

National Governors Association And National Governors Association Center For Best Practices

Consolidated Financial Report
June 30, 2009

McGladrey & Pullen
Certified Public Accountants

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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
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, 2009 and 2008, 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, 2009 and 2008, 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 reports dated October 15, 2009, and 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 these reports 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. These reports are 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 15, 2009

National Governors Association And National Governors
Association Center For Best Practices

Consolidated Balance Sheets
June 30, 2009 And 2008

Assets	2009	2008
Equity In Pooled Assets And Cash		
Equity in pooled assets	\$ 15,378,783	\$ 16,088,831
Cash held for temporarily restricted program	-	3,118,548
	<u>15,378,783</u>	<u>19,207,379</u>
Pooled Assets Held For Others	7,657,581	7,341,906
Investments	14,360,627	17,253,009
Accounts Receivable, net	871,634	994,349
Prepaid Expense	2,312	77,976
Foundation Grant Promises To Give, net	2,896,250	4,618,995
Property And Equipment, net	644,023	737,318
	<u>\$ 41,811,210</u>	<u>\$ 50,230,932</u>
 Liabilities And Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 1,235,455	\$ 1,682,962
Pooled assets held for others	7,657,581	7,341,906
Deferred revenue	791,703	414,999
Deferred rent	227,968	21,029
	<u>9,912,707</u>	<u>9,460,896</u>
 Commitments And Contingencies (Notes 7 And 11)		
 Net Assets		
Unrestricted:		
Operating funds NGA and NGA Center	4,836,079	4,476,602
NGA Center endowment	8,207,666	9,376,523
NGA endowment	6,519,532	8,047,418
	<u>19,563,277</u>	<u>21,900,543</u>
 Temporarily restricted net assets	 12,335,226	 18,869,493
	<u>31,898,503</u>	<u>40,770,036</u>
	<u>\$ 41,811,210</u>	<u>\$ 50,230,932</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, 2009

	Unrestricted			Total Unrestricted	Temporarily Restricted	Total
	NGA And Center Operating	Center Endowment	NGA Endowment			
Support and revenue:						
Member dues	\$ 5,525,708	\$ -	\$ -	\$ 5,525,708	\$ -	\$ 5,525,708
Federal grants and contracts	4,953,926	-	-	4,953,926	-	4,953,926
Foundation grants and contracts	2,500	-	-	2,500	2,859,864	2,862,364
Corporate fellows and other contributions	1,867,500	-	-	1,867,500	545,000	2,412,500
Net (losses) gains on investments	(237,934)	(1,581,707)	(1,655,980)	(3,475,621)	129,348	(3,346,273)
Interest and dividends	533,641	109,395	128,094	771,130	149,256	920,386
Employment/vocational training fees	505,850	-	-	505,850	-	505,850
Registration fees	447,253	-	-	447,253	-	447,253
Administrative service fees	171,800	-	-	171,800	-	171,800
Other income	22,496	-	-	22,496	-	22,496
Net assets released from restrictions	10,217,735	-	-	10,217,735	(10,217,735)	-
Total support and revenue	24,010,475	(1,472,312)	(1,527,886)	21,010,277	(6,534,267)	14,476,010
Expenses:						
Program services:						
Economic development and commerce committee	348,195	-	-	348,195	-	348,195
Health and human services committee	479,202	-	-	479,202	-	479,202
Education/early childhood and workforce committee	342,221	-	-	342,221	-	342,221
Natural resources committee	334,195	-	-	334,195	-	334,195
Federal relations	605,164	-	-	605,164	-	605,164
Education division	6,388,466	-	-	6,388,466	-	6,388,466
Social, economic and workforce programs division	2,051,601	-	-	2,051,601	-	2,051,601
Employment and vocational training	476,181	-	-	476,181	-	476,181
Health division	2,421,497	-	-	2,421,497	-	2,421,497
Environment, energy, and natural resources division	1,876,792	-	-	1,876,792	-	1,876,792
Homeland security and technology division	806,572	-	-	806,572	-	806,572
Communications	617,157	-	-	617,157	-	617,157
Management consulting and training	804,103	-	-	804,103	-	804,103
Annual, winter, and other meetings	1,049,618	-	-	1,049,618	-	1,049,618
Other	350,001	-	-	350,001	-	350,001
Total program services	18,950,965	-	-	18,950,965	-	18,950,965
Supporting services:						
Management and administration	4,015,265	-	-	4,015,265	-	4,015,265
Fundraising	381,313	-	-	381,313	-	381,313
Total supporting services	4,396,578	-	-	4,396,578	-	4,396,578
Total expenses	23,347,543	-	-	23,347,543	-	23,347,543
Change in net assets before allocations	662,932	(1,472,312)	(1,527,886)	(2,337,266)	(6,534,267)	(8,871,533)
Unrestricted net asset allocations	(303,455)	303,455	-	-	-	-
Change in net assets	359,477	(1,168,857)	(1,527,886)	(2,337,266)	(6,534,267)	(8,871,533)
Net assets:						
Beginning	4,476,602	9,376,523	8,047,418	21,900,543	18,869,493	40,770,036
Ending	\$ 4,836,079	\$ 8,207,666	\$ 6,519,532	\$ 19,563,277	\$ 12,335,226	\$ 31,898,503

