

BETTER GOVERNMENT ASSOCIATION, INC.
FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

BETTER GOVERNMENT ASSOCIATION, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Better Government Association, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Better Government Association, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and changes in net assets, functional expenses 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Better Government Association, Inc. as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of Better Government Association, Inc. as of December 31, 2015, were audited by other auditors whose report dated July 11, 2016, expressed an unmodified opinion on those statements.

Marcum LLP

Deerfield, IL
September 6, 2017

BETTER GOVERNMENT ASSOCIATION, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2016 AND 2015

| | 2016 | 2015 |
|--|---------------------|---------------------|
| Assets | | |
| Current Assets | | |
| Cash | \$ 777,462 | \$ 197,639 |
| Investments | 2,738,781 | 2,505,948 |
| Pledges receivables, current portion | 110,000 | 338,500 |
| Account receivable | 2,385 | 3,585 |
| Prepaid expenses | 59,306 | 82,877 |
| Total Current Assets | <u>3,687,934</u> | <u>3,128,549</u> |
| Property and Equipment, Net | <u>60,164</u> | <u>59,723</u> |
| Other Assets | | |
| Pledges receivable, long-term portion, net of discount of \$59,465 and \$75,902 as of December 31, 2016 and 2015, respectively | 740,535 | 724,098 |
| Website and software, net | 94,589 | 103,355 |
| Lease deposit | 6,391 | 6,391 |
| Total Other Assets | <u>841,515</u> | <u>833,844</u> |
| Total Assets | <u>\$ 4,589,613</u> | <u>\$ 4,022,116</u> |

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

BETTER GOVERNMENT ASSOCIATION, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2016 AND 2015

| | 2016 | 2015 |
|---|---------------------|---------------------|
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Accounts payable | \$ 126,058 | \$ 60,174 |
| Accrued expenses | <u>40,087</u> | <u>30,346</u> |
| Total Current Liabilities | <u>166,145</u> | <u>90,520</u> |
| Long-Term Liabilities | | |
| Deferred rent | <u>69,118</u> | <u>35,290</u> |
| Net Assets | | |
| Unrestricted | 3,120,479 | 2,795,008 |
| Temporarily restricted | <u>1,233,871</u> | <u>1,101,298</u> |
| Total Net Assets | <u>4,354,350</u> | <u>3,896,306</u> |
| Total Liabilities and Net Assets | <u>\$ 4,589,613</u> | <u>\$ 4,022,116</u> |

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

BETTER GOVERNMENT ASSOCIATION, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2016

| | Unrestricted | Temporarily Restricted | Total |
|---------------------------------------|---------------------|---------------------------|---------------------|
| Revenue and Support | | | |
| Contributions | \$ 1,517,156 | \$ 551,437 | \$ 2,068,593 |
| Contributions in-kind | 384,479 | -- | 384,479 |
| Events | 1,562,916 | 10,000 | 1,572,916 |
| Miscellaneous income | 19,718 | -- | 19,718 |
| Net assets released from restrictions | 428,864 | (428,864) | -- |
| Total Revenue and Support | <u>3,913,133</u> | <u>132,573</u> | <u>4,045,706</u> |
| Investment Income | | | |
| Interest and dividends | 38,579 | -- | 38,579 |
| Realized gain on investments | 29,217 | -- | 29,217 |
| Unrealized gain on investments | 50,258 | -- | 50,258 |
| Total Investment Income | <u>118,054</u> | <u>--</u> | <u>118,054</u> |
| Expenses | | | |
| Program services | 2,905,911 | -- | 2,905,911 |
| Management and general | 268,782 | -- | 268,782 |
| Fundraising | 531,023 | -- | 531,023 |
| Total Expenses | <u>3,705,716</u> | <u>--</u> | <u>3,705,716</u> |
| Change in Net Assets | 325,471 | 132,573 | 458,044 |
| Net Assets - Beginning | <u>2,795,008</u> | <u>1,101,298</u> | <u>3,896,306</u> |
| Net Assets - Ending | <u>\$ 3,120,479</u> | <u>\$ 1,233,871</u> | <u>\$ 4,354,350</u> |

