AUDITED FINANCIAL STATEMENTS

NATIONAL ASSOCIATION FOR THE EDUCATION OF YOUNG CHILDREN

For the year ended August 31, 2014
with summarized financial information for the year ended August 31, 2013
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INDEPENDENT AUDITOR’S REPORT

To the Governing Board
National Association for the Education of Young Children
Washington, DC

Report on the Financial Statements
We have audited the accompanying financial statements of the National Association for the Education of Young Children, which comprise the statement of financial position as of August 31, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

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

Auditor’s Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.
Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Association for the Education of Young Children as of August 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information
We have previously audited the National Association for the Education of Young Children’s August 31, 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 31, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

HeimLantz, PC
Alexandria, VA

January 12, 2015
## NATIONAL ASSOCIATION FOR THE EDUCATION OF YOUNG CHILDREN
### STATEMENT OF FINANCIAL POSITION
#### AUGUST 31, 2014
**WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED AUGUST 31, 2013**

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 4,340,326</td>
<td>$ 6,059,180</td>
</tr>
<tr>
<td>Investments</td>
<td>11,484,500</td>
<td>8,718,021</td>
</tr>
<tr>
<td>Accounts and other receivables, net of allowance for doubtful accounts of $194,636 and $251,405, in 2014 and 2013, respectively</td>
<td>597,398</td>
<td>729,470</td>
</tr>
<tr>
<td>Grants receivable</td>
<td>405,504</td>
<td>145,000</td>
</tr>
<tr>
<td>Inventory</td>
<td>663,713</td>
<td>695,417</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>393,446</td>
<td>569,740</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td><strong>17,884,887</strong></td>
<td><strong>16,916,828</strong></td>
</tr>
<tr>
<td><strong>Non-Current Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property and equipment, net of accumulated depreciation and amortization of $7,751,887 and $7,006,100 in 2014 and 2013, respectively</td>
<td>19,953,808</td>
<td>19,883,361</td>
</tr>
<tr>
<td>Deferred lease asset</td>
<td>195,768</td>
<td>141,522</td>
</tr>
<tr>
<td><strong>Total Non-Current Assets</strong></td>
<td><strong>20,149,576</strong></td>
<td><strong>20,024,883</strong></td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>38,034,463</strong></td>
<td><strong>36,941,711</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LIABILITIES AND NET ASSETS</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds payable, current portion</td>
<td>$ 330,000</td>
<td>$ 320,000</td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>844,374</td>
<td>1,215,984</td>
</tr>
<tr>
<td>Accrued annual leave</td>
<td>679,682</td>
<td>573,001</td>
</tr>
<tr>
<td>Deferred revenue:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Membership dues</td>
<td>1,414,560</td>
<td>1,665,796</td>
</tr>
<tr>
<td>Accreditation fees</td>
<td>316,975</td>
<td>220,573</td>
</tr>
<tr>
<td>Conference</td>
<td>1,058,191</td>
<td>974,967</td>
</tr>
<tr>
<td>Other</td>
<td>110,240</td>
<td>197,417</td>
</tr>
<tr>
<td>Due to affiliates</td>
<td>261,096</td>
<td>184,408</td>
</tr>
<tr>
<td>Refundable advances</td>
<td>424,426</td>
<td>592,991</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>5,439,544</td>
<td>5,945,137</td>
</tr>
<tr>
<td><strong>Long-Term Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds payable, net of current portion</td>
<td>12,760,000</td>
<td>13,090,000</td>
</tr>
<tr>
<td>Interest rate swap obligation</td>
<td>3,812,235</td>
<td>3,400,141</td>
</tr>
<tr>
<td>Deposits payable</td>
<td>56,277</td>
<td>56,277</td>
</tr>
<tr>
<td>Total long-term liabilities</td>
<td>16,628,512</td>
<td>16,546,418</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>22,068,056</strong></td>
<td><strong>22,491,555</strong></td>
</tr>
<tr>
<td><strong>Net Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrestricted</td>
<td>14,061,160</td>
<td>13,096,270</td>
</tr>
<tr>
<td>Temporarily restricted</td>
<td>1,905,247</td>
<td>1,353,886</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td><strong>15,966,407</strong></td>
<td><strong>14,450,156</strong></td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES AND NET ASSETS</strong></td>
<td><strong>$ 38,034,463</strong></td>
<td><strong>$ 36,941,711</strong></td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements

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## NATIONAL ASSOCIATION FOR THE EDUCATION OF YOUNG CHILDREN  
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS  
FOR THE YEAR ENDED AUGUST 31, 2014  
WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED AUGUST 31, 2013