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			Total Unrestricted	Temporarily Restricted	Total
	NGA And Center Operating	Center Endowment	NGA Endowment			
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
Employment/vocational training fees	527,000	-	-	527,000	-	527,000
Registration fees	554,099	-	-	554,099	-	554,099
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 Statements Of Cash Flows
Years Ended June 30, 2009 And 2008

	2009	2008
Cash Flows From Operating Activities		
Change in net assets	\$ (8,871,533)	\$ (5,120,131)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized loss on investments	3,193,037	2,243,114
(Decrease) in allowance for doubtful accounts	(93,300)	(341,900)
Depreciation expense	190,802	248,314
Deferred rent	206,939	(14,908)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	216,015	(171,061)
Prepaid expense	75,664	(77,976)
Foundation grant promises to give	1,722,745	1,178,989
Increase (decrease) in:		
Accounts payable and accrued expenses	(447,507)	(277,368)
Deferred revenue	376,704	(359,970)
Net cash used in operating activities	(3,430,434)	(2,692,897)
Cash Flows From Investing Activities		
Purchases of investments	(12,013,307)	(1,934,493)
Proceeds from sales and maturities of investments	11,712,652	1,043,162
Purchases of property and equipment	(97,507)	(235,990)
Net cash used in investing activities	(398,162)	(1,127,321)
Net decrease in equity in pooled assets and cash	(3,828,596)	(3,820,218)
Equity In Pooled Assets And Cash		
Beginning	19,207,379	23,027,597
Ending	\$ 15,378,783	\$ 19,207,379

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, 2009 and 2008.

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 \$23,036,364 and \$23,430,737 at June 30, 2009 and 2008, 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 \$1,256,600 and \$1,349,900 at June 30, 2009 and 2008, 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, 2009 and 2008.

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, 2009 and 2008, since NGA Center had no unrelated business income.

Use of 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 (FIN 48), *Accounting for Uncertainty in Income Taxes* – an interpretation of FASB Statement 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. If there are changes in net assets as a result of the application of FIN 48, these will be accounted for as an adjustment to the opening balance of net assets. Additional disclosures about the amounts of such liabilities will be required also. NGA and NGA Center presently discloses or recognizes income tax positions based on management's estimate of whether it is reasonably possible or probable, respectively, that a liability has been incurred for unrecognized income tax benefits by applying FASB Statement No. 5, *Accounting for Contingencies*. NGA and NGA Center has elected to defer the application of Interpretation 48 in accordance with FASB Staff Position FIN 48-3. This FSP defers the effective date of Interpretation 48 for nonpublic enterprises included within its scope to the annual financial statements for fiscal years beginning after December 15, 2008. NGA and NGA Center will be required to adopt FIN 48 for its 2010 annual financial statements. NGA and NGA Center is in the process of determining the impact of FIN 48 on its financial statements.

