



National Governors Association and National Governors Association Center for Best Practices

Consolidated Financial Statements
and Supplementary Information
Years Ended June 30, 2022 and 2021

The report accompanying these financial statements was issued by BDO USA, P.C., a Virginia professional corporation, and the U.S. member of BDO International Limited, a UK company limited by guarantee.



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

Consolidated Financial Statements
and Supplementary Information
Years Ended June 30, 2022 and 2021

National Governors Association and National Governors Association Center for Best Practices

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Independent Auditor's Report

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the 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 sheets as of June 30, 2022 and 2021, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements 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, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary 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, P.C.

Potomac, Maryland
October 25, 2023

Consolidated Financial Statements

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

Consolidated Balance Sheets

<i>June 30,</i>	2022	2021
Assets		
Cash and cash equivalents	\$ 9,174,186	\$ 12,338,546
Investments	45,152,821	50,380,045
Accounts receivable, net	3,224,194	2,375,915
Prepaid expenses and other assets	643,411	285,494
Property and equipment, net	3,429,608	3,819,825
Total assets	\$ 61,624,220	\$ 69,199,825
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 2,142,903	\$ 2,155,478
Deferred revenue and other liabilities	4,645,825	3,573,738
Deferred lease benefit	3,734,022	3,843,368
Total liabilities	10,522,750	9,572,584
Commitments and contingencies		
Net assets		
Without donor restrictions:		
Operating funds NGA and NGA Center	7,081,990	9,946,479
NGA Center endowment	21,330,911	25,513,969
NGA endowment	17,117,250	20,370,821
Total without donor restrictions	45,530,151	55,831,269
With donor restrictions	5,571,319	3,795,972
Total net assets	51,101,470	59,627,241
Total liabilities and net assets	\$ 61,624,220	\$ 69,199,825

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, 2022	Without Donor Restrictions					
	NGA and			Total	With Donor	
	NGA Center Operating	NGA Center Endowment	NGA Endowment		Restrictions	Total
Support and revenue						
Foundation grants and contributions	\$ 105,089	\$ -	\$ -	\$ 105,089	\$ 6,133,912	\$ 6,239,001
Federal grants and contracts	3,671,413	-	-	3,671,413	-	3,671,413
Other contributions	613,003	-	-	613,003	425,000	1,038,003
Membership dues	4,731,200	-	-	4,731,200	-	4,731,200
Investment return, net	(1,291,176)	(4,183,058)	(3,253,571)	(8,727,805)	-	(8,727,805)
Corporate partnerships	6,929,076	-	-	6,929,076	-	6,929,076
Registration fees	227,044	-	-	227,044	-	227,044
Other income	1,876	-	-	1,876	-	1,876
Net assets released from restrictions	4,783,565	-	-	4,783,565	(4,783,565)	-
Total support and revenue	19,771,090	(4,183,058)	(3,253,571)	12,334,461	1,775,347	14,109,808
Expenses:						
Governmental Services						
Government relations	2,044,429	-	-	2,044,429	-	2,044,429
Program Services						
Education division	1,183,582	-	-	1,183,582	-	1,183,582
Economic development and commerce division	4,527,082	-	-	4,527,082	-	4,527,082
Health and human services division	2,452,024	-	-	2,452,024	-	2,452,024
Environment, energy and transportation division	1,776,329	-	-	1,776,329	-	1,776,329
Homeland security and public safety division	2,164,378	-	-	2,164,378	-	2,164,378
Total governmental and program services	14,147,824	-	-	14,147,824	-	14,147,824
Supporting Services						
Management consulting and training	1,103,863	-	-	1,103,863	-	1,103,863
Meetings	2,302,914	-	-	2,302,914	-	2,302,914
Communications	1,556,772	-	-	1,556,772	-	1,556,772
Management and administration	2,993,100	-	-	2,993,100	-	2,993,100
Development	531,106	-	-	531,106	-	531,106
Total supporting services	8,487,755	-	-	8,487,755	-	8,487,755
Total expenses	22,635,579	-	-	22,635,579	-	22,635,579
Change in net assets	(2,864,489)	(4,183,058)	(3,253,571)	(10,301,118)	1,775,347	(8,525,771)
Net assets, at beginning of year	9,946,479	25,513,969	20,370,821	55,831,269	3,795,972	59,627,241
Net assets, at end of year	\$ 7,081,990	\$ 21,330,911	\$ 17,117,250	\$ 45,530,151	\$ 5,571,319	\$ 51,101,470