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

BETTER GOVERNMENT ASSOCIATION, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2015

| | Unrestricted | Temporarily Restricted | Total |
|---------------------------------------|---------------------|---------------------------|---------------------|
| Revenue and Support | | | |
| Contributions | \$ 1,863,651 | \$ 1,101,298 | \$ 2,964,949 |
| Contributions in-kind | 272,418 | -- | 272,418 |
| Events | 1,555,945 | -- | 1,555,945 |
| Miscellaneous income | 15,335 | -- | 15,335 |
| Net assets released from restrictions | 341,749 | (341,749) | -- |
| Total Revenue and Support | 4,049,098 | 759,549 | 4,808,647 |
| Investment Income (Loss) | | | |
| Interest and dividends | 100,150 | -- | 100,150 |
| Realized loss on investments | (22,492) | -- | (22,492) |
| Unrealized loss on investments | (157,621) | -- | (157,621) |
| Total Investment Loss | (79,963) | -- | (79,963) |
| Expenses | | | |
| Program services | 2,513,623 | -- | 2,513,623 |
| Management and general | 291,625 | -- | 291,625 |
| Fundraising | 450,412 | -- | 450,412 |
| Total Expenses | 3,255,660 | -- | 3,255,660 |
| Change in Net Assets | 713,475 | 759,549 | 1,473,024 |
| Net Assets - Beginning | 2,081,533 | 341,749 | 2,423,282 |
| Net Assets - Ending | \$ 2,795,008 | \$ 1,101,298 | \$ 3,896,306 |

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

BETTER GOVERNMENT ASSOCIATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2016

| | Program Services | | | | | Supporting Services | | | Organization Total |
|----------------------------------|----------------------|---------------------|---------------------|-------------------|---------------------|---------------------------|-------------------|-------------------|-----------------------|
| | Policies Advocate | Investigative | Civic Engagement | Watchdog | Total | Management and General | Fundraising | Total | |
| Personnel | \$ 305,739 | \$ 844,613 | \$ 236,236 | \$ 33,977 | \$ 1,420,565 | \$ 145,089 | \$ 190,634 | \$ 335,723 | \$ 1,756,288 |
| Benefits | 31,837 | 125,152 | 33,249 | 4,775 | 195,013 | 62,935 | 21,345 | 84,280 | 279,293 |
| Rent and occupancy costs | 14,606 | 40,836 | 11,223 | 1,378 | 68,043 | 8,385 | 9,059 | 17,444 | 85,487 |
| Telephone | 3,610 | 10,093 | 4,983 | 341 | 19,027 | 2,073 | 5,121 | 7,194 | 26,221 |
| Insurance | 11,357 | 31,752 | 8,727 | 1,072 | 52,908 | 6,520 | 7,044 | 13,564 | 66,472 |
| Office | 3,856 | 10,767 | 2,959 | 363 | 17,945 | 2,211 | 2,388 | 4,599 | 22,544 |
| Books, dues and subscriptions | 683 | 2,489 | 525 | 64 | 3,761 | 392 | 7,588 | 7,980 | 11,741 |
| Equipment lease/maintenance | 3,768 | 12,427 | 3,710 | 327 | 20,232 | 1,991 | 3,101 | 5,092 | 25,324 |
| Legal | 19,195 | 133,613 | 14,749 | 1,811 | 169,368 | 11,020 | 11,905 | 22,925 | 192,293 |
| Board committee/staff meeting | 439 | 1,228 | 338 | 41 | 2,046 | 252 | 491 | 743 | 2,789 |
| Accounting and auditing | 9,790 | 26,684 | 7,202 | 725 | 44,401 | 21,034 | 6,104 | 27,138 | 71,539 |
| Training and conferences | 1,590 | 1,735 | 3,495 | -- | 6,820 | -- | 819 | 819 | 7,639 |
| Depreciation and amortization | 9,059 | 19,613 | 7,698 | 3,736 | 40,106 | 3,375 | 6,190 | 9,565 | 49,671 |
| Direct program expenses | | | | | | | | | |
| Investigative | -- | 255,283 | -- | -- | 255,283 | -- | 173 | 173 | 255,456 |
| Watchdog training unit | -- | -- | 3,195 | 60,160 | 63,355 | -- | -- | -- | 63,355 |
| Policy and government affairs | 46,634 | -- | -- | -- | 46,634 | -- | -- | -- | 46,634 |
| Marketing and communications | 51 | 143 | 418,863 | 5 | 419,062 | 29 | 1,571 | 1,600 | 420,662 |
| Event expenses | 349 | 987 | 266 | 27 | 1,629 | 231 | 240,136 | 240,367 | 241,996 |
| Website expenses | 14,037 | 23,008 | 13,155 | 9,513 | 59,713 | 3,245 | 10,407 | 13,652 | 73,365 |
| Fundraising | -- | -- | -- | -- | -- | -- | 6,947 | 6,947 | 6,947 |
| Total Functional Expenses | <u>\$ 476,600</u> | <u>\$ 1,540,423</u> | <u>\$ 770,573</u> | <u>\$ 118,315</u> | <u>\$ 2,905,911</u> | <u>\$ 268,782</u> | <u>\$ 531,023</u> | <u>\$ 799,805</u> | <u>\$ 3,705,716</u> |

