

National Governors Association And National Governors Association Center For Best Practices

Consolidated Financial Report
June 30, 2010

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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, 2010 and 2009, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NGA and NGA Center's internal control over financial reporting. Accordingly, we express no such opinion. 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, 2010 and 2009, 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 6, 2010, and October 15, 2009, 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 6, 2010

National Governors Association And National Governors
Association Center For Best Practices

Consolidated Balance Sheets
June 30, 2010 And 2009

Assets	2010	2009
Equity In Pooled Assets	\$ 14,563,560	\$ 15,378,783
Pooled Assets Held For Others	6,750,595	7,657,581
Investments	16,390,065	14,360,627
Accounts Receivable, net	700,691	871,634
Prepaid Expense	76,288	2,312
Foundation Grant Promises To Give, net	2,146,999	2,896,250
Property And Equipment, net	728,176	644,023
	\$ 41,356,374	\$ 41,811,210
Liabilities And Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 1,654,118	\$ 1,235,455
Pooled assets held for others	6,750,595	7,657,581
Deferred revenue	633,685	791,703
Deferred rent	214,551	227,968
	9,252,949	9,912,707
Commitments And Contingencies (Notes 7 And 11)		
Net Assets		
Unrestricted		
Operating funds NGA and NGA Center	5,896,388	4,836,079
NGA Center endowment	9,375,140	8,207,666
NGA endowment	7,270,424	6,519,532
	22,541,952	19,563,277
Temporarily restricted net assets	9,561,473	12,335,226
	32,103,425	31,898,503
	\$ 41,356,374	\$ 41,811,210

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, 2010

	Unrestricted				Temporarily Restricted	Total
	NGA And NGA Center Operating	NGA Center Endowment	NGA Endowment	Total Unrestricted		
Support and revenue:						
Member dues	\$ 5,525,700	\$ -	\$ -	\$ 5,525,700	\$ -	\$ 5,525,700
Federal grants and contracts	5,433,946	-	-	5,433,946	-	5,433,946
Foundation grants and contracts		-	-	-	4,505,053	4,505,053
Corporate fellows and other contributions	1,775,000	-	-	1,775,000	1,148,530	2,923,530
Net gains on investments	256,161	719,421	608,370	1,583,952	86,890	1,670,842
Interest and dividends	331,233	188,987	145,818	666,038	84,042	750,080
Employment/vocational training fees	440,500	-	-	440,500	-	440,500
Registration fees	438,135	-	-	438,135	-	438,135
Administrative service fees	117,800	-	-	117,800	-	117,800
Other income	288,219	-	-	288,219	-	288,219
Net assets released from restrictions	8,598,268	-	-	8,598,268	(8,598,268)	-
Total support and revenue	23,204,962	908,408	754,188	24,867,558	(2,773,753)	22,093,805
Expenses:						
Program services:						
Economic development and commerce committee	293,957	-	-	293,957	-	293,957
Health and human services committee	456,681	-	-	456,681	-	456,681
Education/early childhood and workforce committee	311,629	-	-	311,629	-	311,629
Natural resources committee	329,605	-	-	329,605	-	329,605
Federal relations	667,986	-	-	667,986	-	667,986
Education division	4,478,930	-	-	4,478,930	-	4,478,930
Economic, human services and workforce division	2,398,858	-	-	2,398,858	-	2,398,858
Workforce development technical assistance program	437,173	-	-	437,173	-	437,173
Health division	2,864,711	-	-	2,864,711	-	2,864,711
Environment, energy, and transportation division	1,355,800	-	-	1,355,800	-	1,355,800
Homeland security and public safety division	1,172,233	-	-	1,172,233	-	1,172,233
Communications	564,919	-	-	564,919	-	564,919
Management consulting and training	563,736	-	-	563,736	-	563,736
Meetings	934,091	-	-	934,091	-	934,091
Other	312,459	-	-	312,459	-	312,459
Total program services	17,142,768	-	-	17,142,768	-	17,142,768
Supporting services:						
Management and administration	4,348,976	-	-	4,348,976	-	4,348,976
Fundraising	397,139	-	-	397,139	-	397,139
Total supporting services	4,746,115	-	-	4,746,115	-	4,746,115
Total expenses	21,888,883	-	-	21,888,883	-	21,888,883
Change in net assets before allocations	1,316,079	908,408	754,188	2,978,675	(2,773,753)	204,922
Unrestricted net asset allocations	(255,770)	259,066	(3,296)	-	-	-
Change in net assets	1,060,309	1,167,474	750,892	2,978,675	(2,773,753)	204,922
Net assets:						
Beginning	4,836,079	8,207,666	6,519,532	19,563,277	12,335,226	31,898,503
Ending	\$ 5,896,388	\$ 9,375,140	\$ 7,270,424	\$ 22,541,952	\$ 9,561,473	\$ 32,103,425