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, 2021	Without Donor Restrictions					
	NGA and			Total	With Donor	
	NGA Center Operating	NGA Center Endowment	NGA Endowment		Restrictions	Total
Support and revenue						
Foundation grants and contributions	\$ 224,443	\$ -	\$ -	\$ 224,443	\$ 6,032,161	\$ 6,256,604
Federal grants and contracts	3,916,942	-	-	3,916,942	-	3,916,942
Other contributions	1,904,165	-	-	1,904,165	-	1,904,165
Membership dues	4,316,273	-	-	4,316,273	-	4,316,273
Investment return, net	11,153	5,752,673	4,537,344	10,301,170	-	10,301,170
Corporate partnerships	5,372,916	-	-	5,372,916	-	5,372,916
Registration fees	6,308	-	-	6,308	-	6,308
Other income	2,154	-	-	2,154	-	2,154
Net assets released from restrictions	4,215,515	-	-	4,215,515	(4,215,515)	-
Total support and revenue	19,969,869	5,752,673	4,537,344	30,259,886	1,816,646	32,076,532
Expenses:						
Governmental Services						
Government relations	2,477,699	-	-	2,477,699	-	2,477,699
Program Services						
Education division	892,071	-	-	892,071	-	892,071
Economic development and commerce division	4,958,223	-	-	4,958,223	-	4,958,223
Health and human services division	3,073,567	-	-	3,073,567	-	3,073,567
Environment, energy and transportation division	1,913,367	-	-	1,913,367	-	1,913,367
Homeland security and public safety division	2,764,160	-	-	2,764,160	-	2,764,160
Total governmental and program services	16,079,087	-	-	16,079,087	-	16,079,087
Supporting Services						
Management consulting and training	669,973	-	-	669,973	-	669,973
Meetings	973,135	-	-	973,135	-	973,135
Communications	1,842,398	-	-	1,842,398	-	1,842,398
Management and administration	220,915	-	-	220,915	-	220,915
Development	679,837	-	-	679,837	-	679,837
Total supporting services	4,386,258	-	-	4,386,258	-	4,386,258
Total expenses	20,465,345	-	-	20,465,345	-	20,465,345
Change in net assets	(495,476)	5,752,673	4,537,344	9,794,541	1,816,646	11,611,187
Net assets, at beginning of year	10,441,955	19,761,296	15,833,477	46,036,728	1,979,326	48,016,054
Net assets, at end of year	\$ 9,946,479	\$ 25,513,969	\$ 20,370,821	\$ 55,831,269	\$ 3,795,972	\$ 59,627,241

See notes to consolidated financial statements.