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

BETTER GOVERNMENT ASSOCIATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2015

| | Program Services | | | | | Supporting Services | | | Organization Total |
|----------------------------------|----------------------|---------------------|---------------------|-------------------|---------------------|---------------------------|-------------------|-------------------|-----------------------|
| | Policies Advocate | Investigative | Civic Engagement | Watchdog | Total | Management and General | Fundraising | Total | |
| Personnel | \$ 280,225 | \$ 750,077 | \$ 181,653 | \$ 58,397 | \$ 1,270,352 | \$ 144,522 | \$ 136,604 | \$ 281,126 | \$ 1,551,478 |
| Benefits | 33,999 | 102,656 | 25,233 | 7,142 | 169,030 | 66,878 | 17,172 | 84,050 | 253,080 |
| Rent and occupancy | 23,491 | 60,096 | 13,466 | 4,271 | 101,324 | 13,700 | 10,765 | 24,465 | 125,789 |
| Telephone | 4,054 | 10,370 | 11,352 | 737 | 26,513 | 2,363 | 4,571 | 6,934 | 33,447 |
| Insurance | 10,910 | 27,910 | 6,254 | 1,984 | 47,058 | 6,361 | 5,000 | 11,361 | 58,419 |
| Office | 3,912 | 10,152 | 2,272 | 767 | 17,103 | 2,242 | 4,648 | 6,890 | 23,993 |
| Books, dues and subscriptions | 1,280 | 6,279 | 3,245 | 120 | 10,924 | 385 | 822 | 1,207 | 12,131 |
| Equipment lease/maintenance | 3,388 | 8,667 | 1,942 | 616 | 14,613 | 1,975 | 1,553 | 3,528 | 18,141 |
| Legal | 14,007 | 207,478 | 8,029 | 2,547 | 232,061 | 8,167 | 6,419 | 14,586 | 246,647 |
| Board committee/staff meeting | 935 | 2,395 | 536 | 170 | 4,036 | 545 | 1,314 | 1,859 | 5,895 |
| Accounting and auditing | 11,723 | 29,360 | 6,442 | 1,923 | 49,448 | 22,244 | 5,433 | 27,677 | 77,125 |
| Training and conferences | 1,328 | 239 | 1,816 | 1,777 | 5,160 | 54 | 283 | 337 | 5,497 |
| Depreciation and amortization | 5,978 | 13,294 | 3,974 | 2,136 | 25,382 | 2,738 | 3,178 | 5,916 | 31,298 |
| Strategic plan | -- | -- | -- | -- | -- | 16,625 | -- | 16,625 | 16,625 |
| Direct program expenses | | | | | | | | | |
| Investigative | -- | 241,072 | -- | -- | 241,072 | -- | -- | -- | 241,072 |
| Watchdog training unit | -- | -- | -- | 56,347 | 56,347 | -- | -- | -- | 56,347 |
| Policy and government affairs | 49,703 | -- | -- | -- | 49,703 | -- | -- | -- | 49,703 |
| Marketing and communications | -- | -- | 145,486 | -- | 145,486 | -- | -- | -- | 145,486 |
| Event expenses | -- | -- | -- | -- | -- | -- | 237,290 | 237,290 | 237,290 |
| Website expenses | 11,659 | 18,495 | 9,787 | 8,070 | 48,011 | 2,826 | 7,882 | 10,708 | 58,719 |
| Fundraising | -- | -- | -- | -- | -- | -- | 7,478 | 7,478 | 7,478 |
| Total Functional Expenses | \$ 456,592 | \$ 1,488,540 | \$ 421,487 | \$ 147,004 | \$ 2,513,623 | \$ 291,625 | \$ 450,412 | \$ 742,037 | \$ 3,255,660 |

