

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

Consolidated Financial Report  
June 30, 2018

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RSM US LLP

## Independent Auditor's Report

The Executive Committee/Board of Directors  
National Governors Association

### Report on the 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), which comprise the consolidated balance sheets as of June 30, 2018 and 2017, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 National Governors Association and National Governors Association Center for Best Practices as of June 30, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our reports dated March 27, 2019 and July 26, 2018, on our consideration of NGA and NGA Center's internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of those reports is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of NGA and NGA Centers' internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NGA and NGA Center's internal control over financial reporting and compliance.

*RSM US LLP*

Washington, D.C.  
March 27, 2019

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

**Consolidated Balance Sheets  
June 30, 2018 and 2017**

	2018	2017
<b>Assets</b>		
Equity in pooled assets	\$ 5,201,914	\$ 6,869,369
Pooled assets held for others	5,798,879	5,402,587
Investments	31,074,046	28,595,983
Accounts receivable, net	6,950,441	2,348,277
Prepaid expense and other assets	294,378	311,857
Foundation grant promises to give, net	3,687,753	6,312,013
Property and equipment, net	1,155,413	1,328,036
	<u>\$ 54,162,824</u>	<u>\$ 51,168,122</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 2,204,951	\$ 1,654,572
Pooled assets held for others	5,798,879	5,402,587
Deferred revenue	421,961	693,854
Deferred rent	219,476	320,944
	<u>8,645,267</u>	<u>8,071,957</u>
Commitments and contingencies (Notes 7, 10, and 11)		
Net assets:		
Unrestricted:		
Operating funds NGA and NGA Center	8,609,035	5,398,177
NGA Center endowment	17,237,702	15,869,928
NGA endowment	13,836,344	12,726,055
	<u>39,683,081</u>	<u>33,994,160</u>
Temporarily restricted	5,834,476	9,102,005
	<u>45,517,557</u>	<u>43,096,165</u>
	<u>\$ 54,162,824</u>	<u>\$ 51,168,122</u>

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, 2018**

	Unrestricted			Total Unrestricted	Temporarily Restricted	Total
	NGA and NGA Center Operating	NGA Center Endowment	NGA Endowment			
Support and revenue:						
Foundation grants and contracts	\$ 3,295,819	\$ -	\$ -	\$ 3,295,819	\$ 3,871,055	\$ 7,166,874
Federal grants and contracts	5,661,235	-	-	5,661,235	-	5,661,235
Member dues	4,267,739	-	-	4,267,739	-	4,267,739
Net (losses) gains on investments	(144,881)	1,097,768	898,182	1,851,069	-	1,851,069
Corporate fellows and other contributions	6,666,513	-	-	6,666,513	-	6,666,513
Registration fees	411,476	-	-	411,476	-	411,476
Interest and dividends, net	108,292	270,006	212,107	590,405	-	590,405
Employment/vocational training fees	626,951	-	-	626,951	-	626,951
Administrative service fees	258,226	-	-	258,226	-	258,226
Other income	638,513	-	-	638,513	-	638,513
Net assets released from restrictions	7,138,584	-	-	7,138,584	(7,138,584)	-
<b>Total support and revenue</b>	<b>28,928,467</b>	<b>1,367,774</b>	<b>1,110,289</b>	<b>31,406,530</b>	<b>(3,267,529)</b>	<b>28,139,001</b>
Expenses:						
Program services:						
Education division	1,343,502	-	-	1,343,502	-	1,343,502
Health division	2,208,060	-	-	2,208,060	-	2,208,060
Economic opportunity division	4,207,393	-	-	4,207,393	-	4,207,393
Environment, energy and transportation division	1,963,334	-	-	1,963,334	-	1,963,334
Meetings	1,853,574	-	-	1,853,574	-	1,853,574
Homeland security and public safety division	2,212,440	-	-	2,212,440	-	2,212,440
Management consulting and training	846,340	-	-	846,340	-	846,340
Communications	1,139,392	-	-	1,139,392	-	1,139,392
Government relations	691,401	-	-	691,401	-	691,401
Health and human services committee	35,672	-	-	35,672	-	35,672
Economic development and commerce committee	180,110	-	-	180,110	-	180,110
Other program costs	816,984	-	-	816,984	-	816,984
Education/early childhood committee	213,080	-	-	213,080	-	213,080
International initiatives	295,073	-	-	295,073	-	295,073
Natural resources committee	174,594	-	-	174,594	-	174,594
Homeland security and public safety committee	176,244	-	-	176,244	-	176,244
<b>Total program services</b>	<b>18,357,193</b>	<b>-</b>	<b>-</b>	<b>18,357,193</b>	<b>-</b>	<b>18,357,193</b>
Supporting services:						
Management and administration	6,569,744	-	-	6,569,744	-	6,569,744
Fundraising	790,672	-	-	790,672	-	790,672
<b>Total supporting services</b>	<b>7,360,416</b>	<b>-</b>	<b>-</b>	<b>7,360,416</b>	<b>-</b>	<b>7,360,416</b>
<b>Total expenses</b>	<b>25,717,609</b>	<b>-</b>	<b>-</b>	<b>25,717,609</b>	<b>-</b>	<b>25,717,609</b>
<b>Change in net assets</b>	<b>3,210,858</b>	<b>1,367,774</b>	<b>1,110,289</b>	<b>5,688,921</b>	<b>(3,267,529)</b>	<b>2,421,392</b>
Net assets:						
Beginning	5,398,177	15,869,928	12,726,055	33,994,160	9,102,005	43,096,165
Ending	\$ 8,609,035	\$ 17,237,702	\$ 13,836,344	\$ 39,683,081	\$ 5,834,476	\$ 45,517,557