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

Consolidated Statement of Functional Expenses

	Governmental Services		Program Services					Supporting Services					Total Expenses		
	Government Relations	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	Management Consulting and Training	Meetings	Communications	Management and Administration		Total Supporting Services	
<i>Year ended June 30, 2022</i>															
Personnel	\$ 1,287,479	\$ 1,287,479	\$ 362,686	\$ 1,380,599	\$ 1,002,286	\$ 860,253	\$ 1,092,260	\$ 4,698,084	\$ 408,925	\$ 561,192	\$ 995,696	\$ 3,357,021	\$ 303,430	\$ 5,626,264	\$ 11,611,827
General office	11,535	11,535	3,979	3,437	246	6,802	470	14,934	4,391	3,634	748	93,758	9	102,540	129,009
Occupancy	-	-	-	-	-	-	-	-	-	-	-	1,501,263	-	1,501,263	1,501,263
Equipment	45,219	45,219	19	25,000	12,798	2,500	49	40,366	-	10,160	40,562	320,522	-	371,244	456,829
Printing	-	-	\$3,520	1,895	18,610	2,240	686	26,951	5,530	196,247	8,535	18,394	400	229,106	256,057
Telecommunications	1,540	1,540	8	46	-	4,927	40	5,021	159	-	-	192,153	23	192,335	198,896
Contractual services	7,000	7,000	360,250	1,852,742	851,846	116,261	428,048	3,609,147	21,563	11,600	7,000	297,157	8,000	345,320	3,961,467
Professional services	750	750	45	-	225	-	1,308	1,578	-	4,800	575	474,126	-	479,501	481,829
Travel	9,585	9,585	84,895	173,269	33,854	121,707	57,791	471,516	151,307	106,909	5,084	55,305	9,765	328,370	809,471
Meetings	37,139	37,139	185,641	399,237	30,846	231,193	36,785	883,702	304,955	1,090,434	165	128,036	54,381	1,577,971	2,498,812
Depreciation and amortization	-	-	-	-	-	-	-	-	-	-	-	386,037	-	386,037	386,037
Miscellaneous	224	224	1,134	323	-	174	625	2,256	4,954	37,248	390	295,678	3,332	341,602	344,082
Indirect costs	643,958	643,958	181,405	690,534	501,313	430,272	546,316	2,349,840	202,079	280,690	498,017	(4,126,350)	151,766	(2,993,798)	-
Total expenses	\$ 2,044,429	\$ 2,044,429	\$ 1,183,582	\$ 4,527,082	\$ 2,452,024	\$ 1,776,329	\$ 2,164,378	\$ 12,103,395	\$ 1,103,863	\$ 2,302,914	\$ 1,556,772	\$ 2,993,100	\$ 531,106	\$ 8,487,755	\$ 22,635,579

See notes to consolidated financial statements.

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

Consolidated Statement of Functional Expenses

	Governmental Services		Program Services					Supporting Services					Total Expenses		
	Government Relations	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	Management Consulting and Training	Meetings	Communications	Management and Administration		Total Supporting Services	
<i>Year ended June 30, 2021</i>															
Personnel	\$ 1,311,125	\$ 1,311,125	\$ 458,287	\$ 1,327,634	\$ 1,050,841	\$ 974,290	\$ 1,235,617	\$ 5,046,669	\$ 376,132	\$ 468,457	\$ 1,045,608	\$ 3,678,263	\$ 394,711	\$ 5,963,171	\$ 12,320,965
General office	44,496	44,496	-	223	-	6,334	160	6,717	83	14,791	930	40,565	-	56,369	107,582
Occupancy	-	-	-	-	-	-	-	-	-	-	-	1,395,318	-	1,395,318	1,395,318
Equipment	3,326	3,326	-	504	49,500	-	3,083	53,087	-	3,991	23,112	293,424	-	320,527	376,940
Printing	-	-	-	-	-	-	-	-	-	-	-	10,088	-	10,088	10,088
Telecommunications	-	-	-	-	123	-	-	123	1,459	2,391	-	197,760	-	201,610	201,733
Contractual services	180,000	180,000	73,000	2,354,726	1,102,190	119,567	454,120	4,103,603	5,900	-	34,215	442,330	17,250	499,695	4,783,298
Professional services	5,250	5,250	-	3,284	322	690	1,759	6,055	-	723	-	562,697	-	563,420	574,725
Travel	-	-	3,479	1,385	-	-	105	4,969	40	3,246	-	3,115	-	6,401	11,370
Meetings	-	-	-	12,728	1,250	5,000	19,370	38,348	16,292	145,651	-	93,025	-	254,968	293,316
Depreciation and amortization	-	-	-	-	-	-	-	-	-	-	-	336,219	-	336,219	336,219
Miscellaneous	54	54	-	-	-	78	594	672	1,149	7,590	1,057	43,227	42	53,065	53,791
Indirect costs	933,448	933,448	357,305	1,257,739	869,341	807,408	1,049,352	4,341,145	268,918	326,295	737,476	(6,875,116)	267,834	(5,274,593)	-
Total expenses	\$ 2,477,699	\$ 2,477,699	\$ 892,071	\$ 4,958,223	\$ 3,073,567	\$ 1,913,367	\$ 2,764,160	\$ 13,601,388	\$ 669,973	\$ 973,135	\$ 1,842,398	\$ 220,915	\$ 679,837	\$ 4,386,258	\$ 20,465,345

See notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows

<i>Years ended June 30,</i>	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ (8,525,771)	\$ 11,611,187
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized loss (gain) on investments	10,395,535	(9,604,795)
Loss on disposal of property and equipment	4,180	-
Depreciation and amortization expense	386,037	336,219
Allowance for bad debt	200,000	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable, net	(1,048,279)	12,158
Due from other public interest organizations	-	817,803
Prepaid expenses and other assets	(357,917)	5,035
(Decrease) increase in:		
Accounts payable and accrued expenses	(12,575)	(536,703)
Deferred revenue and other liabilities	1,072,087	1,032,878
Deferred lease benefit	(109,346)	(66,710)
Net cash provided by operating activities	2,003,951	3,607,072
Cash flows from investing activities:		
Purchases of investments	(15,096,649)	(13,877,511)
Proceeds from sales and maturities of investments	9,928,338	13,181,135
Net cash used in investing activities	(5,168,311)	(696,376)
(Decrease) increase in cash and cash equivalents	(3,164,360)	2,910,696
Cash and cash equivalents, beginning of year	12,338,546	9,427,850
Cash and cash equivalents, end of year	\$ 9,174,186	\$ 12,338,546

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 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 accounts receivable.

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, unrealized gains and losses are recorded as investment return 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. The provision for doubtful accounts was \$200,000 and \$0 for the years ended June 30, 2022 and 2021, respectively.

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 \$2,500 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 costs to sell.

Deferred Lease Benefit

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 lease benefit 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.

Revenue Recognition

Revenue Accounted for as Contributions

Foundation Grants and Contributions

Unconditional foundation grants and contributions are recorded as either with or without donor restrictions, depending on the existence and/or nature of any donor restrictions, when a pledge is 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 statements of activities as net assets released from restrictions. Conditional contributions, if any, are recorded when the conditions have been met. There were no conditional contributions as of June 30, 2022 and 2021.

Federal Grants and Contracts

NGA Center receives grants and contracts from various federal agencies for various purposes. Grants awarded by federal agencies are generally considered nonreciprocal transactions restricted by the awarding agency for certain purposes, and revenue is recognized when qualifying expenditures are incurred and conditions under the grant agreements are met. Grant and contract award funds not yet received are accrued to the extent unreimbursed expenses have been incurred for the purposes

National Governors Association and National Governors Association Center for Best Practices

Notes to Consolidated Financial Statements

specified by an approved grant. As of June 30, 2022 and 2021, NGA Center had remaining available award balances on the federal grants and contracts of \$3,486,973 and \$7,506,396, respectively. These award balances are not recognized as assets and will be recognized as revenue as the projects progress and conditions are met, generally as expenses are incurred.

Revenue Accounted for as Contracts

The Organization recognizes revenue when it satisfies a performance obligation by transferring a promised good to, or performing a service for, a customer. The amount of revenue recognized reflects the consideration the Organization expects to receive in exchange for satisfying distinct performance obligations. If a performance obligation does not meet the criteria to be considered distinct, the Organization combines it with other performance obligations until a distinct bundle of goods or services exists. The Organization's management expects that the period between when the Organization transfers goods and services to their customers and when the customers pay for those goods and services will be one year or less. Therefore, the Organization has elected the practical expedient not to adjust the promised amount of consideration for the effect of a significant financing component. Amounts received in advance of services performed, but not yet earned, are held and recorded as deferred revenue. Invoices resulting from the Organization's contracts with customers are generally due within 30 days of the invoice date.

Corporate Partnerships

Corporate partnerships include revenue received from corporations for partnership with the Organization to empower solutions to public policy challenges through collaboration between governors and the private sector. Partners receive benefits such as complementary registrations, name recognition within certain publications/website/apps of the Organization, and other benefits including exclusive access to governors during meetings and conferences held through-out the calendar year. There are several levels of partnership, and benefits vary by level of partnership. Performance obligations are satisfied at the time when services are transferred evenly through-out the calendar year and revenues are recognized over time. Amounts received in advance of services performed, but not yet earned, are held and recorded as deferred revenue.