National Governors Association And National Governors
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Notes To Consolidated Financial Statements

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

Subsequent events: NGA and NGA Center evaluated subsequent events for potential required disclosures through October 15, 2009, which is the date the financial statements were available to be issued.

Note 2. Equity In Pooled Assets

NGA and NGA Center participate in a common pool of cash and investments. At June 30, 2009 and 2008, NGA and NGA Center's equity in pooled assets consists of the following:

	2009	2008
Mutual funds	\$ 17,196,009	\$ 15,687,182
Corporate debt securities	1,891,279	2,465,480
Government debt securities	1,602,244	2,149,583
Cash	1,529,512	3,055,766
Money market funds	768,154	11,536
Accrued interest	49,166	61,190
	<u>23,036,364</u>	<u>23,430,737</u>
Less pooled assets held for others	<u>(7,657,581)</u>	<u>(7,341,906)</u>
	<u>\$ 15,378,783</u>	<u>\$ 16,088,831</u>

For the years ended June 30, 2009 and 2008, net investment income earned by NGA and NGA Center on equity in pooled assets consists of the following:

	2009	2008
Interest and dividends	\$ 619,751	\$ 590,550
Net realized/unrealized loss	(153,241)	(22,933)
	<u>\$ 466,510</u>	<u>\$ 567,617</u>

Investment revenue allocated to other participating public interest organizations, and therefore not recognized in the consolidated statements of activities, was \$187,601 and \$299,155 for the years ended June 30, 2009 and 2008, respectively.

Investment income from pooled assets is reported as net of investment management fees, which were approximately \$79,700 and \$67,500 for 2009 and 2008, respectively.

National Governors Association And National Governors
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Notes To Consolidated Financial Statements

Note 3. Investments

At June 30, 2009 and 2008, investments consist of the following:

	2009	2008
Corporate equity securities	\$ 9,210,041	\$ 11,716,429
Government debt securities	2,591,100	2,711,663
Corporate debt securities	2,035,143	2,296,615
Money market funds	398,533	528,302
International debt securities	125,810	-
	<u>\$ 14,360,627</u>	<u>\$ 17,253,009</u>

For the years ended June 30, 2009 and 2008, investment income consists of the following:

	2009	2008
Net realized and unrealized loss	\$ (3,193,037)	\$ (2,243,114)
Interest and dividends	419,970	500,455
Management fees	(119,336)	(151,101)
	<u>\$ (2,892,403)</u>	<u>\$ (1,893,760)</u>

Note 4. Accounts Receivable

At June 30, 2009 and 2008, accounts receivable consist of the following:

	2009	2008
State dues	\$ 1,256,600	\$ 1,349,900
Grants and contracts	649,569	963,043
Tenant improvement allowance	215,530	-
Other	6,535	31,306
	<u>2,128,234</u>	<u>2,344,249</u>
Less allowance for doubtful accounts	<u>(1,256,600)</u>	<u>(1,349,900)</u>
	<u>\$ 871,634</u>	<u>\$ 994,349</u>

Note 5. Foundation Grant Promises To Give

Foundation grant promises to give are recorded as revenue when received. At June 30, 2009 and 2008, foundation grant promises to give are as follows:

	2009	2008
Receivable in one year or less	\$ 2,810,385	\$ 3,144,676
Receivable in one to five years	285,865	1,741,050
	<u>3,096,250</u>	<u>4,885,726</u>
Less discount to present value	-	(66,731)
Less allowance for doubtful accounts	<u>(200,000)</u>	<u>(200,000)</u>
	<u>\$ 2,896,250</u>	<u>\$ 4,618,995</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, 2009 and 2008, and depreciation expense for the years then ended, are as follows:

Asset Category	Estimated Lives	2009			
		Cost	Accumulated Depreciation	Net	Depreciation Expense
Leasehold improvements	Various	\$ 764,850	\$ 394,567	\$ 370,283	\$ 80,275
Computer equipment	3 years	834,734	647,824	186,910	89,359
Furniture and equipment	5 years	558,735	471,905	86,830	21,168
		<u>\$ 2,158,319</u>	<u>\$ 1,514,296</u>	<u>\$ 644,023</u>	<u>\$ 190,802</u>

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>

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, 2009, are as follows:

Years ending June 30,	
2010	\$ 1,009,719
2011	1,029,913
2012	1,050,511
2013	1,071,669
2014	632,401
	<u>\$ 4,794,213</u>

Rental expense was approximately \$1,164,200 and \$1,084,200 for the years ended June 30, 2009 and 2008, 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.