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 gains (losses) 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 and winter 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 Statements Of Cash Flows
Years Ended June 30, 2010 And 2009

	2010	2009
Cash Flows From Operating Activities		
Change in net assets	\$ 204,922	\$ (8,871,533)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized (gain) loss on investments	(1,325,063)	3,193,037
Increase (decrease) in allowance for doubtful accounts	729,006	(93,300)
Depreciation expense	216,046	190,802
Deferred rent	(13,417)	206,939
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(558,063)	216,015
Prepaid expense	(73,976)	75,664
Foundation grant promises to give	749,251	1,722,745
Increase (decrease) in:		
Accounts payable and accrued expenses	418,663	(447,507)
Deferred revenue	(158,018)	376,704
Net cash provided by (used in) operating activities	189,351	(3,430,434)
Cash Flows From Investing Activities		
Purchases of investments	(12,318,275)	(12,013,307)
Proceeds from sales and maturities of investments	11,613,900	11,712,652
Purchases of property and equipment	(300,199)	(97,507)
Net cash used in investing activities	(1,004,574)	(398,162)
Net (decrease) in equity in pooled assets	(815,223)	(3,828,596)
Equity In Pooled Assets		
Beginning	15,378,783	19,207,379
Ending	\$ 14,563,560	\$ 15,378,783

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 U.S. 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: NGA and NGA Center reports 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, 2010 and 2009.

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 \$21,314,155 and \$23,036,364 at June 30, 2010 and 2009, 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.

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.

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)

NGA and NGA Center invest in a professionally managed portfolio that contains corporate debt securities, U.S. Government debt securities, mutual funds, money market funds 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 statements 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 \$1,985,606 and \$1,256,600 at June 30, 2010 and 2009, 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, 2010 and 2009.

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 by reviewing such assets 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.

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.

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)

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 related membership period.

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, 2010 and 2009, since NGA Center had no unrelated business income.

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 financial statements. Actual results could differ from these estimates.

Recently adopted accounting pronouncements: On July 1, 2009, NGA Center adopted the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, NGA Center may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods.

Management has evaluated NGA Center's tax positions and has concluded that NGA Center has taken no uncertain tax positions that require disclosure. NGA Center files information returns in the U.S. federal and District of Columbia jurisdictions. With few exceptions, NGA Center is no longer subject to U.S. federal or state and local income tax examinations by tax authorities for years before 2007.

As an instrumentality of a governmental unit, NGA is not subject to federal or state income tax and thus is not required to adopt this accounting pronouncement.

Subsequent events: NGA and NGA Center evaluated subsequent events for potential required disclosures through October 6, 2010, which is the date the consolidated financial statements were available to be issued.