Membership Dues

Amounts charged by NGA to state governors for the general rights of membership which includes access to resources, services and assistance to governors, governors' spouses and their staff through the complete life-cycle of a governor's term from election day through the final year in office. Member services also include access to private work sessions, professional development opportunities, leadership/management publications, research assistance and other programs. Although NGA does not execute a contract with its members, management considers payment of annual dues, based on prices determined by NGA, to constitute member acceptance of the offered benefits. With the membership benefits described above, the performance obligations are satisfied over the membership period, using the input method, which coincides with the Organization's reporting period and therefore revenues are recognized over time. Membership dues received in advance of services performed, but not yet earned, are held and recorded as deferred revenue.

Registration Fees

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

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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, 2022 and 2021, 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. NGA Center is still open to examination by taxing authorities from year 2019 forward.

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's programs based on their respective percentages of annual salaries and benefits.

Recently Adopted Authoritative Guidance

In September 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets*. This ASU requires a not-for-profit organization to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets and requires additional disclosures related to contributed nonfinancial assets. The Organization adopted this ASU on a retrospective basis and the adoption did not have impact on the consolidated financial statements.

Recent Accounting Authoritative Guidance Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires a lessee to record, for all 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. For leases with a lease term of 12 months or less, a practical expedient is available whereby a lessee may elect, by class of underlying asset, not to recognize a right-of-use asset or lease liability. A lessee making this accounting policy election would recognize lease expense over the term of the lease, generally using the straight-line method. The guidance is effective for the Organization for the fiscal year 2023. Early adoption is permitted. In transition, a lessee and a lessor will recognize and

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measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients. These practical expedients relate to identifying and classifying leases that commenced before the effective date, initial direct costs for leases that commenced before the effective date, and the ability to use hindsight in evaluating lessee options to extend or terminate a lease or to purchase the underlying asset. The Organization is currently evaluating the effect that adoption of this new standard will have on its 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>	2022	2021
<hr/>		
Financial assets, at year-end:		
Cash and cash equivalents	\$ 9,174,186	\$ 12,338,546
Investments	45,152,821	50,380,045
Accounts receivable	3,224,194	2,375,915
<hr/>		
Total financial assets available within one year	57,551,201	65,094,506
Less: Amounts unavailable for general expenditures within one year, due to:		
Net assets with donor restrictions	5,571,319	3,795,972
NGA Center endowment	21,330,911	25,513,969
NGA endowment	17,117,250	20,370,821
<hr/>		
Financial assets available to meet cash needs for general expenditures within one year	\$ 13,531,721	\$ 15,413,744
<hr/>		

The Organization is primarily funded by a combination of foundation and federal grant contracts, member dues and corporate partnerships and other contributions. The Organization maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations that come due.

4. Investments

At June 30, 2022 and 2021, investments consist of the following:

	2022	2021
<hr/>		
Corporate equity securities	\$ 12,206,471	\$ 17,253,497
Exchange traded funds	356,731	494,626
Mutual funds	19,060,117	22,394,329
Corporate debt securities	3,297,497	3,672,999
Government debt securities	4,595,683	1,515,447
Cash	5,636,322	5,049,147
<hr/>		
	\$ 45,152,821	\$ 50,380,045
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Notes to Consolidated Financial Statements

For the years ended June 30, 2022 and 2021, investment return, net consists of the following:

	2022	2021
Realized and unrealized (losses) gains, net	\$ (10,395,535)	\$ 9,604,795
Interest and dividends	1,894,008	917,310
Management fees	(226,278)	(220,935)
	\$ (8,727,805)	\$ 10,301,170

5. Accounts Receivable

At June 30, 2022 and 2021, accounts receivable consist of the following:

	2022	2021
Foundation grants and contributions	\$ 1,195,604	\$ 1,171,267
Federal grants and contracts	2,228,590	1,204,648
	3,424,194	2,375,915
Less: Allowance for doubtful accounts	(200,000)	-
	\$ 3,224,194	\$ 2,375,915

