

National Governors Association And National Governors Association Center For Best Practices

Consolidated Financial Report
June 30, 2008

McGladrey & Pullen
Certified Public Accountants

Contents

Independent Auditor's Report On The Financial Statements	1
Financial Statements	
Consolidated Balance Sheets	2
Consolidated Statements Of Activities	3 – 4
Consolidated Statements Of Cash Flows	5
Notes To Consolidated Financial Statements	6 – 13
Independent Auditor's Report On The Supplementary Information	14
Supplementary Information	
Consolidating Balance Sheet	15
Consolidating Statement Of Activities	16 – 18
Consolidating Statement Of Changes In Net Assets	19

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Independent Auditor's Report

The Executive Committee/Board of Directors
National Governors Association and National Governors
Association Center for Best Practices, Inc.
Washington, D.C.

We have audited the accompanying consolidated balance sheets of National Governors Association (NGA) and National Governors Association Center for Best Practices (NGA Center) as of June 30, 2008 and 2007, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of NGA's and NGA Center's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated 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, 2008 and 2007, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 20, 2008, on our consideration of NGA's and NGA Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

McGladrey & Pullen, LLP

Vienna, Virginia
October 20, 2008

National Governors Association And National Governors
Association Center For Best Practices

Consolidated Balance Sheets
June 30, 2008 And 2007

Assets	2008	2007
Equity in Pooled Assets and Cash		
Equity in pooled assets	\$ 16,088,831	\$ 16,032,802
Cash held for temporarily restricted program	3,118,548	6,994,795
	<u>19,207,379</u>	<u>23,027,597</u>
Pooled Assets Held for Others	7,341,906	8,229,412
Investments	17,253,009	18,604,792
Accounts Receivable, net	994,349	481,388
Prepaid Expense	77,976	-
Foundation Grant Promises to Give, net	4,618,995	5,797,984
Property and Equipment, net	737,318	749,642
	<u>\$ 50,230,932</u>	<u>\$ 56,890,815</u>
 Liabilities And Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 1,682,962	\$ 1,960,330
Pooled assets held for others	7,341,906	8,229,412
Deferred revenue	414,999	774,969
Deferred rent	21,029	35,937
	<u>9,460,896</u>	<u>11,000,648</u>
 Commitments and Contingencies (Notes 7 and 11)		
 Net Assets		
Unrestricted:		
Operating funds NGA and the Center	4,476,602	3,973,224
Center endowment	9,376,523	10,233,809
NGA endowment	8,047,418	9,011,269
	<u>21,900,543</u>	<u>23,218,302</u>
 Temporarily restricted net assets	 18,869,493	 22,671,865
	<u>40,770,036</u>	<u>45,890,167</u>
	<u>\$ 50,230,932</u>	<u>\$ 56,890,815</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, 2008