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, 2010 and 2009, NGA and NGA Center's equity in pooled assets consists of the following:

	2010	2009
Mutual funds	\$ 14,204,976	\$ 17,196,009
Money market funds	2,819,318	768,154
Cash	1,685,950	1,529,512
Government debt securities	1,605,172	1,602,244
Corporate debt securities	952,275	1,891,279
Accrued interest	46,464	49,166
	<u>21,314,155</u>	<u>23,036,364</u>
Less pooled assets held for others	<u>(6,750,595)</u>	<u>(7,657,581)</u>
	<u>\$ 14,563,560</u>	<u>\$ 15,378,783</u>

For the years ended June 30, 2010 and 2009, net investment income earned by NGA and NGA Center on equity in pooled assets consists of the following:

	2010	2009
Interest and dividends	\$ 418,945	\$ 619,751
Net realized and unrealized gain (loss)	345,779	(153,241)
	<u>\$ 764,724</u>	<u>\$ 466,510</u>

Investment revenue allocated to other participating public interest organizations, and therefore not recognized in the consolidated statements of activities, was \$348,167 and \$187,601 for the years ended June 30, 2010 and 2009, respectively.

Investment income from pooled assets is reported as net of investment management fees, which were approximately \$62,900 and \$79,700 for 2010 and 2009, respectively.

Note 3. Investments

At June 30, 2010 and 2009, investments consist of the following:

	2010	2009
Corporate equity securities	\$ 7,362,454	\$ 9,210,041
Mutual Funds	4,046,587	-
Government debt securities	2,886,425	2,591,100
Corporate debt securities	1,587,676	2,035,143
Money market funds	386,163	398,533
International debt securities	120,760	125,810
	<u>\$ 16,390,065</u>	<u>\$ 14,360,627</u>

National Governors Association And National Governors
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Notes To Consolidated Financial Statements

Note 3. Investments (Continued)

For the years ended June 30, 2010 and 2009, investment income consists of the following:

	2010	2009
Net realized and unrealized gain(loss)	\$ 1,325,063	\$ (3,193,037)
Interest and dividends	419,037	419,970
Management fees	(87,902)	(119,336)
	<u>\$ 1,656,198</u>	<u>\$ (2,892,403)</u>

Note 4. Accounts Receivable

At June 30, 2010 and 2009, accounts receivable consist of the following:

	2010	2009
State dues	\$ 1,985,606	\$ 1,256,600
Grants and contracts	665,007	649,569
Tenant improvement allowance	12,587	215,530
Other	23,097	6,535
	<u>2,686,297</u>	<u>2,128,234</u>
Less allowance for doubtful accounts	(1,985,606)	(1,256,600)
	<u>\$ 700,691</u>	<u>\$ 871,634</u>

Note 5. Foundation Grant Promises To Give

Foundation grant promises to give are recorded as revenue when received. At June 30, 2010 and 2009, foundation grant promises to give are as follows:

	2010	2009
Receivable in one year or less	\$ 1,803,799	\$ 2,810,385
Receivable in one to five years	543,200	285,865
	<u>2,346,999</u>	<u>3,096,250</u>
Less allowance for doubtful accounts	(200,000)	(200,000)
	<u>\$ 2,146,999</u>	<u>\$ 2,896,250</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, 2010 and 2009, and depreciation expense for the years then ended, are as follows:

Asset Category	Estimated Lives	2010			
		Cost	Accumulated Depreciation	Net	Depreciation Expense
Leasehold improvements	Various	\$ 965,986	\$ 483,275	\$ 482,711	\$ 88,708
Computer equipment	3 years	926,960	747,924	179,036	106,937
Furniture and equipment	5 years	558,735	492,306	66,429	20,401
		<u>\$ 2,451,681</u>	<u>\$ 1,723,505</u>	<u>\$ 728,176</u>	<u>\$ 216,046</u>

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>

Note 7. Lease Commitment

Office facilities for NGA and NGA Center are leased from State Services Organization (SSO), a related party, under a non-cancelable 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, 2010, are as follows:

Years Ending June 30,	
2011	\$ 1,029,913
2012	1,050,511
2013	1,071,669
2014	632,401
	<u>\$ 3,784,494</u>

Rental expense was approximately \$1,204,600 and \$1,164,200 for the years ended June 30, 2010 and 2009, 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.

