



National Governors Association and National Governors Association Center for Best Practices

Consolidated Financial Statements
and Supplemental Information
Year Ended June 30, 2019

**National Governors Association and
National Governors Association Center for Best Practices**

Consolidated Financial Statements
and Supplemental Information
Year Ended June 30, 2019

National Governors Association and National Governors Association Center for Best Practices

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Independent Auditor's Report

To the Executive Committee/Board of Directors
**National Governors Association and
National Governors Association Center for Best Practices**
Washington, D.C.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of National Governors Association (NGA) and National Governors Association Center for Best Practices (NGA Center), collectively the Organization, which comprise the consolidated balance sheet as of June 30, 2019, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of National Governors Association and National Governors Association Center for Best Practices as of June 30, 2019, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplemental information is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

BDO USA, LLP

January 28, 2020

Consolidated Financial Statements

**National Governors Association and
National Governors Association Center for Best Practices**

Consolidated Balance Sheet

<i>June 30,</i>	2019
Assets	
Cash and cash equivalents	\$ 7,885,966
Investments	37,598,636
Accounts receivable, net	3,607,619
Due from other public interest organizations	2,119,252
Prepaid expense and other assets	138,645
Property and equipment, net	152,682
Total assets	\$ 51,502,800
Liabilities and Net Assets	
Liabilities	
Accounts payable and accrued expenses	\$ 3,174,007
Deferred revenue	1,166,699
Deferred rent	99,762
Total liabilities	4,440,468
Commitments and contingencies	
Net assets	
Without donor restrictions:	
Operating funds NGA and NGA Center	7,958,909
NGA Center endowment	18,400,902
NGA endowment	14,763,569
Total without donor restrictions	41,123,380
With donor restrictions	5,938,952
Total net assets	47,062,332
Total liabilities and net assets	\$ 51,502,800

See notes to consolidated financial statements.

National Governors Association and National Governors Association Center for Best Practices

Consolidated Statement of Activities

Year ended June 30, 2019	Without Donor Restrictions				Total	With Donor Restrictions	Total
	NGA and NGA Center Operating	NGA Center Endowment	NGA Endowment	Total			
Support and revenue							
Foundation grants and contracts	\$ -	\$ -	\$ -	\$ -	\$ 6,966,564		\$ 6,966,564
Federal grants and contracts	6,291,177	-	-	6,291,177	-		6,291,177
Member dues	3,765,003	-	-	3,765,003	-		3,765,003
Investment return, net	234,325	1,163,200	927,225	2,324,750	-		2,324,750
Corporate fellows and other contributions	7,331,520	-	-	7,331,520	-		7,331,520
Registration fees	652,322	-	-	652,322	-		652,322
Employment/vocational training fees	181,155	-	-	181,155	-		181,155
Other income	7,232,437	-	-	7,232,437	-		7,232,437
Net assets released from restrictions	6,862,088	-	-	6,862,088	(6,862,088)		-
Total support and revenue	32,550,027	1,163,200	927,225	34,640,452	104,476		34,744,928
Expenses:							
Governmental Services							
Government relations	1,391,275	-	-	1,391,275	-		1,391,275
Education/early childhood and workforce committee	226,909	-	-	226,909	-		226,909
Economic development and commerce committee	174,201	-	-	174,201	-		174,201
Health and human services committee	1,691	-	-	1,691	-		1,691
Natural resources committee	252,119	-	-	252,119	-		252,119
Homeland security and public safety committee	226,021	-	-	226,021	-		226,021
Program Services							
Education division	2,654,244	-	-	2,654,244	-		2,654,244
Economic development and commerce division	5,826,524	-	-	5,826,524	-		5,826,524
Health and human services division	4,668,734	-	-	4,668,734	-		4,668,734
Environment, energy and transportation division	2,691,194	-	-	2,691,194	-		2,691,194
Homeland security and public safety division	3,665,627	-	-	3,665,627	-		3,665,627
Total governmental and program services	21,778,539	-	-	21,778,539	-		21,778,539
Supporting Services							
Chair's initiative	456,242	-	-	456,242	-		456,242
Management consulting and training	2,071,133	-	-	2,071,133	-		2,071,133
Meetings	2,540,878	-	-	2,540,878	-		2,540,878
Communications	1,736,249	-	-	1,736,249	-		1,736,249
International initiatives	767,325	-	-	767,325	-		767,325
Management and administration	2,039,664	-	-	2,039,664	-		2,039,664
Development	1,810,123	-	-	1,810,123	-		1,810,123
Total supporting services	11,421,614	-	-	11,421,614	-		11,421,614
Total expenses	33,200,153	-	-	33,200,153	-		33,200,153
Change in net assets	(650,126)	1,163,200	927,225	1,440,299	104,476		1,544,775
Net assets, at beginning of year	8,609,035	17,237,702	13,836,344	39,683,081	5,834,476		45,517,557
Net assets, at end of year	\$ 7,958,909	\$ 18,400,902	\$ 14,763,569	\$ 41,123,380	\$ 5,938,952		\$ 47,062,332