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

BETTER GOVERNMENT ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

| | 2016 | 2015 |
|---|------------|--------------|
| Cash Flows From Operating Activities | | |
| Change in net assets | \$ 458,044 | \$ 1,473,024 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 49,671 | 31,298 |
| Realized (gains) losses on investments | (29,217) | 22,492 |
| Unrealized (gains) losses on investments | (50,258) | 157,621 |
| Deferred rent | 33,828 | 13,220 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 1,200 | 1,815 |
| Pledges and other receivable | 212,063 | (811,598) |
| Prepaid expenses | 23,571 | (67,495) |
| Accounts payable | 65,885 | (1,685) |
| Accrued expenses | 9,741 | 7,795 |
| Total Adjustments | 316,484 | (646,537) |
| Net Cash Provided by Operating Activities | 774,528 | 826,487 |
| Cash Flows From Investing Activities | | |
| Purchase of property and equipment | (18,696) | (19,629) |
| Payments for website and software | (22,650) | (104,000) |
| Purchase of investments | (567,155) | (2,878,122) |
| Proceeds from sale of investments | 413,796 | 1,665,642 |
| Net Cash Used in Investing Activities | (194,705) | (1,336,109) |
| Net Increase (Decrease) in Cash | 579,823 | (509,622) |
| Cash - Beginning | 197,639 | 707,261 |
| Cash - Ending | \$ 777,462 | \$ 197,639 |

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

BETTER GOVERNMENT ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 1 - NATURE OF OPERATIONS

The Better Government Association, Inc. (the “Organization”) works to fight waste, corruption and inefficiency in government in Illinois by using investigative journalism techniques, litigation, and public policy studies to expose problems, inform citizens about the operations of their government and lay the ground work for substantive legislative and administrative reforms.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”). These financial statements reflect all significant assets and liabilities of the Organization.

CONTRIBUTIONS

All contributions received are recorded at fair value and are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions that are subject to donor-imposed restrictions that are met in the same year as the contributions are made are recognized and reported as unrestricted support and included in changes in unrestricted net assets.

CONTRIBUTED SERVICES

The Organization receives donated services from several unpaid individuals who volunteer their time and perform a variety of tasks that assist the Organization. No amounts have been recognized in the accompanying statement of activities because the accounting criteria for recognition of such volunteer services has not been satisfied.