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. Spending of earnings of the endowment is at the Board of Directors' discretion. For the years ended June 30, 2010 and 2009, no earnings from the endowments were spent.

NGA and NGA Center's endowment funds consist of the following at June 30, 2010 and 2009:

	2010	2009
NGA Center endowment	\$ 9,375,140	\$ 8,207,666
NGA endowment	7,270,424	6,519,532
	<u>\$ 16,645,564</u>	<u>\$ 14,727,198</u>

The NGA Center endowment and NGA endowment net assets consist of the following at June 30, 2010 and 2009:

	2010	2009
NGA Center Endowment:		
Investments	\$ 9,119,635	\$ 7,844,391
Equity in pooled assets	255,505	363,275
	<u>9,375,140</u>	<u>8,207,666</u>
NGA Endowment:		
Investments	7,270,424	6,516,236
Equity in pooled assets	-	3,296
	<u>7,270,424</u>	<u>6,519,532</u>
Total Endowments	<u>\$ 16,645,564</u>	<u>\$ 14,727,198</u>

National Governors Association And National Governors
Association Center For Best Practices

Notes To Consolidated Financial Statements

Note 8. Net Assets (Continued)

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

	Balance At June 30, 2009	Additions	Releases	Balance At June 30, 2010
Education division	\$ 8,632,537	\$ 3,040,002	\$ (4,834,733)	\$ 6,837,806
Economic, human services and workforce division	1,652,990	757,159	(1,573,664)	836,485
Health division	1,188,266	780,144	(1,251,179)	717,231
Environment, energy, and transportation division	316,433	400,000	(368,812)	347,621
Homeland security and public safety division	-	152,210	(24,880)	127,330
Corporate Fellows	545,000	500,000	(545,000)	500,000
Seminar for New Governors	-	195,000	-	195,000
	<u>\$ 12,335,226</u>	<u>\$ 5,824,515</u>	<u>\$ (8,598,268)</u>	<u>\$ 9,561,473</u>

	Balance At June 30, 2008	Additions/ Transfers	Releases	Balance At June 30, 2009
Education division	\$ 13,320,353	\$ 1,863,205	\$ (6,551,021)	\$ 8,632,537
Economic, human services and workforce 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 transportation division	708,062	-	(391,629)	316,433
Homeland security and public safety 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>

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 \$117,800 and \$171,800 for the years ended June 30, 2010 and 2009, 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 \$701,900 and \$699,000 for the years ended June 30, 2010 and 2009, 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 2011 and 2012 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

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market-based inputs or unobservable inputs 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 perform a detailed analysis of the assets and liabilities that are subject to fair value measurement. 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, 2010 and 2009:

	As of June 30, 2010			
	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Mutual funds	\$ 18,251,563	\$ -	\$ -	\$ 18,251,563
Corporate equity securities	7,362,454	-	-	7,362,454
Government debt securities	-	4,491,597	-	4,491,597
Money market funds	-	3,205,481	-	3,205,481
Corporate debt securities	-	2,539,951	-	2,539,951
International debt securities	-	120,760	-	120,760
	<u>\$ 25,614,017</u>	<u>\$ 10,357,789</u>	<u>\$ -</u>	<u>\$ 35,971,806</u>

National Governors Association And National Governors
Association Center For Best Practices

Notes To Consolidated Financial Statements

Note 12. Fair Value Measurements (Continued)

	As of June 30, 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
Government debt securities	-	4,193,344	-	4,193,344
Corporate debt securities	-	3,926,422	-	3,926,422
Money market funds	-	1,166,687	-	1,166,687
International debt securities	-	125,810	-	125,810
	<u>\$ 26,406,050</u>	<u>\$ 9,412,263</u>	<u>\$ -</u>	<u>\$ 35,818,313</u>

Mutual 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, money market funds, 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.