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, 2017**

	Unrestricted			Total Unrestricted	Temporarily Restricted	Total
	NGA and NGA Center Operating	NGA Center Endowment	NGA Endowment			
<b>Support and revenue:</b>						
Foundation grants and contracts	\$ 4,500	\$ -	\$ -	\$ 4,500	\$ 6,461,347	\$ 6,465,847
Federal grants and contracts	4,648,725	-	-	4,648,725	-	4,648,725
Member dues	4,232,602	-	-	4,232,602	-	4,232,602
Net (losses) gains on investments	(3,732)	1,376,860	1,080,546	2,453,674	6,427	2,460,101
Corporate fellows and other contributions	3,335,500	-	-	3,335,500	1,238,000	4,573,500
Registration fees	527,870	-	-	527,870	-	527,870
Interest and dividends, net	211,482	232,473	206,875	650,830	-	650,830
Employment/vocational training fees	438,714	-	-	438,714	-	438,714
Administrative service fees	212,916	-	-	212,916	-	212,916
Other income	474,436	-	-	474,436	-	474,436
Net assets released from restrictions	9,943,852	-	-	9,943,852	(9,943,852)	-
<b>Total support and revenue</b>	<b>24,026,865</b>	<b>1,609,333</b>	<b>1,287,421</b>	<b>26,923,619</b>	<b>(2,238,078)</b>	<b>24,685,541</b>
<b>Expenses:</b>						
<b>Program services:</b>						
Education division	2,274,889	-	-	2,274,889	-	2,274,889
Health division	2,645,737	-	-	2,645,737	-	2,645,737
Economic opportunity division	3,711,862	-	-	3,711,862	-	3,711,862
Environment, energy and transportation division	1,618,497	-	-	1,618,497	-	1,618,497
Meetings	1,768,149	-	-	1,768,149	-	1,768,149
Homeland security and public safety division	2,463,688	-	-	2,463,688	-	2,463,688
Management consulting and training	1,077,453	-	-	1,077,453	-	1,077,453
Communications	893,435	-	-	893,435	-	893,435
Government relations	872,089	-	-	872,089	-	872,089
Health and human services committee	176,898	-	-	176,898	-	176,898
Workforce development technical assistance program	390,837	-	-	390,837	-	390,837
Economic development and commerce committee	181,690	-	-	181,690	-	181,690
Other program costs	641,845	-	-	641,845	-	641,845
Education/early childhood committee	211,123	-	-	211,123	-	211,123
Council of Governors	96,391	-	-	96,391	-	96,391
International initiatives	383,182	-	-	383,182	-	383,182
Natural resources committee	161,691	-	-	161,691	-	161,691
Homeland security and public safety committee	74,970	-	-	74,970	-	74,970
<b>Total program services</b>	<b>19,644,426</b>	<b>-</b>	<b>-</b>	<b>19,644,426</b>	<b>-</b>	<b>19,644,426</b>
<b>Supporting services:</b>						
Management and administration	5,305,685	-	-	5,305,685	-	5,305,685
Fundraising	572,179	-	-	572,179	-	572,179
<b>Total supporting services</b>	<b>5,877,864</b>	<b>-</b>	<b>-</b>	<b>5,877,864</b>	<b>-</b>	<b>5,877,864</b>
<b>Total expenses</b>	<b>25,522,290</b>	<b>-</b>	<b>-</b>	<b>25,522,290</b>	<b>-</b>	<b>25,522,290</b>
<b>Change in net assets</b>	<b>(1,495,425)</b>	<b>1,609,333</b>	<b>1,287,421</b>	<b>1,401,329</b>	<b>(2,238,078)</b>	<b>(836,749)</b>
<b>Net assets:</b>						
Beginning	6,893,602	14,260,595	11,438,634	32,592,831	11,340,083	43,932,914
Ending	\$ 5,398,177	\$ 15,869,928	\$ 12,726,055	\$ 33,994,160	\$ 9,102,005	\$ 43,096,165

See notes to consolidated financial statements.