See notes to consolidated financial statements.

**National Governors Association and
National Governors Association Center for Best Practices
Consolidated Statement of Functional Expenses**

Year ended June 30, 2019	Governmental Services						Program Services						Supporting Services									
	Government Relations	Education/Early Childhood and Workforce Committee	Economic Development and Commerce Committee	Health and Human Services Committee	Natural Resources Committee	Homeland Security and Public Safety Committee	Total Governmental Services	Education Division	Economic Development and Commerce Division	Health and Human Services Division	Environment, Energy and Transportation Division	Homeland Security and Public Safety Division	Total Program Services	Chair's Initiative	Management Consulting and Training	Meetings	Communications	International Initiatives	Management and Administration	Development	Total Supporting Services	Total Expenses
Personnel	\$ 675,216	\$ 138,874	\$ 104,786	\$ -	\$ 151,562	\$ 138,977	\$ 1,209,415	\$ 1,053,740	\$ 1,735,409	\$ 1,871,437	\$ 1,104,431	\$ 1,470,507	\$ 7,235,524	\$ 181,695	\$ 800,410	\$ 510,809	\$ 640,860	\$ 173,406	\$ 3,650,865	\$ 577,897	\$ 6,535,942	\$ 14,980,881
General office	14,689	152	2,500	-	2,500	198	20,039	12,027	20,385	8,447	16,940	17,584	75,383	2,291	51,528	3,257	43,225	1,846	248,146	22,063	372,356	467,778
Occupancy	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,496,094	-	1,496,094	1,496,094
Equipment	-	-	-	-	-	-	-	5,110	-	-	-	-	5,110	-	-	2,663	36,630	-	199,577	-	238,870	243,980
Printing	-	-	-	-	-	-	-	2,109	21,775	13,821	25,234	11,109	74,048	-	26,036	150	10,293	713	81,707	4,431	123,330	197,378
Telecommunications	62,092	-	-	-	-	-	62,092	23,507	26,996	15,648	6,448	13,100	85,699	2,500	47,900	24,250	174,335	14,150	436,341	33,413	732,889	880,680
Contractual services	160,841	-	-	-	-	-	160,841	266,236	1,373,143	338,479	97,929	247,324	2,323,111	69,661	23,500	131,817	311,729	87,224	789,291	571,768	1,984,990	4,468,942
Professional services	10,000	-	-	-	-	-	10,000	4,489	1,585	1,077	6,270	6,842	20,263	-	525	811	2,351	248	977,535	522	981,992	1,012,255
Travel	23,586	2,040	1,645	1,691	4,841	1,315	35,118	296,881	767,914	656,867	393,537	592,431	2,707,630	73,518	281,382	62,042	47,126	100,928	586,501	41,632	1,193,129	3,935,877
Meetings	28,219	477	858	-	51	102	29,707	219,444	636,308	388,013	240,261	228,998	1,713,024	14,889	348,912	1,442,827	95,608	307,101	234,889	103,694	2,547,920	4,290,651
Depreciation and amortization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	186,396	-	186,396	186,396
Loss on write off of property and equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	862,077	-	862,077	862,077
Miscellaneous	-	-	-	-	-	-	-	-	4,080	-	95	-	4,175	-	714	33,497	-	-	87,358	51,420	172,989	177,164
Indirect costs	416,632	85,366	64,412	-	93,165	85,429	745,004	770,701	1,238,929	1,374,945	800,049	1,077,732	5,262,356	111,688	490,226	328,755	374,092	81,709	(7,797,113)	403,283	(6,007,360)	-
Total expenses	\$ 1,391,275	\$ 226,909	\$ 174,201	\$ 1,691	\$ 252,119	\$ 226,021	\$ 2,272,216	\$ 2,654,244	\$ 5,826,524	\$ 4,668,734	\$ 2,691,194	\$ 3,665,627	\$ 19,506,323	\$ 456,242	\$ 2,071,133	\$ 2,540,878	\$ 1,736,249	\$ 767,325	\$ 2,039,664	\$ 1,810,123	\$ 11,421,614	\$ 33,200,153

See notes to consolidated financial statements.