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 basic consolidated financial statements taken as a whole.

McGladrey & Pullen, LLP

Vienna, Virginia
October 6, 2010

National Governors Association And National Governors
Association Center For Best Practices

Consolidating Balance Sheet
June 30, 2010

Assets	National Governors Association	National Governors Association Center for Best Practices	Consolidated Totals
Equity In Pooled Assets	\$ 5,548,156	\$ 9,015,404	\$ 14,563,560
Pooled Assets Held For Others	6,750,595	-	6,750,595
Investments	7,270,426	9,119,639	16,390,065
Accounts Receivable, net	14,308	686,383	700,691
Prepaid Expenses	60,681	15,607	76,288
Foundation Grant Promises To Give, net	-	2,146,999	2,146,999
Property And Equipment, net	728,176	-	728,176
	<u>\$ 20,372,342</u>	<u>\$ 20,984,032</u>	<u>\$ 41,356,374</u>
Liabilities And Net Assets			
Liabilities			
Accounts payable and accrued expenses	\$ 757,968	\$ 896,150	\$ 1,654,118
Pooled assets held for others	6,750,595	-	6,750,595
Deferred revenue	609,985	23,700	633,685
Deferred rent benefit	214,551	-	214,551
	<u>8,333,099</u>	<u>919,850</u>	<u>9,252,949</u>
Net Assets			
Unrestricted			
Operating funds NGA and NGA Center	4,573,819	1,322,569	5,896,388
NGA Center endowment	-	9,375,140	9,375,140
NGA endowment	7,270,424	-	7,270,424
Temporarily restricted net assets	195,000	9,366,473	9,561,473
	<u>12,039,243</u>	<u>20,064,182</u>	<u>32,103,425</u>
	<u>\$ 20,372,342</u>	<u>\$ 20,984,032</u>	<u>\$ 41,356,374</u>

National Governors Association And National Governors
Association Center For Best Practices

Consolidating Statement Of Activities
Year Ended June 30, 2010

	National Governors Association	National Governors Association Center for Best Practices	Consolidated Totals
Revenue:			
Member dues	\$ 5,525,700	\$ -	\$ 5,525,700
Federal grants and contracts	-	5,433,946	5,433,946
Foundation grants and contracts	-	4,505,053	4,505,053
Corporate fellows and other contributions	195,000	2,728,530	2,923,530
Net gains on investments	742,916	927,926	1,670,842
Interest and dividends	301,995	448,085	750,080
Employment/vocational training fees	-	440,500	440,500
Registration fees	330,265	107,870	438,135
Administrative service fees	39,746	78,054	117,800
Other income	55,296	232,923	288,219
Total revenue	7,190,918	14,902,887	22,093,805
Expenses:			
Economic development and commerce committee:			
Salaries and employee benefits	243,911	-	243,911
Other direct costs	50,046	-	50,046
	293,957	-	293,957
Health and human services committee:			
Salaries and employee benefits	378,624	-	378,624
Other direct costs	78,057	-	78,057
	456,681	-	456,681
Education/early childhood and workforce committee:			
Salaries and employee benefits	257,343	-	257,343
Other direct costs	54,286	-	54,286
	311,629	-	311,629
Natural resources committee:			
Salaries and employee benefits	274,337	-	274,337
Other direct costs	55,268	-	55,268
	329,605	-	329,605
Federal relations:			
Salaries and employee benefits	505,481	-	505,481
Other direct costs	162,505	-	162,505
	667,986	-	667,986

(Continued)

National Governors Association And National Governors
Association Center For Best Practices