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

**Consolidated Statements of Cash Flows  
Years Ended June 30, 2018 and 2017**

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 2,421,392	\$ (836,749)
Adjustments to reconcile change in net assets to net equity in pooled assets used in operating activities:		
Net realized and unrealized gain on investments	(1,706,189)	(2,457,406)
Depreciation expense	193,108	211,802
Deferred rent	(101,468)	(70,255)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(4,602,164)	(752,338)
Prepaid expense and other assets	17,479	67,120
Foundation grant promises to give, net	2,624,260	(41,108)
Increase (decrease) in:		
Accounts payable and accrued expenses	550,379	143,882
Deferred revenue	(271,893)	482,029
<b>Net equity in pooled assets used in operating activities</b>	<b>(875,096)</b>	<b>(3,253,023)</b>
Cash flows from investing activities:		
Purchases of investments	(5,134,281)	(6,799,992)
Proceeds from sales and maturities of investments	4,362,407	6,360,644
Purchases of property and equipment	(20,485)	(232,171)
<b>Net equity in pooled assets used in investing activities</b>	<b>(792,359)</b>	<b>(671,519)</b>
<b>Net decrease in equity in pooled assets</b>	<b>(1,667,455)</b>	<b>(3,924,542)</b>
Equity in pooled assets:		
Beginning	6,869,369	10,793,911
Ending	<b>\$ 5,201,914</b>	<b>\$ 6,869,369</b>

See notes to consolidated financial statements.



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

**Notes to Consolidated Financial Statements**

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**Note 1. Nature of Activities and Significant Accounting Policies**

**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.

A summary of NGA and NGA Center's significant accounting policies follows:

**Principles of consolidation:** The consolidated financial statements include the accounts of NGA and NGA Center. All material intercompany transactions and balances have been eliminated in the consolidation.

**Basis of accounting:** The consolidated financial statements are prepared on the accrual basis of accounting, whereby revenue is recognized when earned, unconditional support is recognized when received and expenses are recognized when incurred.

**Basis of presentation:** NGA and NGA Center report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. There were no permanently restricted net assets at June 30, 2018 or 2017, respectively.

**Equity in pooled assets:** NGA and NGA Center participate, 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 is the fiscal agent for the pool, which had assets totaling \$11,000,793 and \$12,271,956 at June 30, 2018 and 2017. The equity in pooled assets are treated as cash equivalents on the accompanying consolidated balance sheets and statements of cash flows.

Assets held within the pool for the benefit of other participating public interest organizations are reported as a liability in pooled assets held for others in the accompanying consolidated balance sheets. Participants are permitted to borrow from the pool by creating an overdraft in their account and are charged interest on their borrowings.

Investment income or expense, based on each participant's ending balance, is allocated each month to the participants.

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

**Notes to Consolidated Financial Statements**

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**Note 1. Nature of Activities and Significant Accounting Policies (Continued)**

**Financial risk:** NGA and NGA Center maintain their cash in bank deposit accounts which, at times, may exceed federally insured limits. NGA and NGA Center have not experienced any losses in such accounts. NGA and NGA Center believe they are not exposed to any significant financial risk on cash.

NGA and NGA Center invest 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.

**Investments and equity in pooled assets:** Investments and equity in pooled assets 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 statements 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. There is no provision for doubtful accounts at June 30, 2018 or 2017.

**Foundation grant promises to give:** Unconditional foundation grant promises to give are recognized as support in the period acknowledged. Conditional foundation grant promises to give are only recognized when the conditions on which they depend are substantially met. Unconditional foundation grant promises to give are carried at fair value less an estimate made for doubtful promises based on a review of all outstanding promises on a monthly basis. Management determines the allowance for doubtful promises to give by using the historical experience applied to an aging of promises. Promises to give are written off when deemed uncollectible. Recoveries of promises to give previously written off are recorded as revenue when received. The provision for doubtful promises to give was \$200,000 at both June 30, 2018 and 2017.