6. Property and Equipment

At June 30, 2022 and 2021, property and equipment consists of the following:

	2022	2021
Computer equipment and software	\$ 1,722,655	\$ 1,762,477
Leasehold improvements	5,150,144	5,150,144
Furniture and equipment	686,541	686,541
	7,559,340	7,599,162
Less: Accumulated depreciation and amortization	(4,129,732)	(3,779,337)
	\$ 3,429,608	\$ 3,819,825

Depreciation and amortization expense charged to operations was \$386,037 and \$336,219 for the years ended June 30, 2022 and 2021, respectively.

7. Lease Commitment

The Organization leases office facilities for NGA and NGA Center from State Services Organization (SSO) under a non-cancelable operating lease agreement that expired on January 2020 and eventually extended to December 2032. As part of the lease extension, SSO provided a tenant improvement allowance in the amount of \$3,933,025, which was the build out costs the Organization

**National Governors Association and
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Notes to Consolidated Financial Statements

incurred. These costs have been included in the consolidated balance sheets as leasehold improvements and are being amortized over the life of the lease. In addition, a deferred lease benefit has been credited for the same amount. The deferred lease benefit is being amortized over the length of the lease term, at the same rate as the amortization of the leasehold improvements. 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, 2022 are as follows:

Years ending June 30,

2023	\$	1,623,363
2024		1,663,947
2025		1,705,546
2026		1,748,184
2027		1,791,889
Thereafter		10,682,535
Total minimum lease payments		\$ 19,215,464

Rental expense was approximately \$1,485,000 and \$1,382,000 for the years ended June 30, 2022 and 2021, respectively.

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 years ended June 30, 2022 and 2021, no earnings from the endowment were spent. For the years ended June 30, 2022 and 2021, NGA Center endowment had net investment return of (\$4,183,058) and \$5,752,673, respectively. For the years ended June 30, 2022 and 2021, NGA endowment had net investment return of (\$3,253,571) and \$4,537,344, respectively.

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Notes to Consolidated Financial Statements

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

	2022	2021
NGA Center endowment	\$ 21,330,911	\$ 25,513,969
NGA endowment	17,117,250	20,370,821
	\$ 38,448,161	\$ 45,884,790

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

	2022	2021
NGA Center Endowment:		
Investments and cash	\$ 21,330,911	\$ 25,513,969
NGA Endowment:		
Investments	17,117,250	20,370,821
Total endowments	\$ 38,448,161	\$ 45,884,790

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, 2021	Additions	Releases	Balance at June 30, 2022
Education division	\$ 542,424	\$ 1,000,000	\$ (466,743)	\$ 1,075,681
Economic, human services and workforce division	2,659,309	3,939,004	(3,201,685)	3,396,628
Health and human services division	153,595	520,000	(245,918)	427,677
Environment, energy and transportation division	23,856	120,000	(143,856)	-
Homeland security and public safety division	352,411	261,010	(256,335)	357,086
Covid-19	64,377	-	(64,377)	-
Chairman initiative	-	718,898	(404,651)	314,247
	\$ 3,795,972	\$ 6,558,912	\$ (4,783,565)	\$ 5,571,319

**National Governors Association and
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Notes to Consolidated Financial Statements

	Balance at June 30, 2020	Additions	Releases	Balance at June 30, 2021
Education division	\$ 329,342	\$ 500,000	\$ (286,918)	\$ 542,424
Economic, human services and workforce division	579,487	4,652,161	(2,572,339)	2,659,309
Health and human services division	-	230,000	(76,405)	153,595
Environment, energy and transportation division	167,274	50,000	(193,418)	23,856
Homeland security and public safety division	903,223	-	(550,812)	352,411
Covid-19	-	600,000	(535,623)	64,377
	\$ 1,979,326	\$ 6,032,161	\$ (4,215,515)	\$ 3,795,972

9. Benefit Plan

NGA participates in a defined contribution 401(a) plan (the Plan) which covers substantially all 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 the Plan of amounts contributed by participants up to 5% of each participant's compensation, plus a discretionary contribution to the Plan of 5% of each participant's compensation. Contributions to the plan were approximately \$628,000 and \$735,000 for the years ended June 30, 2022 and 2021, respectively.