**National Governors Association and
National Governors Association Center for Best Practices**

Consolidated Statement of Cash Flows

<i>Year ended June 30,</i>	2019
Cash flows from operating activities:	
Change in net assets	\$ 1,544,775
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Net realized and unrealized gain on investments	(1,716,578)
Depreciation and amortization expense	186,396
Loss on write off of property and equipment	862,077
Changes in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	7,030,575
Due from other public interest organizations	(2,119,252)
Prepaid expense and other assets	155,733
Increase (decrease) in:	
Accounts payable and accrued expenses	969,056
Deferred revenue	744,738
Deferred rent	(119,714)
Net cash provided by operating activities	7,537,806
Cash flows from investing activities:	
Purchases of investments	(12,191,397)
Proceeds from sales and maturities of investments	10,100,384
Purchases of property and equipment	(45,742)
Net cash used in investment activities	(2,136,755)
Increase in cash and cash equivalents	5,401,051
Cash and cash equivalents (included in equity in pooled assets), beginning of year	2,484,915
Cash and cash equivalents, end of year	\$ 7,885,966

See notes to consolidated financial statements.

National Governors Association and National Governors Association Center for Best Practices

Notes to Consolidated Financial Statements

1. Nature of Activities

National Governors Association (NGA) is an instrumentality of the states of the United States of America whose membership is restricted to the governors of the states, the U.S. Virgin Islands, Guam, American Samoa, the Commonwealth of Puerto Rico and the Commonwealth of the Northern Mariana Islands.

NGA's purposes include:

- Providing a medium for the exchange of views and experiences on subjects of general importance to the people of the United States;
- Fostering interstate cooperation;
- Promoting greater uniformity of state laws;
- Attaining greater efficiency in state administration;
- Facilitating and improving state-local and state-federal relationships; and
- Vigorously representing the interests of the states in the federal system.

National Governors Association Center for Best Practices (NGA Center) is a separately incorporated 501(c)(3) entity organized for the general purpose of establishing and maintaining a center for tracking, evaluating and disseminating information on state innovations and best practices. The membership of NGA Center is the same as that of NGA and the organizations operate under the oversight of common management. NGA Center's Board of Directors is appointed by the NGA Chair and Vice Chair.

2. Summary of Significant Accounting Policies

Consolidation Policy

The consolidated financial statements include the accounts of NGA and NGA Center, collectively the Organization. All material intercompany transactions and balances have been eliminated in the consolidation.

Basis of Accounting

The consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and have been prepared on the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation

Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions: Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

National Governors Association and National Governors Association Center for Best Practices

Notes to Consolidated Financial Statements

Net assets with donor restrictions: Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor.

Cash and cash equivalents

The Organization considers all highly liquid instruments, which are to be used for current operations and which have an original maturity of three months or less, to be cash and cash equivalents. All other highly liquid instruments are to be used for the long-term purposes of the Organization. Cash and cash equivalents are valued at their carrying amount which approximates fair value due to their short maturities.

Financial Instruments and Credit Risk

Financial instruments, which potentially subject the Organization to concentrations of credit risk, consist principally of cash and cash equivalents, investments, and receivables.

The Organization maintains its cash balances at a creditworthy financial institution, which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

The Organization invests in professionally managed portfolios that contain various investments that are exposed to risks such as market, interest and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near-term would materially affect investment balances and the amounts reported in the consolidated financial statements.

Credit risk with respect to receivables is generally limited as the Organization has outstanding receivables with several customers.

Investments

Investments with readily determinable fair values are reflected at fair market value. To adjust the carrying values of these securities, the unrealized gains and losses are recorded as net gains (losses) on investments in the accompanying consolidated statement of activities.

Accounts receivable

Accounts receivable are carried at original invoice amounts less an estimate made for doubtful receivables based on a review of all outstanding amounts on a quarterly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded as revenue when received. The provision for doubtful accounts for the year ended June 30, 2019 was \$200,000.