Consolidating Statement Of Activities (Continued)
Year Ended June 30, 2010

	National Governors Association	National Governors Association Center for Best Practices	Consolidated Totals
Education division:			
Salaries and employee benefits	\$ -	\$ 1,328,968	\$ 1,328,968
Other direct costs	-	3,149,962	3,149,962
	-	4,478,930	4,478,930
Economic, human services and workforce division:			
Salaries and employee benefits	-	889,658	889,658
Other direct costs	-	1,509,200	1,509,200
	-	2,398,858	2,398,858
Workforce development technical assistance program:			
Salaries and employee benefits	-	171,046	171,046
Other direct costs	-	266,127	266,127
	-	437,173	437,173
Health division:			
Salaries and employee benefits	-	991,330	991,330
Other direct costs	-	1,873,381	1,873,381
	-	2,864,711	2,864,711
Environment, energy, and transportation division:			
Salaries and employee benefits	-	524,185	524,185
Other direct costs	-	831,615	831,615
	-	1,355,800	1,355,800
Homeland security and public safety division:			
Salaries and employee benefits	-	394,758	394,758
Other direct costs	-	777,475	777,475
	-	1,172,233	1,172,233
Communications:			
Salaries and employee benefits	229,483	187,251	416,734
Other direct costs	110,788	37,397	148,185
	340,271	224,648	564,919
Management consulting and training:			
Salaries and employee benefits	348,405	-	348,405
Other direct costs	215,331	-	215,331
	563,736	-	563,736
Meetings:			
Salaries and employee benefits	324,212	-	324,212
Other direct costs	609,879	-	609,879
	934,091	-	934,091

(Continued)

National Governors Association And National Governors
Association Center For Best Practices

Consolidating Statement Of Activities (Continued)
Year Ended June 30, 2010

	National Governors Association	National Governors Association Center for Best Practices	Consolidated Totals
Other program costs:			
Salaries and employee benefits	\$ -	\$ 42,086	\$ 42,086
Other direct costs	179,069	91,304	270,373
	<u>179,069</u>	<u>133,390</u>	<u>312,459</u>
Management and administration:			
Salaries and employee benefits	862,127	1,957,028	2,819,155
Other direct costs	973,005	556,816	1,529,821
	<u>1,835,132</u>	<u>2,513,844</u>	<u>4,348,976</u>
Fundraising:			
Salaries and employee benefits	-	237,651	237,651
Other direct costs	-	159,488	159,488
	<u>-</u>	<u>397,139</u>	<u>397,139</u>
Total expenses	<u>5,912,157</u>	<u>15,976,726</u>	<u>21,888,883</u>
Change in net assets before allocation	1,278,761	(1,073,839)	204,922
Unrestricted net asset allocations	<u>331,650</u>	<u>(331,650)</u>	<u>-</u>
Change in net assets	1,610,411	(1,405,489)	204,922
Net assets:			
Beginning	<u>10,428,832</u>	<u>21,469,671</u>	<u>31,898,503</u>
Ending	<u>\$ 12,039,243</u>	<u>\$ 20,064,182</u>	<u>\$ 32,103,425</u>

National Governors Association And National Governors
Association Center For Best Practices

Consolidating Statements Of Changes In Net Assets
Years Ended June 30, 2010 And 2009

	National Governors Association				National Governors Association Center For Best Practices				Consolidated Total
	Operating Fund	NGA Endowment	Temporarily Restricted	Total	Operating Fund	Center Endowment	Temporarily Restricted	Total	
Balance, June 30, 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
Change in net assets before transfers	329,573	754,188	195,000	1,278,761	986,506	908,408	(2,968,753)	(1,073,839)	204,922
Unrestricted net asset allocations	334,946	(3,296)	-	331,650	(590,716)	259,066	-	(331,650)	-
Change in net assets	664,519	750,892	195,000	1,610,411	395,790	1,167,474	(2,968,753)	(1,405,489)	204,922
Balance, June 30, 2010	\$4,573,819	\$7,270,424	\$195,000	\$12,039,243	\$1,322,569	\$ 9,375,140	\$ 9,366,473	\$20,064,182	\$32,103,425