In August 2008, FASB issued FASB Staff Position (FSP) No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. FSP No. FAS 117-1 addresses accounting issues related to guidelines in the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), which was adopted by the National Conferences of Commissioners on Uniform State Laws in July 2006. NGA and NGA Center has adopted FSP No. FAS 117-1 for the year ended June 30, 2009.

Management has interpreted UPMIFA as requiring the preservation of the fair value of board designated net assets. In accordance with UPMIFA, NGA and NGA Center considers the following factors in making a determination to appropriate board restricted net assets:

- The purposes of NGA and NGA Center's endowment funds
- The duration and preservation of the funds
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other available financial resources
- Investment policies

Endowment funds are invested to provide for a total return consisting of growth, and dividend and interest income. Endowment funds are invested in a portfolio consisting of a mix of equity securities, mutual funds, bonds, and cash equivalents, which may reflect varying rates of return.

NGA and NGA Center's endowment funds consist of the following at June 30, 2009:

	Unrestricted
NGA Center endowment	\$ 8,207,666
NGA endowment	6,519,532
	<u>\$ 14,727,198</u>

The NGA Center endowment net assets consist of the following at June 30, 2009:

Investments	\$ 7,844,391
Equity in pooled assets	363,275
	<u>\$ 8,207,666</u>

National Governors Association And National Governors
Association Center For Best Practices

Notes To Consolidated Financial Statements

Note 8. Net Assets (Continued)

The NGA endowment net assets consist of the following at June 30, 2009:

Investments	\$ 6,516,235
Equity in pooled assets	3,297
	<u>\$ 6,519,532</u>

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, 2008	Additions	Releases	Balance At June 30, 2009
Education division	\$ 13,320,353	\$ 1,863,205	\$ (6,551,021)	\$ 8,632,537
Social, economic and workforce programs division	2,844,734	505,443	(1,697,187)	1,652,990
Health division	1,526,344	784,820	(1,122,898)	1,188,266
Environment, energy, and natural resources division	708,062	-	(391,629)	316,433
Homeland security and technology division	15,000	(15,000)	-	-
Corporate Fellows	455,000	545,000	(455,000)	545,000
	<u>\$ 18,869,493</u>	<u>\$ 3,683,468</u>	<u>\$ (10,217,735)</u>	<u>\$ 12,335,226</u>

	Balance At June 30, 2007	Additions/ Transfers	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>

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 \$171,800 and \$254,800 for the years ended June 30, 2009 and 2008, respectively.

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 \$699,000 and \$650,700 for the years ended June 30, 2009 and 2008, respectively.

National Governors Association And National Governors
Association Center For Best Practices

Notes To Consolidated Financial Statements

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 2010 and 2011 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.

Note 12. Fair Value Measurements

Effective July 1, 2007, NGA and NGA Center adopted SFAS No. 157, *Fair Value Measurements*, issued by FASB. SFAS No. 157 defines fair value of 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 lowest priority to unobservable inputs (Level 3). Inputs are broadly defined under SFAS No. 157 as assumptions market participants would use in pricing as asset or liability. The three levels of the fair value hierarchy under SFAS No. 157 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 that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, NGA and NGA Center performs a detailed analysis of the assets and liabilities that are subject to SFAS 157. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

The following table represents NGA and NGA Center's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis at June 30, 2009:

	As of June 30, 2009			Total
	Quoted Prices in Active Markets For Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	
Mutual funds	\$ 17,196,009	\$ -	\$ -	\$ 17,196,009
Corporate equity securities	9,210,041	-	-	9,210,041
Money market funds	1,166,687	-	-	1,166,687
Government debt securities	-	4,193,344	-	4,193,344
Corporate debt securities	-	3,926,422	-	3,926,422
International debt securities	-	125,810	-	125,810
	<u>\$ 27,572,737</u>	<u>\$ 8,245,576</u>	<u>\$ -</u>	<u>\$ 35,818,313</u>

National Governors Association And National Governors
Association Center For Best Practices

Notes To Consolidated Financial Statements

Note 12. Fair Value Measurements (Continued)

Mutual funds, money market funds, and corporate equity securities included in Level 1 securities are actively traded and fair market values for identical assets are readily obtainable.

Government debt securities, corporate debt securities, and international debt securities included in Level 2 securities are not actively traded and fair market values for similar assets are readily obtainable.

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 information which follows is 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 15, 2009

National Governors Association And National Governors
Association Center For Best Practices

Consolidating Balance Sheet
June 30, 2009

	National Governors Association	National Governors Association Center for Best Practices	Consolidated Totals
Assets			
Equity In Pooled Assets	\$ 4,927,458	\$ 10,451,325	\$ 15,378,783
Pooled Assets Held For Others	7,657,581	-	7,657,581
Investments	6,516,236	7,844,391	14,360,627
Accounts Receivable, net	218,148	653,486	871,634
Prepaid Expenses	-	2,312	2,312
Foundation Grant Promises To Give, net	-	2,896,250	2,896,250
Property And Equipment, net	644,023	-	644,023
	<u>\$ 19,963,446</u>	<u>\$ 21,847,764</u>	<u>\$ 41,811,210</u>

Liabilities And Net Assets

Liabilities			
Accounts payable and accrued expenses	\$ 881,177	\$ 354,278	\$ 1,235,455
Pooled assets held for others	7,657,581	-	7,657,581
Deferred revenue	767,888	23,815	791,703
Deferred rent benefit	227,968	-	227,968
	<u>9,534,614</u>	<u>378,093</u>	<u>9,912,707</u>

Net Assets

Unrestricted:

Operating funds NGA and NGA Center	3,909,300	926,779	4,836,079
NGA Center endowment	-	8,207,666	8,207,666
NGA endowment	6,519,532	-	6,519,532
Temporarily restricted net assets	-	12,335,226	12,335,226
	<u>10,428,832</u>	<u>21,469,671</u>	<u>31,898,503</u>
	<u>\$ 19,963,446</u>	<u>\$ 21,847,764</u>	<u>\$ 41,811,210</u>

National Governors Association And National Governors
Association Center For Best Practices

Consolidating Statement Of Activities
Year Ended June 30, 2009

	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	-	4,953,926	4,953,926
Foundation grants and contracts	-	2,862,364	2,862,364
Corporate fellows and other contributions	-	2,412,500	2,412,500
Net losses on investments	(1,769,790)	(1,576,483)	(3,346,273)
Interest and dividends	334,329	586,057	920,386
Employment/vocational training fees	-	505,850	505,850
Registration fees	368,570	78,683	447,253
Administrative service fees	59,699	112,101	171,800
Other income	14,548	7,948	22,496
Total revenue	4,533,064	9,942,946	14,476,010
Expenses:			
Economic development and commerce committee:			
Salaries and employee benefits	280,801	-	280,801
Other direct costs	67,394	-	67,394
	348,195	-	348,195
Health and human services committee:			
Salaries and employee benefits	395,274	-	395,274
Other direct costs	83,928	-	83,928
	479,202	-	479,202
Education/early childhood and workforce committee:			
Salaries and employee benefits	278,959	-	278,959
Other direct costs	63,262	-	63,262
	342,221	-	342,221
Natural resources committee:			
Salaries and employee benefits	276,397	-	276,397
Other direct costs	57,798	-	57,798
	334,195	-	334,195
Federal relations:			
Salaries and employee benefits	470,667	-	470,667
Other direct costs	134,497	-	134,497
	605,164	-	605,164