National Governors Association and National Governors Association Center for Best Practices

Notes to Consolidated Financial Statements

Property and Equipment

Property and equipment purchases are capitalized at cost and depreciated on a straight-line basis over their estimated useful lives. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the lease term or the life of the asset. NGA capitalizes all property and equipment purchased with a cost of \$1,000 or more. NGA Center does not purchase any property or equipment.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less cost to sell.

Deferred Rent

NGA's lease for office space includes escalations of the base rent and lease incentives. Rent expense is recorded on a straight-line basis over the entire lease term. Lease incentives, including improvement allowances, are amortized over the entire lease term. The deferred rent liability recorded in the accompanying consolidated balance sheet represents the cumulative difference between the monthly rent expense and rent paid, as well as the unamortized portion of the lease incentives.

Revenue Recognition

Unconditional foundation grants and contributions received are recorded as either with or without donor restrictions support, depending on the existence and/or nature of any donor restrictions, when received. All donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions. Conditional contributions are recorded when the conditions have been met.

NGA Center receives grants and contracts from various federal agencies for various purposes. Grant and contract award funds not yet received are accrued to the extent unreimbursed expenses have been incurred for the purposes specified by an approved grant.

Member dues revenue is recognized in the fiscal year to which the dues relate. Member dues payments received in advance of the fiscal year to which they relate are recorded as deferred revenue.

Registration fees revenue is recognized at the time of the event. Payments received in advance of the event are recorded as deferred revenue.

National Governors Association and National Governors Association Center for Best Practices

Notes to Consolidated Financial Statements

Income Taxes

The Internal Revenue Service (IRS) has determined that NGA is not subject to federal income taxes as it is deemed to be an instrumentality of the states of the United States of America.

NGA Center is exempt from income tax under the provisions of Internal Revenue Code (IRC) Section 501(c)(3) and the applicable income tax regulations of the District of Columbia, except on net income from unrelated activities. No provision for income taxes was required as of June 30, 2019, as NGA Center had no net unrelated business income. NGA Center has been determined to not be a private foundation.

Management has evaluated NGA Center's tax positions and has concluded that NGA Center has taken no uncertain tax positions that require adjustment to the consolidated financial statements. NGA Center files information returns in the U.S. federal jurisdiction.

Use of Estimates

The preparation of these consolidated financial statements requires management to make certain estimates and assumptions. These estimates and assumptions may affect reported amounts and disclosures in the consolidated financial statements. Actual results could differ from these estimates.

Functional Allocation of Expenses

The costs of providing various programs and support activities have been summarized on a functional basis in the accompanying consolidated statements of activities and functional expenses. Direct expenses are charged to the respective programs and supporting services benefited based upon actual time or costs incurred. Indirect costs which mainly include occupancy and general office expenses are allocated to the Organization programs based on their respective percentages of annual salaries and benefits.

New Accounting Pronouncement Adopted

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct internal investment expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The Organization adopted ASU 2016-14 and adjusted the presentation of these consolidated financial statements accordingly. Other than the changes to the financial statement presentation and disclosures described above, adoption of the ASU did not have a significant impact on the consolidated financial statements.

National Governors Association and National Governors Association Center for Best Practices

Notes to Consolidated Financial Statements

New Accounting Pronouncements to be Adopted

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This update, along with ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing* and ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*, establishes a comprehensive revenue recognition standard. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The original effective date for ASU 2014-09 would have required the Organization to adopt the update in fiscal year 2019. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606) - Deferral of the Effective Date*, which deferred the effective date for one year. Accordingly, the guidance is now effective for the Organization's fiscal year beginning July 1, 2019. Management continues to evaluate the potential impact of ASU 2014-09 on the Organization's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This update, along with ASU 2018-10, *Codification Improvements to Topic 842: Leases*, ASU 2018-11, *Leases (Topic 842): Targeted Improvements* and ASU 2018-20, *Leases (Topic 842): Narrow-Scope Improvements for Lessors*, establishes a comprehensive leasing standard. These updates require the recognition of lease assets and lease liabilities on the consolidated statement of financial position and disclosure of key information about leasing arrangements for lessees and lessors. The new standard applies a right-of-use (ROU) model that requires, for leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments to be recorded. The guidance also expands the required quantitative and qualitative lease disclosures as well as provides entities with an additional (and optional) transition method to adopt the new standard. ASU 2016-02 is effective for the Organization's fiscal year beginning July 1, 2021. Management is currently evaluating the impact of these ASUs on their consolidated financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958) - Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU clarifies and improves current guidance by providing criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. The ASU also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. The ASU is effective for transactions in which the entity serves as the resource recipient to annual periods beginning after December 15, 2018. Management is currently evaluating the effect of this ASU on the consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. The update modifies certain disclosure requirements in Topic 820, *Fair Value Measurement*. Management is currently evaluating the impact of this ASU on the consolidated financial statements.