	Unrestricted				Temporarily Restricted	Total
	NGA And Center Operating	Center Endowment	NGA Endowment	Total Unrestricted		
Support and revenue:						
Member dues	\$ 5,525,708	\$ -	\$ -	\$ 5,525,708	\$ -	\$ 5,525,708
Federal grants and contracts	6,235,750	-	-	6,235,750	-	6,235,750
Foundation grants and contracts	-	-	-	-	7,967,085	7,967,085
Corporate fellows and other contributions	1,545,000	12,500	-	1,557,500	455,000	2,012,500
Net gains (losses) on investments	(22,789)	(1,120,834)	(1,122,425)	(2,266,048)	-	(2,266,048)
Interest and dividends	600,176	191,148	158,574	949,898	271,763	1,221,661
Registration fees	554,099	-	-	554,099	-	554,099
Employment/vocational training fees	527,000	-	-	527,000	-	527,000
Administrative service fees	254,796	-	-	254,796	-	254,796
Other income	22,297	-	-	22,297	-	22,297
Net assets released from restrictions	12,496,026	-	-	12,496,026	(12,496,026)	-
Total support and revenue	27,738,063	(917,186)	(963,851)	25,857,026	(3,802,178)	22,054,848
Expenses:						
Program services:						
Economic development and commerce committee	349,205	-	-	349,205	-	349,205
Health and human services committee	374,176	-	-	374,176	-	374,176
Education/early childhood and workforce committee	255,805	-	-	255,805	-	255,805
Natural resources committee	196,047	-	-	196,047	-	196,047
Federal relations	663,041	-	-	663,041	-	663,041
Education division	7,644,596	-	-	7,644,596	-	7,644,596
Social, economic and workforce programs division	2,187,607	-	-	2,187,607	-	2,187,607
Employment and vocational training	485,247	-	-	485,247	-	485,247
Health division	4,598,808	-	-	4,598,808	-	4,598,808
Environment, energy, and natural resources division	1,566,028	-	-	1,566,028	-	1,566,028
Homeland security and technology division	1,442,694	-	-	1,442,694	-	1,442,694
Communications	701,718	-	-	701,718	-	701,718
Management consulting and training	719,809	-	-	719,809	-	719,809
Annual and winter meetings	1,356,038	-	-	1,356,038	-	1,356,038
Other	632,751	-	-	632,751	-	632,751
Total program services	23,173,570	-	-	23,173,570	-	23,173,570
Supporting services:						
Management and administration	3,662,595	-	-	3,662,595	-	3,662,595
Fundraising	338,814	-	-	338,814	-	338,814
Total supporting services	4,001,409	-	-	4,001,409	-	4,001,409
Total expenses	27,174,979	-	-	27,174,979	-	27,174,979
Change in net assets before allocations	563,084	(917,186)	(963,851)	(1,317,953)	(3,802,178)	(5,120,131)
Unrestricted net asset allocations	(59,706)	59,900	-	194	(194)	-
Change in net assets	503,378	(857,286)	(963,851)	(1,317,759)	(3,802,372)	(5,120,131)
Net assets:						
Beginning	3,973,224	10,233,809	9,011,269	23,218,302	22,671,865	45,890,167
Ending	\$ 4,476,602	\$ 9,376,523	\$ 8,047,418	\$ 21,900,543	\$ 18,869,493	\$ 40,770,036

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, 2007

	Unrestricted			Total Unrestricted	Temporarily Restricted	Total
	NGA And Center Operating	Center Endowment	NGA Endowment			
Support and revenue:						
Member dues	\$ 5,313,300	\$ -	\$ -	\$ 5,313,300	\$ -	\$ 5,313,300
Federal grants and contracts	5,449,541	-	-	5,449,541	-	5,449,541
Foundation grants and contracts	-	-	-	-	10,778,385	10,778,385
Corporate fellows and other contributions	1,801,500	-	-	1,801,500	250,000	2,051,500
Net gains (losses) on investments	290,398	1,137,385	1,194,299	2,622,082	75,905	2,697,987
Interest and dividends	450,020	171,422	143,101	764,543	573,596	1,338,139
Registration fees	514,191	-	-	514,191	-	514,191
Employment/vocational training fees	552,300	-	-	552,300	-	552,300
Administrative service fees	257,000	-	-	257,000	-	257,000
Other income	14,389	-	-	14,389	-	14,389
Net assets released from restrictions	20,465,285	-	-	20,465,285	(20,465,285)	-
Total support and revenue	35,107,924	1,308,807	1,337,400	37,754,131	(8,787,399)	28,966,732
Expenses:						
Program services:						
Economic development and commerce committee	278,671	-	-	278,671	-	278,671
Health and human services committee	357,797	-	-	357,797	-	357,797
Education/early childhood and workforce committee	221,388	-	-	221,388	-	221,388
Natural resources committee	241,798	-	-	241,798	-	241,798
Federal relations	690,929	-	-	690,929	-	690,929
Education division	16,154,084	-	-	16,154,084	-	16,154,084
Social, economic and workforce programs division	2,085,571	-	-	2,085,571	-	2,085,571
Employment and vocational training	524,794	-	-	524,794	-	524,794
Health division	3,761,191	-	-	3,761,191	-	3,761,191
Environment, energy, and natural resources division	918,818	-	-	918,818	-	918,818
Homeland security and technology division	1,778,245	-	-	1,778,245	-	1,778,245
Communications	768,707	-	-	768,707	-	768,707
Management consulting and training	894,878	-	-	894,878	-	894,878
Annual and winter meetings	833,096	-	-	833,096	-	833,096
Other	659,897	-	-	659,897	-	659,897
Total program services	30,169,864	-	-	30,169,864	-	30,169,864
Supporting services:						
Management and administration	3,534,152	-	-	3,534,152	-	3,534,152
Fundraising	301,521	-	-	301,521	-	301,521
Total supporting services	3,835,673	-	-	3,835,673	-	3,835,673
Total expenses	34,005,537	-	-	34,005,537	-	34,005,537
Change in net assets before allocations	1,102,387	1,308,807	1,337,400	3,748,594	(8,787,399)	(5,038,805)
Unrestricted net asset allocations	(542,000)	542,000	-	-	-	-
Change in net assets	560,387	1,850,807	1,337,400	3,748,594	(8,787,399)	(5,038,805)
Net assets:						
Beginning	3,412,837	8,383,002	7,673,869	19,469,708	31,459,264	50,928,972
Ending	\$ 3,973,224	\$ 10,233,809	\$ 9,011,269	\$ 23,218,302	\$ 22,671,865	\$ 45,890,167