(Continued)

National Governors Association And National Governors
Association Center For Best Practices

Consolidating Statement Of Activities (Continued)
Year Ended June 30, 2009

	National Governors Association	National Governors Association Center for Best Practices	Consolidated Totals
Education division:			
Salaries and employee benefits	\$ -	\$ 1,263,883	\$ 1,263,883
Other direct costs	-	5,124,583	5,124,583
	-	6,388,466	6,388,466
Social, economic, and workforce programs division:			
Salaries and employee benefits	-	970,918	970,918
Other direct costs	-	1,080,683	1,080,683
	-	2,051,601	2,051,601
Employment and vocational training:			
Salaries and employee benefits	-	165,746	165,746
Other direct costs	-	310,435	310,435
	-	476,181	476,181
Health division:			
Salaries and employee benefits	-	950,635	950,635
Other direct costs	-	1,470,862	1,470,862
	-	2,421,497	2,421,497
Environment, energy, and natural resources division:			
Salaries and employee benefits	-	747,607	747,607
Other direct costs	-	1,129,185	1,129,185
	-	1,876,792	1,876,792
Homeland security and technology division:			
Salaries and employee benefits	-	446,382	446,382
Other direct costs	-	360,190	360,190
	-	806,572	806,572
Communications:			
Salaries and employee benefits	280,993	108,086	389,079
Other direct costs	207,162	20,916	228,078
	488,155	129,002	617,157
Management consulting and training:			
Salaries and employee benefits	459,412	-	459,412
Other direct costs	344,691	-	344,691
	804,103	-	804,103
Annual, winter, and other meetings:			
Salaries and employee benefits	321,353	-	321,353
Other direct costs	728,265	-	728,265
	1,049,618	-	1,049,618

(Continued)

National Governors Association And National Governors
Association Center For Best Practices

Consolidating Statement Of Activities (Continued)
Year Ended June 30, 2009

	National Governors Association	National Governors Association Center for Best Practices	Consolidated Totals
Other cost centers:			
Salaries and employee benefits	\$ 11,315	\$ 30,524	\$ 41,839
Other direct costs	230,472	77,690	308,162
	<u>241,787</u>	<u>108,214</u>	<u>350,001</u>
Management and administration:			
Salaries and employee benefits	892,796	1,964,299	2,857,095
Other direct costs	586,848	571,322	1,158,170
	<u>1,479,644</u>	<u>2,535,621</u>	<u>4,015,265</u>
Fundraising:			
Salaries and employee benefits	-	239,570	239,570
Other direct costs	-	141,743	141,743
	<u>-</u>	<u>381,313</u>	<u>381,313</u>
Total expenses	<u>6,172,284</u>	<u>17,175,259</u>	<u>23,347,543</u>
Change in net assets before allocation	(1,639,220)	(7,232,313)	(8,871,533)
Unrestricted net asset allocations	<u>267,525</u>	<u>(267,525)</u>	<u>-</u>
Change in net assets	(1,371,695)	(7,499,838)	(8,871,533)
Net assets:			
Beginning	11,800,527	28,969,509	40,770,036
Ending	<u>\$ 10,428,832</u>	<u>\$ 21,469,671</u>	<u>\$ 31,898,503</u>

National Governors Association And National Governors
Association Center For Best Practices

Consolidating Statement Of Changes In Net Assets
Years Ended June 30, 2009 And 2008

	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, 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
Change in net assets before transfers	(111,334)	(1,527,886)	(1,639,220)	774,266	(1,472,312)	(6,534,267)	(7,232,313)	(8,871,533)
Unrestricted net asset allocations	267,525	-	267,525	(570,980)	303,455	-	(267,525)	-
Change in net assets	156,191	(1,527,886)	(1,371,695)	203,286	(1,168,857)	(6,534,267)	(7,499,838)	(8,871,533)
Balance, June 30, 2009	\$ 3,909,300	\$ 6,519,532	\$ 10,428,832	\$ 926,779	\$ 8,207,666	\$ 12,335,226	\$ 21,469,671	\$ 31,898,503