**National Governors Association and
National Governors Association Center for Best Practices**

Notes to Consolidated Financial Statements

3. Liquidity and Availability of Resources

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date consist of the following:

<i>June 30,</i>	2019
<hr/>	
Financial assets, at year-end	
Cash and cash equivalents	\$ 7,885,966
Investments	37,598,636
Accounts receivable, net	3,607,619
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Total financial assets available within one year	49,092,221
Less: Amounts unavailable for general expenditures within one year, due to:	
Net assets with donor restrictions	5,938,952
NGA Center endowment	18,400,902
NGA endowment	14,763,569
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Financial assets available to meet cash needs for general expenditures within one year	\$ 9,988,798
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The Organization is primarily funded by a combination of foundation and federal grant contracts, member dues and corporate fellows and other contributions. The Organization maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

4. Investments

At June 30, 2019, investments consist of the following:

	2019
<hr/>	
Corporate equity securities	\$ 11,548,213
Exchange traded funds	8,886,358
Mutual funds	6,843,983
Corporate debt securities	3,935,405
Government debt securities	5,846,208
Cash	538,469
<hr/>	
	\$ 37,598,636
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**National Governors Association and
National Governors Association Center for Best Practices**

Notes to Consolidated Financial Statements

For the year ended June 30, 2019, investment return, net consists of the following:

		2019
Realized and unrealized gain, net	\$	1,716,578
Interest and dividends		764,825
Management fees		(156,653)
	\$	2,324,750

5. Accounts Receivable

At June 30, 2019, accounts receivable consist of the following:

		2019
Grants and contracts	\$	1,673,857
Tenant improvement allowance		64,183
Unbilled and other		2,069,579
		3,807,619
Allowance for doubtful accounts		(200,000)
	\$	3,607,619

6. Property and Equipment

At June 30, 2019, property and equipment consists of the following:

		2019
Computer equipment and software	\$	1,520,299
Leasehold improvements		1,217,119
Furniture and equipment		688,892
		3,426,310
Accumulated depreciation and amortization		(3,273,628)
Property and equipment, net	\$	152,682

Depreciation and amortization expense charged to operations was \$186,396 for the year ended June 30, 2019.

**National Governors Association and
National Governors Association Center for Best Practices**

Notes to Consolidated Financial Statements

7. Lease Commitment

Office facilities for NGA and NGA Center are leased from State Services Organization (SSO) under a non-cancelable operating lease agreement that expires in January 2020. Rental payments are comprised of a base rental rate plus annual escalations, real estate taxes and building operating costs.

Future minimum lease payments under this office lease at June 30, 2019, are as follows:

Year ending June 30,

2020	\$	805,142
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Rental expense was approximately \$1,429,000 for the year ended June 30, 2019.

8. Net Assets

Without donor restrictions

The NGA Center endowment represents without donor restricted contributions that are used to support NGA Center's activities. The NGA endowment was initially funded from royalties previously received from the selling of commemorative ingots and medals. The Executive Committee of NGA has designated that earnings on the NGA endowment fund may be allocated to support the operations of NGA and NGA Center. In addition, earnings on the NGA Center endowment funds may be allocated annually to support NGA Center operations. Revenue and expenses not otherwise classified in NGA Center or NGA endowment funds are presented within the operating funds.

Endowment funds are invested to provide for a total return consisting of growth, plus dividend and interest income. Endowment funds are invested in a portfolio consisting of a mix of corporate equity securities, exchange traded funds, mutual funds, debt securities and cash, which may reflect varying rates of return. Spending of earnings of the endowment is at the Board of Directors' discretion. For the year ended June 30, 2019, no earnings from the endowment were spent. For the year ended June 30, 2019, earnings from the NGA Center endowment totaled \$1,163,200. For the year ended June 30, 2019, earnings from the NGA endowment totaled \$927,225.