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, 2008 And 2007

	2008	2007
Cash Flows From Operating Activities		
Change in net assets	\$ (5,120,131)	\$ (5,038,805)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Net realized and unrealized loss (gain) on investments	2,243,114	(2,544,698)
Decrease in allowance for doubtful accounts	(341,900)	(276,150)
Depreciation expense	248,314	249,762
Deferred rent	(14,908)	(39,080)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(171,061)	749,505
Prepaid expense	(77,976)	-
Foundation grant promises to give	1,178,989	10,582,891
Increase (decrease) in:		
Accounts payable and accrued expenses	(277,368)	247,381
Deferred revenue	(359,970)	270,297
Net cash (used in) provided by operating activities	(2,692,897)	4,201,103
Cash Flows From Investing Activities		
Purchases of investments	(1,934,493)	(7,484,355)
Proceeds from sales and maturities of investments	1,043,162	6,846,698
Purchases of property and equipment	(235,990)	(419,802)
Net cash used in investing activities	(1,127,321)	(1,057,459)
Net (decrease) increase in equity in pooled assets and cash	(3,820,218)	3,143,644
Equity In Pooled Assets And Cash		
Beginning	23,027,597	19,883,953
Ending	\$ 19,207,379	\$ 23,027,597

See Notes To Consolidated Financial Statements.

National Governors Association And National Governors
Association Center For Best Practices

Notes To Consolidated Financial Statements

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 Virgin Islands, Guam, American Samoa, the Commonwealth of Puerto Rico, and 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 Chairman and Vice Chairman.

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 and expenses are recognized when incurred.

Basis of presentation: The financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, NGA and NGA Center are required to report information regarding its 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, 2008 and 2007.

Equity in pooled assets: NGA and NGA Center participate, with 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 \$23,430,737 and \$24,262,214 at June 30, 2008 and 2007, respectively.

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 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

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 a professionally managed portfolio that contains corporate debt securities, U.S. government securities, and equity securities. Such investments are exposed to various risks such as market 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 financial statements.

Investments: Investments in equity securities with readily determinable fair values and all investments in debt securities are reflected at fair market value. To adjust the carrying values of these securities, the unrealized gains and losses are recorded as investment income in the consolidated statement of activities.

Receivables: Receivables 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 when received. The provision for doubtful accounts was \$1,349,900 and \$1,691,800 at June 30, 2008 and 2007, respectively.

Foundation grant promises to give: Unconditional foundation grant promises to give are recognized as revenue 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 when received. The provision for doubtful promises to give was \$200,000 at June 30, 2008 and 2007.

Property and equipment: Property and equipment purchases are capitalized 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: NGA and NGA Center account for the valuation of long-lived assets under SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 requires that long-lived assets and certain identifiable intangible assets be 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.

National Governors Association And National Governors
Association Center For Best Practices

Notes To Consolidated Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Support and revenue: 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. 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 statements of activities as net assets released from restrictions. Private grants are generally recognized as contributions. Conditional contributions are recorded when the conditions have been met.

NGA Center also 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 deferred and recognized ratably over the period of related membership.

Functional allocation of expenses: The costs of providing various programs and support activities have been summarized on a functional basis in the 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, 2008 and 2007, since NGA Center had no unrelated business income.

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

Recent and upcoming accounting pronouncements: In July 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). FIN 48 prescribes a minimum threshold for financial statement recognition of the benefit of a tax position taken or expected to be taken by a filer in the filer's tax return. FIN 48 will become effective for the fiscal years beginning after December 15, 2007. NGA and NGA Center are in the process of determining the impact of FIN 48 on its financial statements.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("FAS 157"). This standard defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurement. FAS 157 also emphasizes that fair value is a market based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under FAS 157, fair value measurements are disclosed by level within that hierarchy. FAS 157 is effective for fiscal years beginning after November 15, 2007, except for non-financial assets and non-financial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis for which delayed application is permitted until fiscal years beginning after November 15, 2008. NGA and NGA Center are in the process of determining the impact of FAS 157 on its financial statements.