BETTER GOVERNMENT ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CLASSES OF NET ASSETS

The accounts of the Organization are maintained in accordance with the principles of fund accounting, whereby resources are classified for accounting and reporting purposes into net assets established according to their nature and purposes.

Unrestricted Net Assets

Represents the portion of expendable funds that are available for the daily operations of the Organization, which are not limited by donor restriction on use.

Temporarily Restricted Net Assets

Consists of donor-restricted contributions received with specific time or purpose restrictions. Upon satisfaction of time or purpose restrictions, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restricted net assets consist of the following contributions and programs:

| | 2016 | 2015 |
|-------------------------------|---------------------------|---------------------------|
| Support for operational costs | \$1,223,871 | \$1,101,298 |
| Support for events | <u>10,000</u> | <u>--</u> |
| Total | <u><u>\$1,233,871</u></u> | <u><u>\$1,101,298</u></u> |

During the years ended December 31, 2016 and 2015, the following items were released from temporarily restricted net assets by the Organization satisfying the restricted purpose for the donation:

| | 2016 | 2015 |
|-------------------------------|--------------------------|--------------------------|
| Support for operational costs | \$ 428,864 | \$ 261,749 |
| Support for strategic plan | <u>--</u> | <u>80,000</u> |
| Total | <u><u>\$ 428,864</u></u> | <u><u>\$ 341,749</u></u> |

Permanently Restricted Net Assets

Consists of donations subject to the restrictions of the gift instruments requiring that the principal be invested in perpetuity, and that income only be utilized in the operations of the Organization. The Organization had no permanently restricted net assets at December 31, 2016 and 2015.

BETTER GOVERNMENT ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain occupancy and administrative expenses have been allocated among the programs and supporting services benefitted.

INVESTMENT VALUATION AND INCOME RECOGNITION

Investments are reported at fair value. Fair value is 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. See Note 3 for discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation includes the Organization's gains and losses on investments bought and sold as well as held during the year.

ACCOUNTS RECEIVABLE

The Organization uses the allowance method to account for uncollectible contributions and accounts receivable balances. Under the allowance method, if needed, an estimate of uncollectible customer balances is made based upon expected actual write-offs. Factors used to establish an allowance include the credit quality of the customer and whether the balance is significant. There was no allowance for doubtful accounts recorded at December 31, 2016 and 2015.

PROPERTY AND EQUIPMENT

The Organization capitalizes purchased property and equipment in excess of \$500 to which it has title at cost. Donated assets are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Leasehold improvements are depreciated over the lower of their estimated useful lives or the related lease term. Depreciation on purchased and donated assets is provided using the straight-line method.

BETTER GOVERNMENT ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY AND EQUIPMENT (CONTINUED)

The estimated useful lives and costs of property and equipment are as follows:

| | 2016 | 2015 | Life in Years |
|------------------------------------|------------------|------------------|------------------|
| Furniture and fixtures | \$ 35,734 | \$ 35,734 | 5-10 |
| Computers | 99,366 | 88,877 | 3-10 |
| Office equipment | 38,773 | 38,773 | 3-10 |
| Office furniture | 20,964 | 20,964 | 10 |
| Leasehold improvements | <u>16,202</u> | <u>7,994</u> | 3-7 |
| Subtotal | 211,039 | 192,342 | |
| Less: Accumulated depreciation | <u>(150,875)</u> | <u>(132,619)</u> | |
| Property and Equipment, Net | <u>\$ 60,164</u> | <u>\$ 59,723</u> | |

Depreciation expense was \$18,255 and \$16,653 for the years ended December 31, 2016, respectively.

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. There were no impairment indicators at December 31, 2016 and 2015.

USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

CASH FLOWS

The Organization considers all highly liquid debt investments with a maturity of three months or less when purchased to be cash equivalents.