**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.

**Valuation 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.

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

**Notes to Consolidated Financial Statements**

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**Note 1. Nature of Activities and Significant Accounting Policies (Continued)**

**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 sheets represents the cumulative difference between the monthly rent expense and rent paid, as well as the unamortized portion of the lease incentives.

**Unconditional support and revenue:** Unconditional foundation grants and contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions, when received. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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 consolidated statements 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.

**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. Accordingly, certain costs have been allocated among the programs and support services benefited.

**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, 2018 or 2017, respectively, 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.

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

**Notes to Consolidated Financial Statements**

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**Note 1. Nature of Activities and Significant Accounting Policies (Continued)**

**Pending accounting pronouncements:** In February 2016, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the consolidated statements of activities. The new standard is effective for fiscal years beginning after December 15, 2019.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance and cash flows. The ASU will be effective for the year ending June 30, 2019. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in generally accepted accounting principles in the United States of America (U.S. GAAP) when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU No. 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018. NGA and NGAC have not yet selected a transition method.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit-Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides additional guidance on characterizing grants and similar contracts with the resource providers as either exchange transactions or contributions, as well as distinguishing between conditional contributions and unconditional contributions. The updated standard will be effective for resources recipients for annual reporting periods beginning after December 15, 2018 and resource providers one year later. Management is currently evaluating the effect on the consolidated financial statements.

**Subsequent events:** NGA and NGA Center evaluated subsequent events through March 27, 2019, which is the date the consolidated financial statements were available to be issued.

**National Governors Association and National Governors  
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**Notes to Consolidated Financial Statements**

**Note 2. Equity in Pooled Assets**

NGA and NGA Center participate in a common pool of cash and investments. At June 30, 2018 and 2017, NGA and NGA Center's equity in pooled assets consists of the following:

	2018	2017
Corporate bonds	\$ 2,800,894	\$ 3,749,965
Foreign bonds	290,410	292,951
Fixed income mutual funds	3,297,286	3,391,832
Exchange traded funds	1,656,549	1,694,958
Certificates of deposit	443,626	937,609
Cash	2,512,028	2,161,502
Accrued interest	-	43,139
	<u>11,000,793</u>	<u>12,271,956</u>
Less pooled assets held for others	(5,798,879)	(5,402,587)
	<u>\$ 5,201,914</u>	<u>\$ 6,869,369</u>

For the years ended June 30, 2018 and 2017, the net investment income earned by NGA and NGA Center on equity in pooled assets consists of the following:

	2018	2017
Net realized and unrealized gain	\$ 144,880	\$ 2,695
Interest and dividends	108,356	205,282
	<u>\$ 253,236</u>	<u>\$ 207,977</u>

**Note 3. Investments**

At June 30, 2018 and 2017, investments consist of the following:

	2018	2017
Corporate equity securities	\$ 11,566,083	\$ 10,386,496
Exchange traded funds	7,893,994	7,008,994
Mutual funds	2,226,628	2,118,194
Corporate debt securities	3,179,963	5,625,615
Government debt securities	1,218,769	1,742,003
Municipal bonds	487,594	282,116
Cash	4,501,015	1,432,565
	<u>\$ 31,074,046</u>	<u>\$ 28,595,983</u>

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

**Notes to Consolidated Financial Statements**

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**Note 3. Investments (Continued)**

For the years ended June 30, 2018 and 2017, investment income consists of the following:

	2018	2017
Realized and unrealized gain, net	\$ 1,706,189	\$ 2,457,406
Interest and dividends	638,745	574,934
Management fees	(156,696)	(129,386)
	<u>\$ 2,188,238</u>	<u>\$ 2,902,954</u>

**Note 4. Accounts Receivable**

At June 30, 2018 and 2017, accounts receivable consist of the following:

	2018	2017
Grants and contracts	\$ 3,026,775	\$ 2,140,470
Tenant improvement allowance	68,922	68,922
Unbilled and other	3,854,744	138,885
	<u>\$ 6,950,441</u>	<u>\$ 2,348,277</u>

**Note 5. Foundation Grant Promises to Give**

At June 30, 2018 and 2017, foundation grant promises to give are as follows:

	2018	2017
Receivable in one year or less	\$ 3,642,753	\$ 6,119,313
Receivable in one to five years	245,000	392,700
	<u>3,887,753</u>	<u>6,512,013</u>
Less allowance for doubtful promises	(200,000)	(200,000)
	<u>\$ 3,687,753</u>	<u>\$ 6,312,013</u>

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

**Notes to Consolidated Financial Statements**

**Note 6. Property and Equipment**

Property and equipment and accumulated depreciation at June 30, 2018 and 2017, and depreciation expense for the years then ended, are as follows:

Asset Category	Estimated Lives	2018			
		Cost	Accumulated Depreciation	Net	Depreciation Expense
Computer equipment and software	3 years	\$ 2,624,683	\$ 1,614,502	\$ 1,010,181	\$ 124,577
Leasehold improvements	Various	1,217,119	1,121,908	95,211	45,383
Furniture and equipment	5 years	674,933	624,912	50,021	23,148
		<u>\$ 4,516,735</u>	<u>\$ 3,361,322</u>	<u>\$ 1,155,413</u>	<u>\$ 193,108</u>

  

Asset Category	Estimated Lives	2017			
		Cost	Accumulated Depreciation	Net	Depreciation Expense
Computer equipment and software	3 years	\$ 2,633,185	\$ 1,492,706	\$ 1,140,479	\$ 143,272
Leasehold improvements	Various	1,217,120	1,081,517	135,603	45,382
Furniture and equipment	5 years	654,446	602,492	51,954	23,148
		<u>\$ 4,504,751</u>	<u>\$ 3,176,715</u>	<u>\$ 1,328,036</u>	<u>\$ 211,802</u>

**Note 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, 2018, are as follows:

Years ending June 30:	
2019	\$ 1,360,685
2020	805,142
	<u>\$ 2,165,827</u>

Rental expense was approximately \$1,388,000 and \$1,360,000 for the years ended June 30, 2018 and 2017, respectively.

**Note 8. Net Assets**

**Unrestricted designations:** The NGA Center endowment represents unrestricted 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.

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

**Notes to Consolidated Financial Statements**

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**Note 8. Net Assets (Continued)**

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 years ended June 30, 2018 and 2017, no earnings from the endowment were spent. For the years ended June 30, 2018 and 2017, earnings from the NGA Center endowment totaled \$1,367,774 and \$1,609,333, respectively. For the years ended June 30, 2018 and 2017, earnings from the NGA endowment totaled \$1,110,289 and \$1,287,421, respectively.

NGA and NGA Center's endowment funds consist of the following at June 30, 2018 and 2017:

	2018	2017
NGA Center Endowment	\$ 17,237,702	\$ 15,869,928
NGA Endowment	13,836,344	12,726,055
	\$ 31,074,046	\$ 28,595,983

The NGA Center endowment and NGA endowment net assets consist of the following at June 30, 2018 and 2017:

	2018	2017
NGA Center Endowment:		
Investments	\$ 17,237,702	\$ 15,869,928
NGA Endowment:		
Investments	13,836,344	12,726,055
Total endowments	\$ 31,074,046	\$ 28,595,983



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

**Notes to Consolidated Financial Statements**

**Note 8. Net Assets (Continued)**

**Temporarily restricted:** Temporarily restricted net assets consist of foundation and corporate contributions and are available for the following purposes:

	Balance at June 30, 2017	Additions	Releases	Balance at June 30, 2018
Education division	\$ 1,118,981	\$ 1,819,039	\$ (1,679,182)	\$ 1,258,838
Economic, human services and workforce division	4,548,347	444,892	(2,440,266)	2,552,973
Health division	1,838,115	753,313	(1,548,468)	1,042,960
Environment, energy and transportation division	818,495	445,000	(851,033)	412,462
Homeland security and public safety division	768,067	408,811	(619,635)	557,243
Corporate Fellows	10,000	-	-	10,000
	<u>\$ 9,102,005</u>	<u>\$ 3,871,055</u>	<u>\$ (7,138,584)</u>	<u>\$ 5,834,476</u>

  

	Balance at June 30, 2016	Additions	Releases	Balance at June 30, 2017
Education division	\$ 2,411,882	\$ 1,250,176	\$ (2,543,077)	\$ 1,118,981
Economic, human services and workforce division	4,853,608	3,157,494	(3,462,755)	4,548,347
Health division	2,221,000	1,730,511	(2,113,396)	1,838,115
Environment, energy and transportation division	203,467	940,000	(324,972)	818,495
Homeland security and public safety division	1,640,126	627,593	(1,499,652)	768,067
Corporate Fellows	10,000	-	-	10,000
	<u>\$ 11,340,083</u>	<u>\$ 7,705,774</u>	<u>\$ (9,943,852)</u>	<u>\$ 9,102,005</u>

**Note 9. Administrative Services**

Pursuant to service agreements, NGA provides certain other public interest organizations with administrative and supporting services. NGA is reimbursed for such services based on a negotiated cost reimbursement formula. Fees for such services totaled \$258,226 and \$212,916 per year for the years ended June 30, 2018 and 2017, respectively.

