-	367,069
Local Government 101	185,797	-	-	185,797
<b>Total program services</b>	<b>1,561,969</b>	<b>-</b>	<b>-</b>	<b>1,561,969</b>
<b>Supporting services</b>				
General and administration	311,881	-	-	311,881
Fund development	8,418	-	-	8,418
<b>Total support services</b>	<b>320,299</b>	<b>-</b>	<b>-</b>	<b>320,299</b>
<b>Total expenses</b>	<b>1,882,268</b>	<b>-</b>	<b>-</b>	<b>1,882,268</b>
<b>Change in Net Assets</b>	<b>163,734</b>	<b>27,173</b>	<b>7,418</b>	<b>198,325</b>
<b>Net assets, beginning of year</b>	<b>698,429</b>	<b>488,717</b>	<b>67,925</b>	<b>1,255,071</b>
<b>Net assets, end of the year</b>	<b>\$ 862,163</b>	<b>\$ 515,890</b>	<b>\$ 75,343</b>	<b>\$ 1,453,396</b>

**INSTITUTE FOR LOCAL GOVERNMENT  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in Net Assets	\$ 198,325
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Dividends reinvested	(301)
Change in endowment fund asset	(4,078)
Change in operating assets and liabilities:	
Accounts receivable	34,823
Pledges and grants receivable	13,488
Prepaid expenses	(1,209)
Accounts payable	(54,864)
Contributions restricted for long-term purposes	<u>(9,484)</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>176,700</u>
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	 <u>902,217</u>
 CASH AND CASH EQUIVALENTS, END OF YEAR	 <u><u>\$ 1,078,917</u></u>

**INSTITUTE FOR LOCAL GOVERNMENT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 1: NATURE OF ORGANIZATION**

The Institute for Local Government (the Institute) promotes good government at the local level with practical, impartial, and easy to use resources for California communities. The Institute is a nonprofit research affiliate of the League of California Cities and the California State Association of Counties.

In 2016, the Institute pursued its mission by focusing on the following activities:

***Sustainability:*** Helps local officials identify and apply policies and best practices that support sustainable communities – places that foster and maintain a high quality of life for their residents on an ongoing basis.

***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.

***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.

***General/Administration & Fund Development:*** Providing administrative oversight and support and in addition, directing efforts to seek and secure grants, contributions and donations from individuals, corporations and foundations.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

The Institute presents its financial statements in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 958, Subtopic 205, *Not-for-Profit Entities- Presentation of Financial Statements* (FASB ASC 958-205). Under FASB ASC 958-205, the Institute is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets.

**INSTITUTE FOR LOCAL GOVERNMENT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Basis of Presentation (continued)***

Temporarily restricted net assets result from grants and contributions whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of management pursuant to those stipulations. Permanently restricted net assets result from contributions whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or removed by actions of management. Unrestricted net assets are the part of the net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations. As of December 31, 2016, the Institute had unrestricted, temporarily restricted, and permanently restricted net asset balances of \$862,163, \$515,890, and \$75,343, respectively. Of the \$862,163 of unrestricted net assets, the Board has set aside \$205,700 to be held for reserves.

***Cash and Cash Equivalents***

For cash flow reporting purposes, cash and cash equivalents include highly liquid investments with maturities of three months or less when purchased. The Institute maintains its cash balances in institutions that are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). At times, the bank account balances may exceed federally insured limits.

***Accounts Receivable***

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.

***Pledges and Grants Receivable***

Pledges and grants receivable are due within one year.

***Endowment Fund***

The Institute's 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. All contributions made to the endowment fund are considered permanently restricted, while the income earned is considered temporarily restricted.

**INSTITUTE FOR LOCAL GOVERNMENT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Income Taxes***

The Institute is exempt from income taxes under Internal Revenue Code Section 501(c)(3). The Institute has adopted provisions of FASB ASC 740-10, *Income Taxes*. Accordingly, tax related assets and liabilities are recognized to the extent it is more likely than not that the reporting entity's tax treatment would be sustained in the event of an examination by the taxing authorities. After they are filed, the Institute's income tax returns remain subject to examination by taxing authorities generally three years for federal returns and four years for state returns.

***Fair Value Measurements***

The Institute has adopted the provisions of FASB ASC 820-10, *Fair Value Measurements and Disclosures*, which defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements for fair value measurements.

FASB ASC 820-10 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Institute determines the fair values of its assets and liabilities based on the fair value hierarchy established in FASB ASC 820-10.

***Allocation of Expenses***

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

***Subsequent Events***

Events and transaction have been evaluated for potential recognition or disclosure through June 30, 2017, the date the financial statements were available to be issued.

**INSTITUTE FOR LOCAL GOVERNMENT**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 3: RELATED PARTY TRANSACTIONS**

The Institute is closely affiliated with the League of California Cities (League) 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 \$135,677 due to the League. Contributions from the League made to the Institute amounted to \$230,700, and the Institute paid \$1,556,740 to the League for the services discussed above for the year ended December 31, 2016. Contributions from CSAC to the Institute amounted to \$115,000 for the year ended December 31, 2016. Included in accounts receivable is \$35,000 due from CSAC.

**NOTE 4: CONCENTRATIONS**

For the year ending December 31, 2016, the Institute had three major clients as follows: Southern California Edison (16% of total revenues), The League of California Cities (11%), and the California State Association of Counties (10%).