BETTER GOVERNMENT ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONCENTRATION OF CREDIT RISKS

The Organization maintains its cash in accounts which from time to time exceed the amount insured by the Federal Deposit Insurance Corporation (“FDIC”). Amounts exceeding FDIC insured limits totaled approximately \$496,000 at December 31, 2016. The Organization has not experienced any losses attributed to cash balances in banks or investment companies.

As of December 31, 2016, 99% of pledges receivable were from one donor and as of December 31, 2015, 96% of total pledges receivable were from two donors.

RECLASSIFICATIONS

Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 presentation. The reclassifications had no effect on the Organization’s change in net assets or net asset balances.

INCOME TAXES

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization has been determined by the Internal Revenue Service not to be a “private foundation” within the meaning of Section 509(a) of the Internal Revenue Code. Therefore, the Organization has made no provision for income taxes in the accompanying financial statements.

The Organization evaluates all significant tax positions as required by GAAP. The Organization does not believe that it has taken any tax positions that would require the recording of any additional tax liability nor does it believe that there are any unrealized tax benefits that would either increase or decrease within the next twelve months. If the Organization were to incur an income tax liability in the future, the interest on any tax liability would be reported as interest expense and penalties on any income tax liability would be reported as income taxes. The Organization’s income tax returns are subject to examination by the appropriate taxing jurisdictions. The Organization’s income tax returns generally remain open for examination for three years from the date filed with each taxing jurisdiction and there are currently no examinations pending or in progress.

BETTER GOVERNMENT ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DATE OF MANAGEMENT'S REVIEW

The Organization evaluated all significant events or transactions that occurred through September 6, 2017, the date that the financial statements were available to be issued. No events requiring recognition or disclosure in the financial statements have been identified.

NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENTS

The fair value measurements and disclosures topic 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. It describes three approaches to measuring the fair value of assets and liabilities: 1) the market approach, 2) the income approach, and 3) the cost approach. Each of these approaches includes multiple valuation techniques. It does not prescribe which valuation technique should be used when measuring fair value, but does establish a fair value hierarchy that prioritizes the inputs used in applying the various techniques. Inputs broadly refer to the assumptions that market participants use to make pricing decisions, including assumptions about risk. Level 1 inputs are given the highest priority in the hierarchy while level 3 inputs are given the lowest priority. Assets and liabilities carried at fair value are classified in one of the following three categories based on the nature of the inputs to the valuation technique used:

Level 1

Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2

Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

BETTER GOVERNMENT ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

Level 3

Unobservable inputs that are not corroborated by market data. These inputs reflect management's best estimate of fair value using its own assumptions about the assumptions a market participant would use in pricing the asset or liability.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2016 and 2015.

Exchange traded funds and mutual funds are valued at the daily closing price at December 31, 2016 and 2015, as reported by a national stock exchange. Corporate bonds and notes are valued at market prices as of December 31, 2016 and 2015 obtained from independent quotation bureaus.

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, although the Association believes its 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 following tables set forth, by level within the fair value hierarchy, the Association's assets that were accounted for at fair value on a recurring basis. As required by the fair value measurements and disclosure topic, these assets are classified based on the lowest level input that is significant to the fair value measurement. The Association's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect their placement within the fair value hierarchy levels.

BETTER GOVERNMENT ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

| Description | Fair Value as of December 31, 2016 | Fair Value Measurement at Report Date Using | | |
|---------------------------------|---------------------------------------|---|--|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Cash | \$ 159,297 | \$ 159,297 | \$ -- | \$ -- |
| Fixed Income Funds | | | | -- |
| Certificates of deposit | 467,131 | -- | 467,131 | -- |
| Bond funds | 30,588 | 30,588 | -- | -- |
| Mutual funds | 468,165 | 468,165 | -- | -- |
| Total Fixed Income Funds | 965,884 | 498,753 | 467,131 | -- |
| Equities | | | | |
| Exchange traded funds | 288,989 | 288,989 | -- | -- |
| Mutual funds | 1,324,611 | 1,324,611 | -- | -- |
| Total Equities | 1,613,600 | 1,613,600 | -- | -- |
| Total Investments | \$ 2,738,781 | \$ 2,271,650 | \$ 467,131 | \$ -- |