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.

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 Standard 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.

National Governors Association and National Governors Association Center for Best Practices

Notes to Consolidated Financial Statements

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, 2022:

	As of June 30, 2022			Total
	Level 1	Level 2	Level 3	
Fixed income:				
Corporate bonds (a)	\$	- \$ 3,297,497		- \$ 3,297,497
Government securities		- 4,595,683		- 4,595,683
Total fixed income		- 7,893,180		- 7,893,180
Corporate equity securities	12,206,471	-	-	12,206,471
Mutual funds	19,060,117	-	-	19,060,117
Fixed income exchange traded funds	356,731	-	-	356,731
Total assets at fair value	\$ 31,623,319	\$ 7,893,180		- \$ 39,516,499

	As of June 30, 2021			Total
	Level 1	Level 2	Level 3	
Fixed income:				
Corporate bonds (a)	\$	- \$ 3,672,999		- \$ 3,672,999
Government securities		- 1,515,447		- 1,515,447
Total fixed income		- 5,188,446		- 5,188,446
Corporate equity securities	17,253,497	-	-	17,253,497
Mutual funds	22,394,329	-	-	22,394,329
Fixed income exchange traded funds	494,626	-	-	494,626
Total assets at fair value	\$ 40,142,452	\$ 5,188,446		- \$ 45,330,898

(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 tables above include investments reported at fair value as of June 30, 2022 and 2021. Cash and accrued interest of \$5,636,322 and \$5,049,147 at June 30, 2022 and 2021, respectively, are excluded as they are not reported at fair value.

12. Subsequent Events

The Organization has evaluated subsequent events through October 25, 2023, which is the date the consolidated financial statements were available to be issued. There were no events noted that required adjustments to, or disclosure in, these consolidated financial statements.

Supplementary Information

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

Consolidating Balance Sheet

<i>June 30, 2022</i>	National Governors Association	National Governors Association Center for Best Practices	Consolidated Total
Assets			
Cash and cash equivalents	\$ 7,410,636	\$ 1,763,550	\$ 9,174,186
Investments	23,821,910	21,330,911	45,152,821
Accounts receivable, net	2,004	3,222,190	3,224,194
Due (to) from NGAC/NGA	(7,665,426)	7,665,426	-
Prepaid expenses and other assets	592,641	50,770	643,411
Property and equipment, net	3,429,608	-	3,429,608
Total assets	\$ 27,591,373	\$ 34,032,847	\$ 61,624,220
Liabilities and Net Assets			
Liabilities			
Accounts payable and accrued expenses	\$ 1,824,020	\$ 318,883	\$ 2,142,903
Deferred revenue and other liabilities	3,537,402	1,108,423	4,645,825
Deferred lease benefit	3,734,022	-	3,734,022
Total liabilities	9,095,444	1,427,306	10,522,750
Commitments and contingencies			
Net assets			
Without donor restrictions			
Operating funds NGA and NGA Center	1,209,781	5,872,209	7,081,990
NGA Center endowment	-	21,330,911	21,330,911
NGA endowment	17,117,250	-	17,117,250
Total without donor restrictions	18,327,031	27,203,120	45,530,151
With donor restrictions	168,898	5,402,421	5,571,319
Total net assets	18,495,929	32,605,541	51,101,470
Total liabilities and net assets	\$ 27,591,373	\$ 34,032,847	\$ 61,624,220