NGA and NGA Center's endowment funds consist of the following at June 30, 2019:

		2019
NGA Center endowment	\$	18,400,902
NGA endowment		14,763,569
	\$	33,164,471

**National Governors Association and
National Governors Association Center for Best Practices**

Notes to Consolidated Financial Statements

The NGA Center endowment and NGA endowment net assets consist of the following at June 30, 2019:

<i>June 30,</i>	2019
<hr/>	
NGA Center Endowment:	
Investments	\$ 18,400,902
NGA Endowment:	
Investments	14,763,569
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Total endowments	\$ 33,164,471
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With donor restrictions

Net assets with donor restrictions consist of foundation and corporate contributions and are available for the following purposes:

	Balance at June 30, 2018	Additions	Releases	Balance at June 30, 2019
Education division	\$ 1,258,838	\$ 1,834,362	\$ (1,140,248)	\$ 1,952,952
Economic, human services and workforce division	2,552,973	3,080,000	(3,424,847)	2,208,126
Health division	1,042,960	1,394,142	(1,576,866)	860,236
Environment, energy and transportation division	412,462	245,000	(293,840)	363,622
Homeland security and public safety division	557,243	413,060	(416,287)	554,016
Corporate Fellows	10,000	-	(10,000)	-
<hr/>				
	\$ 5,834,476	\$ 6,966,564	\$ (6,862,088)	\$ 5,938,952
<hr/>				

9. Benefit Plan

NGA participates in a defined contribution plan which covers substantially all of its employees. Participants may elect to have up to the IRS limit of their compensation contributed on a pre-tax basis to a 457(b) plan. NGA makes a matching contribution to a 401(a) plan of amounts contributed by participants up to 5% of each participant's compensation, plus a discretionary contribution to the 401(a) plan of 5% of each participant's compensation. Pension costs approximated \$741,000 for the year ended June 30, 2019.

10. Commitments and Contingencies

NGA Center participates in a number of federally assisted grant programs and contracts, which are subject to financial and compliance audits by the federal government or its representative. As such, a contingent liability exists for potential questioned costs that may result from such audits. Management does not anticipate any significant adjustments as a result of such audits.

National Governors Association and National Governors Association Center for Best Practices

Notes to Consolidated Financial Statements

NGA has contracted hotel space for various future meetings. In the event NGA cancels or reduces its contracted room nights, NGA may be liable for cancellation fees and liquidated damages for rooms that the hotel is not able to resell.

11. Fair Value Measurements

The Organization follows the FASB Accounting Standards Codification (“ASC”) 820, *Fair Value Measurements*. ASC 820 establishes a common definition for fair value to be applied under U.S. GAAP requiring use of fair value, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements.

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 and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing as asset or liability. The three levels of the fair value hierarchy are described below:

- Level 1:** Quoted market prices in active markets for identical assets or liabilities.
- Level 2:** Observable market-based inputs or unobservable inputs corroborated by market data.
- Level 3:** Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, NGA and NGA Center perform a detailed analysis of the assets and liabilities that are subject to fair value measurement. At each reporting period, any assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

The following tables represent the Organization’s fair value hierarchy for those assets measured at fair value on a recurring basis at June 30, 2019:

	As of June 30, 2019			Total
	Level 1	Level 2	Level 3	
Fixed income:				
Corporate bonds (a)	\$	-\$ 3,935,405	\$	-\$ 3,935,405
Government securities		-	5,846,208	-
		-	9,781,613	-
Corporate equity securities	11,548,213	-	-	11,548,213
Mutual funds	6,843,983	-	-	6,843,983
Equity exchange traded funds	8,404,096	-	-	8,404,096
Fixed income exchange traded funds	482,262	-	-	482,262
Total assets at fair value	\$ 27,278,554	\$ 9,781,613	\$	-\$ 37,060,167

(a) Based on the analysis of the nature and risks of these investments, NGA and NGA Center have determined that presenting them as a single class is appropriate.

National Governors Association and National Governors Association Center for Best Practices

Notes to Consolidated Financial Statements

Corporate equity securities, mutual funds, and exchange traded funds are considered Level 1 securities because they are actively traded and fair market values for identical assets are readily obtainable.

Corporate bonds and government securities are considered Level 2 securities because they are not actively traded and fair market values for similar assets are readily obtainable.

The table above includes investments reported at fair value as of June 30, 2019. Cash and accrued interest of \$538,469 at June 30, 2019 is excluded as they are not reported at fair value.