National Governors Association And National Governors
Association Center For Best Practices

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, 2008 and 2007, NGA and NGA Center's equity in pooled assets consists of the following:

	2008	2007
Corporate debt securities	\$ 2,465,480	\$ 2,267,277
Government debt securities	2,149,583	5,231,906
Mutual funds	15,687,182	11,769,733
Cash	3,055,766	1,775,903
Money market funds	11,536	3,147,422
Accrued interest	61,190	69,973
	<u>23,430,737</u>	<u>24,262,214</u>
Less pooled assets held for others	<u>(7,341,906)</u>	<u>(8,229,412)</u>
	<u>\$ 16,088,831</u>	<u>\$ 16,032,802</u>

For the years ended June 30, 2008 and 2007, net investment income earned by NGA and NGA Center on equity in pooled assets consists of the following:

	2008	2007
Interest and dividends	\$ 590,550	\$ 450,020
Net realized/unrealized (loss) gain	<u>(22,933)</u>	<u>290,398</u>
	<u>\$ 567,617</u>	<u>\$ 740,418</u>

Investment revenue allocated to other participating public interest organizations, and therefore not recognized in the consolidated statements of activities, was \$299,155 and \$323,322 for the years ended June 30, 2008 and 2007, respectively.

Investment income from pooled assets is reported as net of investment management fees, which were approximately \$67,500 and \$65,900 for 2008 and 2007, respectively.

Note 3. Investments

At June 30, 2008 and 2007, investments consist of the following:

	2008	2007
Corporate equity securities	\$ 11,716,429	\$ 13,246,850
Government debt securities	2,711,663	2,938,771
Corporate debt securities	2,296,615	1,551,870
Money market funds	528,302	867,301
	<u>\$ 17,253,009</u>	<u>\$ 18,604,792</u>

National Governors Association And National Governors
Association Center For Best Practices

Notes To Consolidated Financial Statements

Note 3. Investments (Continued)

For the years ended June 30, 2008 and 2007, investment income consists of the following:

	2008	2007
Net realized and unrealized (loss) gain	\$ (2,243,114)	\$ 2,544,698
Interest and dividends	500,455	888,119
Management fees	(151,101)	(137,109)
	<u>\$ (1,893,760)</u>	<u>\$ 3,295,708</u>

Note 4. Accounts Receivable

At June 30, 2008 and 2007, accounts receivable consist of the following:

	2008	2007
State dues	\$ 1,349,900	\$ 1,691,800
Grants and contracts	963,043	475,823
Other	31,306	5,565
	<u>2,344,249</u>	<u>2,173,188</u>
Less allowance for doubtful accounts	(1,349,900)	(1,691,800)
	<u>\$ 994,349</u>	<u>\$ 481,388</u>

Note 5. Foundation Grant Promises To Give

Foundation grant promises to give are recorded as revenue when received. Promises to give for which payment is not due within one year are discounted using a 3% and 5% discount rate at June 30, 2008 and 2007, respectively, which is the approximate rate of return on pooled assets.

At June 30, 2008 and 2007, foundation grant promises to give are as follows:

	2008	2007
Receivable in one year or less	\$ 3,144,676	\$ 5,683,640
Receivable in one to five years	1,741,050	332,500
	<u>4,885,726</u>	<u>6,016,140</u>
Less discount to present value	(66,731)	(18,156)
Less allowance for doubtful accounts	(200,000)	(200,000)
	<u>\$ 4,618,995</u>	<u>\$ 5,797,984</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, 2008 and 2007, and depreciation expense for the years then ended, are as follows:

Asset Category	Estimated Lives	2008			
		Cost	Accumulated Depreciation	Net	Depreciation Expense
Leasehold improvements	Various	\$ 757,040	\$ 314,292	\$ 442,748	\$ 79,342
Computer equipment	3 years	838,062	650,446	187,616	124,779
Furniture and equipment	5 years	563,858	456,904	106,954	44,193
		<u>\$ 2,158,960</u>	<u>\$ 1,421,642</u>	<u>\$ 737,318</u>	<u>\$ 248,314</u>