**Note 10. 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 \$746,400 and \$778,800 for the years ended June 30, 2018 and 2017, respectively.

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

**Notes to Consolidated Financial Statements**

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**Note 11. 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.

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.

**Note 12. Fair Value Measurements**

The Fair Value Measurement topic of the Codification 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 an 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.

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

**Notes to Consolidated Financial Statements**

**Note 12. Fair Value Measurements (Continued)**

The following tables represent NGA's and NGA Center's fair value hierarchy for those assets measured at fair value on a recurring basis at June 30, 2018 and 2017:

	As of June 30, 2018			
	Level 1	Level 2	Level 3	Total
Fixed income:				
Corporate bonds (a)	\$ -	\$ 5,980,857	\$ -	\$ 5,980,857
Foreign bonds	-	290,410	-	290,410
Certificates of deposit	-	443,626	-	443,626
Government securities	-	1,218,769	-	1,218,769
Municipal bonds	-	487,594	-	487,594
	-	8,421,256	-	8,421,256
Corporate equity securities:				
Services	2,056,027	-	-	2,056,027
Technology	2,577,239	-	-	2,577,239
Healthcare	1,162,563	-	-	1,162,563
Financial	1,636,511	-	-	1,636,511
Consumer goods	1,361,724	-	-	1,361,724
Industrial goods	914,017	-	-	914,017
Basic materials	801,244	-	-	801,244
Other equities	389,017	-	-	389,017
Utilities	639,291	-	-	639,291
Consumer discretionary	28,450	-	-	28,450
	11,566,083	-	-	11,566,083
Mutual funds:				
World bond	1,460,477	-	-	1,460,477
Emerging market bond	1,212,643	-	-	1,212,643
International	1,457,027	-	-	1,457,027
High yield bond	826,101	-	-	826,101
Bank loan	567,666	-	-	567,666
	5,523,914	-	-	5,523,914
Equity exchange traded funds	7,893,994	-	-	7,893,994
Fixed income exchange traded funds	1,656,549	-	-	1,656,549
Total assets at fair value	\$ 26,640,540	\$ 8,421,256	\$ -	\$ 35,061,796

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

**Notes to Consolidated Financial Statements**

**Note 12. Fair Value measurements (Continued)**

	As of June 30, 2017			
	Level 1	Level 2	Level 3	Total
Fixed income:				
Corporate bonds (a)	\$ -	\$ 9,375,580	\$ -	\$ 9,375,580
Foreign bonds	-	292,951	-	292,951
Certificates of deposit	-	937,609	-	937,609
Government securities	-	1,742,003	-	1,742,003
Municipal bonds	-	282,116	-	282,116
	-	12,630,259	-	12,630,259
Corporate equity securities:				
Services	1,800,447	-	-	1,800,447
Technology	2,162,736	-	-	2,162,736
Healthcare	1,327,344	-	-	1,327,344
Financial	1,559,346	-	-	1,559,346
Consumer goods	1,247,652	-	-	1,247,652
Industrial goods	662,872	-	-	662,872
Basic materials	840,480	-	-	840,480
Other equities	27,987	-	-	27,987
Utilities	635,324	-	-	635,324
Consumer discretionary	122,308	-	-	122,308
	10,386,496	-	-	10,386,496
Mutual funds:				
World bond	1,580,871	-	-	1,580,871
Emerging market bond	1,236,390	-	-	1,236,390
International	1,333,842	-	-	1,333,842
High yield bond	812,285	-	-	812,285
Bank loan	546,638	-	-	546,638
	5,510,026	-	-	5,510,026
Equity exchange traded funds	7,008,994	-	-	7,008,994
Fixed income exchange traded funds	1,694,958	-	-	1,694,958
Total assets at fair value	\$ 24,600,474	\$ 12,630,259	\$ -	\$ 37,230,733

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

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, certificates of deposit, government securities and municipal bonds are considered Level 2 securities because they are not actively traded and fair market values for similar assets are readily obtainable.

The tables above include investments and equity in pooled assets reported at fair value as of June 30, 2018 and 2017, respectively. Cash and accrued interest of \$7,013,043 and \$3,637,206 at June 30, 2018 and 2017, are excluded as they are not reported at fair value.



RSM US LLP

### **Independent Auditor's Report on the Supplementary Information**

The Executive Committee/Board of Directors  
National Governors Association and National Governors  
Association Center for Best Practices

We have audited the consolidated financial statements of National Governors Association (NGA) and National Governors Association Center for Best Practices (NGA Center) as of and for the years ended June 30, 2018 and 2017, and have issued our report thereon, dated March 27, 2019, which contains an unmodified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole.