**NOTE 5: UNRESTRICTED BOARD DESIGNATED AND RESTRICTED NET ASSETS**

Unrestricted board designated net assets were available for the following purposes at December 31, 2016:

	<u>Amount</u>
General Fund, reserves	<u>\$ 205,700</u>
Total Board Designated Net Assets	<u><u>\$ 205,700</u></u>

**INSTITUTE FOR LOCAL GOVERNMENT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 5: UNRESTRICTED BOARD DESIGNATED AND RESTRICTED NET ASSETS  
(CONTINUED)**

Temporarily restricted net assets were available for the following purposes at December 31, 2016:

	Amount
Public Engagement	\$ 220,787
Sustainable Communities	16,465
Intergovernmental Collaboration	118,218
Local Government Basics	132,004
Don Benninghoven Fellowship Fund	13,247
Endowment Earnings	15,170
 Total Temporarily Restricted Net Assets	 \$ 515,891

Permanently restricted net assets, which include contributions to the endowment fund held by the Sacramento Region Community Foundation, totaled \$75,343 as of December 31, 2016.

**NOTE 6: INVESTMENT AND INVESTMENT INCOME**

Investments were comprised of the following at December 31, 2016:

Description	Amount
Certificates of Deposit	\$ 200,440
Endowment Fund	90,512
Total	\$ 290,952

**INSTITUTE FOR LOCAL GOVERNMENT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 6: INVESTMENT AND INVESTMENT INCOME (CONTINUED)**

Investment income was comprised of the following at December 31, 2016:

Description	Amount
Interest	\$ 1,490
Net Return on Investment (Endowment Fund)	5,763
Investment Expenses	(842)
Net Investment Income	\$ 6,411

**NOTE 7: FAIR VALUE MEASURES**

The Institute measures fair value in accordance with Statement of Financial Accounting Standards No. 157, Fair Value Measurements (FAS 157), which was subsequently included in the FASB Codification as ASC 820; which applies to all financial instruments that are being measured and reported on a fair value basis.

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a fair value hierarchy that prioritized inputs to valuation techniques used to measure fair value. The 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 measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

**Level 1:** Inputs are quoted market prices (unadjusted in active markets for identical assets or liabilities). Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

**Level 2:** Inputs other than quoted prices within Level 1 that are observable, either directly or indirectly. Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

**INSTITUTE FOR LOCAL GOVERNMENT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 7: FAIR VALUE MEASURES (CONTINUED)**

*Level 3:* Inputs are observable. Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models, and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used during the year ended December 31, 2016:

Endowment Fund: Fair value determined based on the fair value of the underlying investments as reported to the Institute by the Community Foundation.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, the Institute believes the valuation methods are appropriate and consistent with other market participants; the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The table below presents the balances of assets measured at fair value on a recurring basis at December 31, 2016:

	Total	Level 1	Level 2	Level 3
Endowment Fund	\$ 90,512	\$ -	\$ -	\$ 90,512
Certificates of Deposit	200,440	200,440	-	200,440
Totals	\$ 290,952	\$ 200,440	\$ -	\$ 290,952

**INSTITUTE FOR LOCAL GOVERNMENT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 7: FAIR VALUE MEASURES (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, 2016:

	Amount
Balance at the Beginning of the Year	\$ 78,400
Net Return on Investments (Endowment Fund)	5,537
Purchases	7,418
Admin Fees	(842)
Balance at the End of the Year	\$ 90,513

**NOTE 8: ENDOWMENT FUND**

The Institute has a donor-restricted endowment fund that is held and managed by the Community Foundation (See Note 2). Accordingly, the investment return objectives, risk parameters, strategies, and spending policy are all determined by the Foundation. The Board of Directors of the Institute have 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 the interpretation, the Institute classifies as permanently net assets: (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. Changes in the endowment fund for the year ended December 31, 2016, were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets, Beginning of Year	\$ -	\$ 10,475	\$ 67,925	\$ 78,400
Contributions	-	-	7,418	7,418
Return on Investment	-	5,537	-	5,537
Administrative Fees	(842)	-	-	(842)
Assets Released from Restriction	842	(842)	-	-
Net Assets, End of Year	\$ -	\$ 15,170	\$ 75,343	\$ 90,513

**INSTITUTE FOR LOCAL GOVERNMENT**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 8: ENDOWMENT FUND (CONTINUED)**

Based on reporting available from the Community Foundation, the Institute for Local Government was provided return on investment and administrative fee amounts for January 1, 2015 through June 30, 2016, for the prior year. This subsequent audit report will contain return on investment and administrative fee amounts for July 1, 2016 through December 31, 2016.

**INSTITUTE FOR LOCAL GOVERNMENT**  
**SUPPLEMENTARY INFORMATION SECTION**  
**DECEMBER 31, 2016**

**INSTITUTE FOR LOCAL GOVERNMENT  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Sustainability</u>	<u>Ethics</u>	<u>Public Engagement</u>	<u>Inter- Governmental Collaboration</u>	<u>Local Government 101</u>	<u>General &amp; Administration</u>	<u>Fund Development</u>	<u>Total</u>
League personnel & office support	\$ 449,921	\$ 89,679	\$ 226,681	\$ 294,899	\$ 123,009	\$ 116,591	\$ 4,788	\$ 1,305,568
Facilities & equipment	68	-	566	645	2,222	75,538	-	79,039
Contract services	25,907	7,019	106,854	25,534	44,391	59,256	3,500	272,461
Printing	699	-	-	-	-	-	-	699
Travel, Meetings & Seminars	22,200	7,406	41,259	26,515	14,245	40,316	5	151,946
General expenses	17,568	6,585	5,462	13,399	930	20,180	125	64,249
Program services	-	-	-	154	550	-	-	704
Grants & scholarships	-	-	1,229	5,923	450	-	-	7,602
Totals	<u>\$ 516,363</u>	<u>\$ 110,689</u>	<u>\$ 382,051</u>	<u>\$ 367,069</u>	<u>\$ 185,797</u>	<u>\$ 311,881</u>	<u>\$ 8,418</u>	<u>\$ 1,882,268</u>