| Description | Fair Value as of December 31, 2015 | Fair Value Measurement at Report Date Using | | |
|---------------------------------|---------------------------------------|---|--|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Cash | \$ 39,205 | \$ 39,205 | \$ -- | \$ -- |
| Fixed Income Funds | | | | -- |
| Certificates of deposit | 861,198 | -- | 861,198 | -- |
| Bond funds | 157,675 | 157,675 | -- | -- |
| Total Fixed Income Funds | 1,018,873 | 157,675 | 861,198 | -- |
| Equities | | | | |
| Exchange traded funds | 250,070 | 250,070 | -- | -- |
| Mutual funds | 1,197,800 | 1,197,800 | -- | -- |
| Total Equities | 1,447,870 | 1,447,870 | -- | -- |
| Total Investments | \$ 2,505,948 | \$ 1,644,750 | \$ 861,198 | \$ -- |

BETTER GOVERNMENT ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 4 - WEBSITE AND SOFTWARE

The Organization has recorded various costs associated with website and software development as intangible assets. The Organization is amortizing these assets over a period of three to five years using the straight-line method. Amortization expense relating to these items was \$31,416 and \$14,645 for years ending December 31, 2016 and 2015, respectively. At December 31, 2016 and 2015, website and software consists of the following:

| | 2016 | 2015 |
|----------------------------------|------------------|-------------------|
| Software | \$ 30,492 | \$ 26,442 |
| Website | <u>253,605</u> | <u>235,005</u> |
| Subtotal | 284,097 | 261,447 |
| Less: Accumulated amortization | <u>(189,508)</u> | <u>(158,092)</u> |
| Website and Software, Net | <u>\$ 94,589</u> | <u>\$ 103,355</u> |

Website and software amortization expense for the next five years is as follows:

| For the Years Ending December 31, | Amount |
|-----------------------------------|----------|
| 2017 | \$33,210 |
| 2018 | 23,710 |
| 2019 | 22,360 |
| 2020 | 14,110 |
| 2021 | 1,199 |

NOTE 5 - CONTRIBUTIONS IN-KIND

The Organization received contributions in-kind in support of general fundraising operations as follows:

| In-Kind Support | Measurement | Estimate Value | |
|------------------------------------|-------------|------------------|------------------|
| | | 2016 | 2015 |
| Advertising support | Fair Value | \$304,532 | -- |
| Legal services | Fair Value | 79,947 | 175,247 |
| Consulting and website development | Fair Value | <u>--</u> | <u>97,171</u> |
| Total | | <u>\$384,479</u> | <u>\$272,418</u> |

BETTER GOVERNMENT ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 6 - PLEDGES RECEIVABLE

The Organization has received pledges to contribute to the Organization. These amounts are classified as temporarily restricted until received. Pledges receivable were \$850,535 and \$1,062,598 as of December 31, 2016 and 2015, respectively.

Pledges due in more than one year are discounted at 1.80% for the year ended December 31, 2016. The discount amortization is reflected in contributions on the statement of activities. Net pledges receivable as of December 31, 2016 were as follows:

| | Amount |
|--------------------------------------|-------------------------|
| Receivable in less than one year | \$110,000 |
| Receivable in one to five years | 500,000 |
| Receivable in more than five years | <u>300,000</u> |
| Subtotal | 910,000 |
| Less: Discounts to net present value | <u>(59,465)</u> |
| Net Pledges Receivable | <u>\$850,535</u> |

NOTE 7 - LEASE OBLIGATION AND DEFERRED RENT

In August 2015, the Organization amended its existing lease to extend the lease term to January 31, 2023. The agreement additionally provided for a six month rent abatement during 2016. Additionally, in December 2015, the Organization entered into a 60 month lease for copier equipment. These leases are being accounted for as operating leases. Rent expense, exclusive of the copier lease and other operating expenses, was \$72,828 and \$115,420 for the years ended December 31, 2016 and 2015, respectively.