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

Consolidating Schedule of Activities

<i>Year ended June 30, 2022</i>	National Governors Association	National Governors Association Center for Best Practices	Consolidated Total
Support and revenue:			
Foundation grants and contracts	\$ 178,899	\$ 6,060,102	\$ 6,239,001
Federal grants and contracts	-	3,671,413	3,671,413
Other contributions	166,250	871,753	1,038,003
Member dues	4,731,200	-	4,731,200
Investment return, net	(4,774,881)	(3,952,924)	(8,727,805)
Corporate partnership	5,033,605	1,895,471	6,929,076
Registration fees	142,650	84,394	227,044
Other income	1,470	406	1,876
Total support and revenue	5,479,193	8,630,615	14,109,808
Expenses:			
Governmental Services			
Government relations:			
Salaries and employee benefits	1,252,336	5,325	1,257,661
Other direct costs	786,768	-	786,768
Total	2,039,104	5,325	2,044,429
Program Services			
Education division:			
Salaries and employee benefits	33,131	359,373	392,504
Other direct costs	75,294	715,784	791,078
Total	108,425	1,075,157	1,183,582
Economic development and commerce division:			
Salaries and employee benefits	138,377	1,242,222	1,380,599
Other direct costs	288,280	2,858,203	3,146,483
Total	426,657	4,100,425	4,527,082

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

Consolidating Schedule of Activities

<i>Year ended June 30, 2022</i>	National Governors Association	National Governors Association Center for Best Practices	Consolidated Total
Health and human services division:			
Salaries and employee benefits	111,252	891,034	1,002,286
Other direct costs	133,433	1,316,305	1,449,738
Total	244,685	2,207,339	2,452,024
Environment, energy and transportation division:			
Salaries and employee benefits	41,305	818,948	860,253
Other direct costs	158,494	757,582	916,076
Total	199,799	1,576,530	1,776,329
Homeland security and public safety division:			
Salaries and employee benefits	205,722	886,538	1,092,260
Other direct costs	98,141	973,977	1,072,118
Total	303,863	1,860,515	2,164,378
Supporting Services			
Management consulting and training:			
Salaries and employee benefits	408,925	-	408,925
Other direct costs	694,058	880	694,938
Total	1,102,983	880	1,103,863
Meetings:			
Salaries and employee benefits	558,308	2,884	561,192
Other direct costs	1,740,418	1,304	1,741,722
Total	2,298,726	4,188	2,302,914

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

Consolidating Schedule of Activities

<i>Year ended June 30, 2022</i>	National Governors Association	National Governors Association Center for Best Practices	Consolidated Total
Communications:			
Salaries and employee benefits	995,696	-	995,696
Other direct costs	561,076	-	561,076
Total	1,556,772	-	1,556,772
Management and administration:			
Salaries and employee benefits	2,798,541	558,480	3,357,021
Other direct costs	(465,482)	101,561	(363,921)
Total	2,333,059	660,041	2,993,100
Development:			
Salaries and employee benefits	303,430	-	303,430
Other direct costs	227,676	-	227,676
Total	531,106	-	531,106
Total expenses	\$ 11,145,179	\$ 11,490,400	\$ 22,635,579
Change in net assets	\$ (5,665,986)	\$ (2,859,785)	\$ (8,525,771)
Net assets, at beginning of year	\$ 24,161,915	\$ 35,465,326	\$ 59,627,241
Net assets, at end of year	\$ 18,495,929	\$ 32,605,541	\$ 51,101,470

**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	NGA	With Donor	Total	Operating	Center	With Donor	Total	
	Fund	Endowment	Restrictions		Fund	Endowment	Restrictions		
Balance, June 30, 2020	\$ 1,096,326	\$ 15,833,477	\$ -	\$ 16,929,803	\$ 9,345,629	\$ 19,761,296	\$ 1,979,326	\$ 31,086,251	\$ 48,016,054
Change in net assets	2,694,768	4,537,344	-	7,232,112	(3,190,244)	5,752,673	1,816,646	4,379,075	11,611,187
Balance, June 30, 2021	3,791,094	20,370,821	-	24,161,915	6,155,385	25,513,969	3,795,972	35,465,326	59,627,241
Change in net assets	(2,581,313)	(3,253,571)	168,898	(5,665,986)	(283,176)	(4,183,058)	1,606,449	(2,859,785)	(8,525,771)
Balance, June 30, 2022	\$ 1,209,781	\$ 17,117,250	\$ 168,898	\$ 18,495,929	\$ 5,872,209	\$ 21,330,911	\$ 5,402,421	\$ 32,605,541	\$ 51,101,470