12. Related Party Transactions

In previous years, the Organization participated, with certain other public interest organizations, in a common pool of cash and investments, recorded at fair value, to improve investment diversification and earnings. NGA was the fiscal agent for the pool, which had assets totaling \$11,000,793 at June 30, 2018. In 2019, the Organization terminated the pooled assets and returned the cash and investments to the other public interest organizations. However, the Organization continued to provide administrative and supporting services to the other public interest organizations including paying their payroll and related expenses. As a result, the Organization is owed by the other public interest organizations in the amount of \$2,119,252 as of June 30, 2019.

On October 24, 2016, the Organization entered into a royalty and marketing agreement with a third party and served as an international sponsor of the U.S. Communities Foundation (Foundation). The third party operates the Foundation's program and the Organization agrees to contribute its unique capacity, capability and resources to market, promote, sponsor, support its contribution to the growth and sustainability of the Foundation's program. On April 2018, the Organization, together with other Foundation sponsors, entered into an asset purchase, assignment, release and restrictive covenant agreement to sell and assign the royalty and marketing agreement to the same third party for a consideration of \$7,217,000. Such amount was received and recorded as part of other income in the consolidated statement of activities during the year ended June 30, 2019.

13. Subsequent Events

On November 4, 2019, the Organization extended the operating lease agreement with SSO for an additional twelve years and the new expiration date will be December 31, 2032. The Organization will receive rent abatement and tenant improvement allowances related to the amended operating lease agreement.

The Organization has evaluated subsequent events through January 28, 2020, which is the date the consolidated financial statements were available to be issued. There were no other events noted that required adjustments to, or disclosure in, these consolidated financial statements.

Supplemental Information

**National Governors Association and
National Governors Association Center for Best Practices**

Consolidating Balance Sheet

<i>June 30, 2019</i>	National Governors Association	National Governors Association Center for Best Practices	Consolidated Total
Assets			
Cash and cash equivalents	\$ 7,885,966	\$ -	\$ 7,885,966
Investments	19,197,734	18,400,902	37,598,636
Accounts receivable, net	441,601	3,166,018	3,607,619
Due from (to) NGAC/NGA	(5,594,405)	5,594,405	-
Due from other public interest organizations	2,119,252	-	2,119,252
Prepaid expense and other assets	113,060	25,585	138,645
Property and equipment, net	152,682	-	152,682
Total assets	\$ 24,315,890	\$ 27,186,910	\$ 51,502,800
Liabilities and Net Assets			
Liabilities			
Accounts payable and accrued expenses	\$ 3,116,212	\$ 57,795	\$ 3,174,007
Deferred revenue	1,156,374	10,325	1,166,699
Deferred rent	99,762	-	99,762
Total liabilities	4,372,348	68,120	4,440,468
Commitments and contingencies			
Net assets			
Without donor restrictions			
Operating funds NGA and NGA Center	5,179,973	2,778,936	7,958,909
NGA Center endowment	-	18,400,902	18,400,902
NGA endowment	14,763,569	-	14,763,569
Total without donor restrictions	19,943,542	21,179,838	41,123,380
With donor restrictions	-	5,938,952	5,938,952
Total net assets	19,943,542	27,118,790	47,062,332
Total liabilities and net assets	\$ 24,315,890	\$ 27,186,910	\$ 51,502,800

**National Governors Association and
National Governors Association Center for Best Practices**

Consolidating Schedule of Activities

<i>Year ended June 30, 2019</i>	National Governors Association	National Governors Association Center for Best Practices	Consolidated Total
Support and revenue:			
Foundation grants and contracts	\$ 450,347	\$ 6,516,217	\$ 6,966,564
Federal grants and contracts	843,775	5,447,402	6,291,177
Member dues	3,765,003	-	3,765,003
Investment return, net	1,044,197	1,280,553	2,324,750
Corporate fellows and other contributions	1,423,195	5,908,325	7,331,520
Registration fees	252,605	399,717	652,322
Employment/vocational training fees	57,918	123,237	181,155
Other income	7,211,696	20,741	7,232,437
Total support and revenue	15,048,736	19,696,192	34,744,928
Expenses:			
Governmental Services			
Government relations:			
Salaries and employee benefits	675,216	-	675,216
Other direct costs	716,059	-	716,059
Total	1,391,275	-	1,391,275
Education/early childhood and workforce committee:			
Salaries and employee benefits	138,874	-	138,874
Other direct costs	88,035	-	88,035
Total	226,909	-	226,909
Economic development and commerce committee:			
Salaries and employee benefits	104,786	-	104,786
Other direct costs	69,415	-	69,415
Total	174,201	-	174,201
Health and human services committee:			
Salaries and employee benefits	-	-	-
Other direct costs	1,691	-	1,691
Total	1,691	-	1,691
Natural resources committee:			
Salaries and employee benefits	151,562	-	151,562
Other direct costs	100,557	-	100,557
Total	252,119	-	252,119
Homeland security and public safety committee:			
Salaries and employee benefits	138,977	-	138,977
Other direct costs	87,044	-	87,044
Total	226,021	-	226,021
Program Services			
Education division:			
Salaries and employee benefits	4,242	1,049,498	1,053,740
Other direct costs	3,260	1,597,244	1,600,504
Total	7,502	2,646,742	2,654,244