Asset Category	Estimated Lives	2007			
		Cost	Accumulated Depreciation	Net	Depreciation Expense
Leasehold improvements	Various	\$ 735,997	\$ 237,101	\$ 498,896	\$ 42,842
Computer equipment	3 years	978,369	871,920	106,449	142,262
Furniture and equipment	5 years	557,007	412,710	144,297	64,658
		<u>\$ 2,271,373</u>	<u>\$ 1,521,731</u>	<u>\$ 749,642</u>	<u>\$ 249,762</u>

Note 7. Lease Commitment

Office facilities for NGA and NGA Center are leased from State Services Organization (SSO), a related party, under a noncancelable operating lease agreement that expires in January 2014. 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, 2008, are as follows:

Years ending June 30,	
2009	\$ 989,920
2010	1,009,719
2011	1,029,913
2012	1,050,511
2013	1,071,669
2014	632,401
	<u>\$ 5,784,133</u>

Rental expense was approximately \$1,084,200 and \$1,001,400 for the years ended June 30, 2008 and 2007, respectively.

National Governors Association And National Governors
Association Center For Best Practices

Notes To Consolidated Financial Statements

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 represents unrestricted funds related to royalties previously received from the selling of ingots and medals. The Executive Committee of NGA has designated that interest earned on the NGA endowment fund may be allocated to support the operations of NGA and NGA Center. NGA Center's Board of Directors has designated that funds raised for NGA Center through the Corporate Fellows program be used to support the general operations of NGA Center. In addition, interest earned from board designated 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.

Temporarily restricted: At June 30, temporarily restricted net assets consist of foundation and corporate contributions, and are available for the following purposes:

	Balance At June 30, 2007	Additions	Releases	Balance At June 30, 2008
Education division	\$ 16,290,114	\$ 4,755,352	\$ (7,725,113)	\$ 13,320,353
Social, economic and workforce programs division	2,361,629	2,300,574	(1,817,469)	2,844,734
Health division	3,497,175	683,605	(2,654,436)	1,526,344
Environment, energy, and natural resources division	257,947	499,123	(49,008)	708,062
Homeland security and technology division	15,000	-	-	15,000
Corporate Fellows	250,000	455,000	(250,000)	455,000
	<u>\$ 22,671,865</u>	<u>\$ 8,693,654</u>	<u>\$ (12,496,026)</u>	<u>\$ 18,869,493</u>

	Balance At June 30, 2006	Additions/ Transfers	Releases	Balance At June 30, 2007
Education division	\$ 25,168,110	\$ 7,318,285	\$ (16,196,281)	\$ 16,290,114
Social, economic and workforce programs division	1,693,211	2,490,650	(1,822,232)	2,361,629
Health division	4,046,000	1,525,351	(2,074,176)	3,497,175
Environment, energy, and natural resources division	521,943	78,600	(342,596)	257,947
Homeland security and technology division	-	15,000	-	15,000
Corporate Fellows	30,000	250,000	(30,000)	250,000
	<u>\$ 31,459,264</u>	<u>\$ 11,677,886</u>	<u>\$ (20,465,285)</u>	<u>\$ 22,671,865</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 fee. Fees for such services amounted to \$254,800 and \$257,000 for the years ended June 30, 2008 and 2007, respectively.

National Governors Association And National Governors
Association Center For Best Practices

Notes To Consolidated Financial Statements

Note 10. Benefit Plan

NGA participates in a defined contribution 457 plan (the Plan) which covers substantially all its employees. Participants may elect to have up to the IRS 457 limit of their compensation contributed on a pre-tax basis to the Plan. NGA makes a matching contribution of amounts contributed by participants up to 5% of each participant's compensation, and an annual contribution to the Plan of 5% of each participant's compensation.

Pension costs approximated \$650,700 and \$604,500 for the years ended June 30, 2008 and 2007, respectively.

Note 11. Commitments

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, there exists a contingent liability for potential questioned costs that may result from such an audit. Management does not anticipate any significant adjustments as a result of such an audit.

NGA has contracted for hotel space for its 2009 and 2010 meetings. In the event NGA cancels or reduces its contracted room nights, NGA may be liable for cancellation fees and liquidating damages for rooms that the hotel will not be able to resell.