The accompanying consolidating information is presented for purposes of additional analysis rather than to present the financial position and results of activities of the individual entities 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 consolidating information has been subjected to the auditing procedures applied in the audits 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.

*RSM US LLP*

Washington, D.C.  
March 27, 2019

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

**Consolidating Balance Sheet  
June 30, 2018**

	National Governors Association	National Governors Association Center for Best Practices	Consolidated Totals
<b>Assets</b>			
Equity in pooled assets	\$ 3,015,297	\$ 2,186,617	\$ 5,201,914
Pooled assets held for others	5,798,879	-	5,798,879
Investments	13,836,344	17,237,702	31,074,046
Accounts receivable, net	579,434	6,371,007	6,950,441
Prepaid expense and other assets	284,378	10,000	294,378
Foundation grant promises to give, net	273,887	3,413,866	3,687,753
Property and equipment, net	1,155,413	-	1,155,413
	<u>\$ 24,943,632</u>	<u>\$ 29,219,192</u>	<u>\$ 54,162,824</u>
<b>Liabilities and Net Assets</b>			
Liabilities:			
Accounts payable and accrued expenses	\$ 2,036,633	\$ 168,318	\$ 2,204,951
Pooled assets held for others	5,798,879	-	5,798,879
Deferred revenue	115,001	306,960	421,961
Deferred rent	219,476	-	219,476
	<u>8,169,989</u>	<u>475,278</u>	<u>8,645,267</u>
Net assets:			
Unrestricted:			
Operating funds NGA and NGA Center	2,937,299	5,671,736	8,609,035
NGA Center endowment	-	17,237,702	17,237,702
NGA endowment	13,836,344	-	13,836,344
Temporarily restricted	-	5,834,476	5,834,476
	<u>16,773,643</u>	<u>28,743,914</u>	<u>45,517,557</u>
	<u>\$ 24,943,632</u>	<u>\$ 29,219,192</u>	<u>\$ 54,162,824</u>

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

**Consolidating Statement of Activities  
Year Ended June 30, 2018**

	National Governors Association	National Governors Association Center for Best Practices	Consolidated Totals
<b>Support and revenue:</b>			
Foundation grants and contracts	\$ 882,423	\$ 6,284,451	\$ 7,166,874
Federal grants and contracts	-	5,661,235	5,661,235
Member dues	4,245,649	22,090	4,267,739
Net gains on investments	810,169	1,040,900	1,851,069
Corporate fellows and other contributions	486,160	6,180,353	6,666,513
Registration fees	207,028	204,448	411,476
Interest and dividends, net	259,965	330,440	590,405
Employment/vocational training fees	-	626,951	626,951
Administrative service fees	258,226	-	258,226
Other income	567,438	71,075	638,513
<b>Total support and revenue</b>	<b>7,717,058</b>	<b>20,421,943</b>	<b>28,139,001</b>
<b>Expenses:</b>			
<b>Economic development and commerce committee:</b>			
Salaries and employee benefits	175,039	-	175,039
Other direct costs	5,071	-	5,071
	<b>180,110</b>	<b>-</b>	<b>180,110</b>
<b>Health and human services committee:</b>			
Salaries and employee benefits	33,801	-	33,801
Other direct costs	1,871	-	1,871
	<b>35,672</b>	<b>-</b>	<b>35,672</b>
<b>Homeland security and public safety committee:</b>			
Salaries and employee benefits	165,659	-	165,659
Other direct costs	10,585	-	10,585
	<b>176,244</b>	<b>-</b>	<b>176,244</b>
<b>Education/early childhood and workforce committee:</b>			
Salaries and employee benefits	212,288	-	212,288
Other direct costs	792	-	792
	<b>213,080</b>	<b>-</b>	<b>213,080</b>
<b>Natural resources committee:</b>			
Salaries and employee benefits	152,592	-	152,592
Other direct costs	22,002	-	22,002
	<b>174,594</b>	<b>-</b>	<b>174,594</b>

(Continued)