The estimated future rental obligations under this lease for the next five years and thereafter are as follows:

| For the Years Ending December 31, | Amount |
|-----------------------------------|-------------------------|
| 2017 | \$ 82,500 |
| 2018 | 84,450 |
| 2019 | 86,250 |
| 2020 | 87,800 |
| 2021 | 86,850 |
| Thereafter | <u>96,050</u> |
| Total | <u>\$523,900</u> |

BETTER GOVERNMENT ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 7 - LEASE OBLIGATION AND DEFERRED RENT (CONTINUED)

Additionally, the office lease has escalating rental payments over the lease's term. The Organization is recognizing rent expense on a straight-line basis over the term of the lease in accordance with GAAP. The difference between the straight-line rent expense and actual rental payments is recorded as deferred rent. Deferred rent was \$69,118 and \$35,290 as of December 31, 2016 and 2015, respectively.

NOTE 8 - LITIGATION

The Organization is, in the normal course of business, the defendant in various litigation matters. The Organization believes it will ultimately prevail in these matters, although the final outcome of these matters cannot be reasonably determined at this time. Therefore, no provision for any potential gains or losses that may arise from the resolution of these litigation matters has been reflected in these financial statements.

NOTE 9 - SPECIAL EVENTS

A significant portion of the Organization's support is provided by major fundraising events. These events include an annual luncheon, spring luncheon, and a young professional events. The Organization has a long established history of these fundraising events and expects the events and the support received to continue. Gross revenues and expenses from these events for the years ended December 31, 2016 and 2015 are as follows:

| Event | 2016 | | | 2015 | | |
|---------------------|---------------------------|-------------------------|---------------------------|---------------------------|-------------------------|---------------------------|
| | Revenues | Expenses | Net | Revenues | Expenses | Net |
| Annual Luncheon | \$1,463,246 | \$165,813 | \$1,297,433 | \$1,411,645 | \$156,089 | \$1,255,556 |
| Spring Luncheon | 82,460 | 61,315 | 21,145 | 77,785 | 51,886 | 25,899 |
| Young Professionals | 7,000 | 175 | 6,825 | 66,515 | 29,315 | 37,200 |
| Other small events | <u>20,210</u> | <u>14,694</u> | <u>5,516</u> | <u>--</u> | <u>--</u> | <u>--</u> |
| Total | <u>\$1,572,916</u> | <u>\$241,997</u> | <u>\$1,330,919</u> | <u>\$1,555,945</u> | <u>\$237,290</u> | <u>\$1,318,655</u> |

NOTE 10 - RELATED PARTY TRANSACTIONS

Various members of the Board of Directors are affiliated with local law firms that provide pro bono legal services. The Organization recognizes services received as contributions in-kind. Contributions in-kind relating to these services totaled \$79,947 and \$175,247 for the years ended December 31, 2016 and 2015, respectively.

BETTER GOVERNMENT ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 10 - RELATED PARTY TRANSACTIONS (CONTINUED)

Additionally, the Organization has received various monetary and sponsorship donations from members of the Board of Directors and their employers. Donations and sponsorships from Board members and their employers totaled \$862,574 and \$1,251,012 for the years ended December 31, 2016 and 2015, respectively.

NOTE 11 - RETIREMENT PLANS

The Organization sponsors a 401(k) Plan. The Plan allows all eligible employees, as defined in the Plan, to defer a portion of their salary subject to limitations contained in the Internal Revenue Code. The Organization may also contribute a discretionary employer contribution to the Plan. The total employer contribution was \$25,410 and \$27,289 for the years ended December 31, 2016 and 2015, respectively, and is included in benefits.