McGladrey & Pullen

Certified Public Accountants

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
Washington, D.C.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating balance sheet, statement of activities and statement of changes in net assets which follow are presented for purposes of additional analysis of the basic consolidated financial statements, rather than to present the financial position and changes in net assets of the individual entities. Such information has been subjected to auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated basic financial statements taken as a whole.

McGladrey & Pullen, LLP

Vienna, Virginia
October 20, 2008

National Governors Association And National Governors
Association Center For Best Practices

Consolidating Balance Sheet
June 30, 2008

	National Governors Association	National Governors Association Center for Best Practices	Consolidated Totals
Assets			
Equity in Pooled Assets	\$ 4,370,737	\$ 11,718,094	\$ 16,088,831
Cash Held for Temporarily Restricted Program	-	3,118,548	3,118,548
	4,370,737	14,836,642	19,207,379
Pooled Assets Held for Others	7,341,906	-	7,341,906
Investments	8,044,089	9,208,920	17,253,009
Prepaid Expenses	77,976	-	77,976
Accounts Receivable, net	11,811	982,538	994,349
Foundation Grant Promises to Give, net	-	4,618,995	4,618,995
Property and Equipment, net	737,318	-	737,318
	<u>\$ 20,583,837</u>	<u>\$ 29,647,095</u>	<u>\$ 50,230,932</u>
Liabilities And Net Assets			
Current Liabilities			
Accounts payable and accrued expenses	\$ 1,043,519	\$ 639,443	\$ 1,682,962
Pooled assets held for others	7,341,906	-	7,341,906
Deferred revenue	376,856	38,143	414,999
Deferred rent benefit	21,029	-	21,029
	<u>8,783,310</u>	<u>677,586</u>	<u>9,460,896</u>
Net Assets			
Unrestricted:			
Operating funds NGA and the Center	3,753,109	723,493	4,476,602
Center endowment	-	9,376,523	9,376,523
NGA endowment	8,047,418	-	8,047,418
Temporarily restricted net assets	-	18,869,493	18,869,493
	<u>11,800,527</u>	<u>28,969,509</u>	<u>40,770,036</u>
	<u>\$ 20,583,837</u>	<u>\$ 29,647,095</u>	<u>\$ 50,230,932</u>

National Governors Association And National Governors
Association Center For Best Practices

Consolidating Statement Of Activities
Year Ended June 30, 2008

	National Governors Association	National Governors Association Center for Best Practices	Consolidated Totals
Revenue:			
Member dues	\$ 5,525,708	\$ -	\$ 5,525,708
Federal grants and contracts	-	6,235,750	6,235,750
Foundation grants and contracts	-	7,967,085	7,967,085
Corporate fellows and other contributions	-	2,012,500	2,012,500
Net losses on investments	(1,109,458)	(1,156,590)	(2,266,048)
Interest and dividends	392,558	829,103	1,221,661
Registration fees	425,592	128,507	554,099
Employment/vocational training fees	-	527,000	527,000
Administrative service fees	83,096	171,700	254,796
Other income	17,362	4,935	22,297
Total revenue	5,334,858	16,719,990	22,054,848
Expenses:			
Economic development and commerce committee:			
Salaries and employee benefits	286,144	-	286,144
Other direct costs	63,061	-	63,061
	349,205	-	349,205
Health and human services committee:			
Salaries and employee benefits	306,167	-	306,167
Other direct costs	68,009	-	68,009
	374,176	-	374,176
Education/early childhood and workforce committee:			
Salaries and employee benefits	203,527	-	203,527
Other direct costs	52,278	-	52,278
	255,805	-	255,805
Natural resources committee:			
Salaries and employee benefits	159,346	-	159,346
Other direct costs	36,701	-	36,701
	196,047	-	196,047
Federal relations:			
Salaries and employee benefits	514,970	-	514,970
Other direct costs	148,071	-	148,071
	663,041	-	663,041

(Continued)

National Governors Association And National Governors
Association Center For Best Practices