**National Governors Association and
National Governors Association Center for Best Practices**

Consolidating Schedule of Activities

<i>Year ended June 30, 2019</i>	National Governors Association	National Governors Association Center for Best Practices	Consolidated Total
Economic development and commerce division			
Salaries and employee benefits	4,820	1,730,589	1,735,409
Other direct costs	3,582	4,087,533	4,091,115
Total	8,402	5,818,122	5,826,524
Health and human services division:			
Salaries and employee benefits	3,846	1,867,591	1,871,437
Other direct costs	2,826	2,794,471	2,797,297
Total	6,672	4,662,062	4,668,734
Environment, energy and transportation division:			
Salaries and employee benefits	25,071	1,079,360	1,104,431
Other direct costs	18,521	1,568,242	1,586,763
Total	43,592	2,647,602	2,691,194
Homeland security and public safety division:			
Salaries and employee benefits	9,291	1,461,216	1,470,507
Other direct costs	6,839	2,188,281	2,195,120
Total	16,130	3,649,497	3,665,627
Supporting Services			
Chair's initiative:			
Salaries and employee benefits	181,695	-	181,695
Other direct costs	274,547	-	274,547
Total	456,242	-	456,242
Management consulting and training:			
Salaries and employee benefits	800,410	-	800,410
Other direct costs	1,270,723	-	1,270,723
Total	2,071,133	-	2,071,133
Meetings:			
Salaries and employee benefits	448,383	62,426	510,809
Other direct costs	1,901,902	128,167	2,030,069
Total	2,350,285	190,593	2,540,878
Communications:			
Salaries and employee benefits	543,761	97,099	640,860
Other direct costs	916,478	178,911	1,095,389
Total	1,460,239	276,010	1,736,249
International initiatives:			
Salaries and employee benefits	173,406	-	173,406
Other direct costs	593,919	-	593,919
Total	767,325	-	767,325
Management and administration:			
Salaries and employee benefits	1,367,240	2,283,625	3,650,865
Other direct costs	684,808	(2,296,009)	(1,611,201)
Total	2,052,048	(12,384)	2,039,664
Development:			
Salaries and employee benefits	54,557	523,340	577,897
Other direct costs	312,494	919,732	1,232,226
Total	367,051	1,443,072	1,810,123
Total expenses	11,878,837	21,321,316	33,200,153
Change in net assets	3,169,899	(1,625,124)	1,544,775
Net assets, at beginning of year	16,773,643	28,743,914	45,517,557
Net assets, at end of year	19,943,542	27,118,790	47,062,332

**National Governors Association and
National Governors Association Center for Best Practices**

Consolidating Schedule of Changes in Net Assets

	National Governors Association				National Governors Association Center for Best Practices				Consolidated Total
	Operating Fund	NGA Endowment	With Donor Restrictions	Total	Operating Fund	Center Endowment	With Donor Restrictions	Total	
Balance, June 30, 2018	\$ 2,937,299	\$ 13,836,344	\$ -	\$ 16,773,643	\$ 5,671,736	\$ 17,237,702	\$ 5,834,476	\$ 28,743,914	\$ 45,517,557
Change in net assets	2,242,674	927,225	-	3,169,899	(2,892,800)	1,163,200	104,476	(1,625,124)	1,544,775
Balance, June 30, 2019	\$ 5,179,973	\$ 14,763,569	\$ -	\$ 19,943,542	\$ 2,778,936	\$ 18,400,902	\$ 5,938,952	\$ 27,118,790	\$ 47,062,332