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

**Consolidating Statement of Activities (Continued)  
Year Ended June 30, 2018**

	National Governors Association	National Governors Association Center for Best Practices	Consolidated Totals
International initiatives:			
Salaries and employee benefits	\$ 119,482	\$ -	\$ 119,482
Other direct costs	175,591	-	175,591
	<u>295,073</u>	<u>-</u>	<u>295,073</u>
Government relations:			
Salaries and employee benefits	569,200	-	569,200
Other direct costs	122,201	-	122,201
	<u>691,401</u>	<u>-</u>	<u>691,401</u>
Education division:			
Salaries and employee benefits	-	816,914	816,914
Other direct costs	-	526,588	526,588
	<u>-</u>	<u>1,343,502</u>	<u>1,343,502</u>
Economic Development & Commerce Division			
Salaries and employee benefits	-	1,622,524	1,622,524
Other direct costs	1,518,104	1,066,765	2,584,869
	<u>1,518,104</u>	<u>2,689,289</u>	<u>4,207,393</u>
Health & Human Services Division:			
Salaries and employee benefits	-	1,353,936	1,353,936
Other direct costs	-	854,124	854,124
	<u>-</u>	<u>2,208,060</u>	<u>2,208,060</u>
Environment, energy and transportation division:			
Salaries and employee benefits	-	994,222	994,222
Other direct costs	-	969,112	969,112
	<u>-</u>	<u>1,963,334</u>	<u>1,963,334</u>
Homeland security and public safety division:			
Salaries and employee benefits	-	1,241,515	1,241,515
Other direct costs	-	970,925	970,925
	<u>-</u>	<u>2,212,440</u>	<u>2,212,440</u>

(Continued)



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

**Consolidating Statement of Activities (Continued)  
Year Ended June 30, 2018**

	National Governors Association	National Governors Association Center for Best Practices	Consolidated Totals
Communications:			
Salaries and employee benefits	\$ 221,168	\$ 331,287	\$ 552,455
Other direct costs	566,559	20,378	586,937
	<u>787,727</u>	<u>351,665</u>	<u>1,139,392</u>
Management consulting and training:			
Salaries and employee benefits	610,302	-	610,302
Other direct costs	236,038	-	236,038
	<u>846,340</u>	<u>-</u>	<u>846,340</u>
Meetings:			
Salaries and employee benefits	313,853	185,090	498,943
Other direct costs	1,283,643	70,988	1,354,631
	<u>1,597,496</u>	<u>256,078</u>	<u>1,853,574</u>
Other program costs:			
Salaries and employee benefits	412,721	202,776	615,497
Other direct costs	199,754	1,733	201,487
	<u>612,475</u>	<u>204,509</u>	<u>816,984</u>
Management and administration:			
Salaries and employee benefits	546,918	2,502,762	3,049,680
Other direct costs	1,070,720	2,449,344	3,520,064
	<u>1,617,638</u>	<u>4,952,106</u>	<u>6,569,744</u>
Fundraising:			
Salaries and employee benefits	-	388,489	388,489
Other direct costs	95,722	306,461	402,183
	<u>95,722</u>	<u>694,950</u>	<u>790,672</u>
<b>Total expenses</b>	<u>8,841,676</u>	<u>16,875,933</u>	<u>25,717,609</u>
<b>Change in net assets</b>	(1,124,618)	3,546,010	2,421,392
Net assets:			
Beginning	<u>17,898,261</u>	<u>25,197,904</u>	<u>43,096,165</u>
Ending	<u>\$ 16,773,643</u>	<u>\$ 28,743,914</u>	<u>\$ 45,517,557</u>

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

**Consolidating Statements of Changes in Net Assets  
Years Ended June 30, 2018 and 2017**

	National Governors Association				National Governors Association Center for Best Practices				Consolidated Total
	Operating Fund	NGA Endowment	Temporarily Restricted	Total	Operating Fund	Center Endowment	Temporarily Restricted	Total	
Balance, June 30, 2016	\$ 5,653,269	\$ 11,438,634	\$ -	\$ 17,091,903	\$ 1,240,333	\$ 14,260,595	\$ 11,340,083	\$ 26,841,011	\$ 43,932,914
Change in net assets before allocation	(481,063)	1,287,421	-	806,358	(1,014,362)	1,609,333	(2,238,078)	(1,643,107)	(836,749)
Balance, June 30, 2017	5,172,206	12,726,055	-	17,898,261	225,971	15,869,928	9,102,005	25,197,904	43,096,165
Change in net assets before allocation	(2,234,907)	1,110,289	-	(1,124,618)	5,445,765	1,367,774	(3,267,529)	3,546,010	2,421,392
<b>Balance, June 30, 2018</b>	<b>\$ 2,937,299</b>	<b>\$ 13,836,344</b>	<b>\$ -</b>	<b>\$ 16,773,643</b>	<b>\$ 5,671,736</b>	<b>\$ 17,237,702</b>	<b>\$ 5,834,476</b>	<b>\$ 28,743,914</b>	<b>\$ 45,517,557</b>