Consolidating Statement Of Activities (Continued)
Year Ended June 30, 2008

	National Governors Association	National Governors Association Center for Best Practices	Consolidated Totals
Education division:			
Salaries and employee benefits	\$ -	\$ 1,169,905	\$ 1,169,905
Other direct costs	-	6,474,691	6,474,691
	-	7,644,596	7,644,596
Social, economic, and workforce programs division:			
Salaries and employee benefits	-	904,843	904,843
Other direct costs	-	1,282,764	1,282,764
	-	2,187,607	2,187,607
Employment and vocational training:			
Salaries and employee benefits	-	246,057	246,057
Other direct costs	-	239,190	239,190
	-	485,247	485,247
Health division:			
Salaries and employee benefits	-	1,113,271	1,113,271
Other direct costs	-	3,485,537	3,485,537
	-	4,598,808	4,598,808
Environment, energy, and natural resources division:			
Salaries and employee benefits	-	730,489	730,489
Other direct costs	-	835,539	835,539
	-	1,566,028	1,566,028
Homeland security and technology division:			
Salaries and employee benefits	-	435,208	435,208
Other direct costs	-	1,007,486	1,007,486
	-	1,442,694	1,442,694
Communications:			
Salaries and employee benefits	282,291	147,870	430,161
Other direct costs	244,467	27,090	271,557
	526,758	174,960	701,718
Management consulting and training:			
Salaries and employee benefits	545,655	-	545,655
Other direct costs	174,154	-	174,154
	719,809	-	719,809
Annual and winter meetings:			
Salaries and employee benefits	237,708	-	237,708
Other direct costs	1,118,330	-	1,118,330
	1,356,038	-	1,356,038

(Continued)

National Governors Association And National Governors
Association Center For Best Practices

Consolidating Statement Of Activities (Continued)
Year Ended June 30, 2008

	National Governors Association	National Governors Association Center for Best Practices	Consolidated Totals
Other cost centers:			
Salaries and employee benefits	\$ 8,784	\$ 31,267	\$ 40,051
Other direct costs	347,573	245,127	592,700
	<u>356,357</u>	<u>276,394</u>	<u>632,751</u>
Management and administration:			
Salaries and employee benefits	776,770	1,867,376	2,644,146
Other direct costs	485,223	533,226	1,018,449
	<u>1,261,993</u>	<u>2,400,602</u>	<u>3,662,595</u>
Fundraising:			
Salaries and employee benefits	-	216,553	216,553
Other direct costs	-	122,261	122,261
	<u>-</u>	<u>338,814</u>	<u>338,814</u>
Total expenses	<u>6,059,229</u>	<u>21,115,750</u>	<u>27,174,979</u>
Change in net assets before allocation	(724,371)	(4,395,760)	(5,120,131)
Unrestricted net asset allocations	263,900	(263,900)	-
Change in net assets	<u>(460,471)</u>	<u>(4,659,660)</u>	<u>(5,120,131)</u>
Net assets:			
Beginning	12,260,998	33,629,169	45,890,167
Ending	<u>\$ 11,800,527</u>	<u>\$ 28,969,509</u>	<u>\$ 40,770,036</u>

National Governors Association And National Governors
Association Center For Best Practices

Consolidating Statement Of Changes In Net Assets
Years Ended June 30, 2008 and 2007

	National Governors Association			National Governors Association Center For Best Practices				Consolidated Total
	Operating Fund	NGA Endowment	Total	Operating Fund	Center Endowment	Temporarily Restricted	Total	
Balance, June 30, 2006	\$ 2,691,050	\$ 7,673,869	\$ 10,364,919	\$ 721,787	\$ 8,383,002	\$ 31,459,264	\$ 40,564,053	\$ 50,928,972
Change in net assets before transfers	254,848	1,337,400	1,592,248	847,539	1,308,807	(8,787,399)	(6,631,053)	(5,038,805)
Unrestricted net asset allocations	303,831	-	303,831	(845,831)	542,000	-	(303,831)	-
Change in net assets	558,679	1,337,400	1,896,079	1,708	1,850,807	(8,787,399)	(6,934,884)	(5,038,805)
Balance, June 30, 2007	3,249,729	9,011,269	12,260,998	723,495	10,233,809	22,671,865	33,629,169	45,890,167
Change in net assets before transfers	239,480	(963,851)	(724,371)	323,604	(917,186)	(3,802,178)	(4,395,760)	(5,120,131)
Unrestricted net asset allocations	263,900	-	263,900	(323,606)	59,900	(194)	(263,900)	-
Change in net assets	503,380	(963,851)	(460,471)	(2)	(857,286)	(3,802,372)	(4,659,660)	(5,120,131)
Balance, June 30, 2008	\$ 3,753,109	\$ 8,047,418	\$ 11,800,527	\$ 723,493	\$ 9,376,523	\$ 18,869,493	\$ 28,969,509	\$ 40,770,036