### REVENUE

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Total</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Grants</strong></td>
<td>$775,851</td>
<td></td>
<td>$775,851</td>
<td>$326,366</td>
</tr>
<tr>
<td><strong>Fees:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Membership</td>
<td>$1,467,167</td>
<td></td>
<td>$1,467,167</td>
<td>$1,337,859</td>
</tr>
<tr>
<td>Accreditation</td>
<td>$6,645,211</td>
<td>$6,645,211</td>
<td>$7,779,170</td>
<td></td>
</tr>
<tr>
<td>Conferences and Seminars</td>
<td>$4,666,181</td>
<td></td>
<td>$4,681,173</td>
<td></td>
</tr>
<tr>
<td>Publications</td>
<td>$5,342,405</td>
<td></td>
<td>$5,310,517</td>
<td></td>
</tr>
<tr>
<td>Contracts and Consulting</td>
<td>$880,564</td>
<td></td>
<td>$829,909</td>
<td></td>
</tr>
<tr>
<td>Other income</td>
<td>$459,170</td>
<td></td>
<td>$362,865</td>
<td></td>
</tr>
<tr>
<td>Rental income</td>
<td>$1,105,254</td>
<td></td>
<td>$1,131,617</td>
<td></td>
</tr>
<tr>
<td>Income on investments</td>
<td>$141,288</td>
<td></td>
<td>$100,979</td>
<td></td>
</tr>
<tr>
<td>Contributed Services</td>
<td>$118,919</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>$224,490</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Total revenue** | $21,050,649 | $551,361 | $21,602,010 | $19,356,855 |

### EXPENSES

**Program Services:**

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Total</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accreditation</td>
<td>$4,670,376</td>
<td></td>
<td>$4,670,376</td>
<td>$4,555,856</td>
</tr>
<tr>
<td>Office of the Executive Director</td>
<td>$1,069,784</td>
<td></td>
<td>$1,069,784</td>
<td>$1,035,579</td>
</tr>
<tr>
<td>Governing Board/Nom. Panel/YCI</td>
<td>$304,507</td>
<td></td>
<td>$304,507</td>
<td>$251,703</td>
</tr>
<tr>
<td>Affiliates</td>
<td>$339,880</td>
<td></td>
<td>$339,880</td>
<td>$351,359</td>
</tr>
<tr>
<td>Contracts and Consulting</td>
<td>$628,516</td>
<td></td>
<td>$405,247</td>
<td></td>
</tr>
<tr>
<td>Professional Development</td>
<td>$542,173</td>
<td></td>
<td>$575,791</td>
<td></td>
</tr>
<tr>
<td>Publications and Journal</td>
<td>$2,777,995</td>
<td></td>
<td>$2,909,888</td>
<td></td>
</tr>
<tr>
<td>Membership</td>
<td>$500,573</td>
<td>$500,573</td>
<td>$557,586</td>
<td></td>
</tr>
<tr>
<td>Conferences and Seminars</td>
<td>$2,070,523</td>
<td></td>
<td>$1,930,033</td>
<td></td>
</tr>
<tr>
<td>Public Advocacy/Public Information</td>
<td>$339,900</td>
<td></td>
<td>$383,213</td>
<td></td>
</tr>
<tr>
<td>Program Support Services</td>
<td>$857,250</td>
<td></td>
<td>$744,582</td>
<td></td>
</tr>
</tbody>
</table>

**Total program services** | $14,101,477 |                        | $13,700,837 |

**Supporting Services:**

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Total</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance</td>
<td>$848,003</td>
<td></td>
<td>$822,588</td>
<td></td>
</tr>
<tr>
<td>Human Resources</td>
<td>$205,067</td>
<td>$205,067</td>
<td>$193,093</td>
<td></td>
</tr>
<tr>
<td>Marketing and Communications</td>
<td>$544,368</td>
<td></td>
<td>$501,248</td>
<td></td>
</tr>
<tr>
<td>Information Technology</td>
<td>$882,497</td>
<td></td>
<td>$901,625</td>
<td></td>
</tr>
<tr>
<td>Building Operations</td>
<td>$2,430,767</td>
<td>$2,430,767</td>
<td>$2,403,937</td>
<td></td>
</tr>
<tr>
<td>General and Administrative</td>
<td>$661,485</td>
<td></td>
<td>$613,826</td>
<td></td>
</tr>
</tbody>
</table>

**Total supporting services** | $5,572,187 | $5,436,317 |

**Total expenses** | $19,673,664 | $19,137,154 |

**Change in net assets before other items** | $1,376,985 | $1,219,701 |

### OTHER ITEMS

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Total</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrealized gain/(loss) on interest rate swap (Note)</td>
<td>$(412,095)</td>
<td></td>
<td>$(412,095)</td>
<td>$1,857,099</td>
</tr>
<tr>
<td>Reversal of liability</td>
<td>-</td>
<td></td>
<td>-</td>
<td>$268,734</td>
</tr>
</tbody>
</table>

**Total other items** | $(412,095) | $(412,095) | $2,125,833 |

### CHANGE IN NET ASSETS

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net assets, beginning of year</td>
<td>$13,096,270</td>
<td>$14,450,156</td>
</tr>
</tbody>
</table>

**Net assets, end of year** | $14,061,160 | $14,450,156 | $15,966,407 | $12,104,622 |

See accompanying notes to financial statements
# NATIONAL ASSOCIATION FOR THE EDUCATION OF YOUNG CHILDREN

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2014

WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED AUGUST 31, 2013

<table>
<thead>
<tr>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CASH FLOWS FROM OPERATING ACTIVITIES</strong></td>
<td></td>
</tr>
<tr>
<td>Change in net assets</td>
<td>$1,516,251</td>
</tr>
<tr>
<td>Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:</td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>795,577</td>
</tr>
<tr>
<td>Unrealized loss (gain) on investments</td>
<td>(89,918)</td>
</tr>
<tr>
<td>Realized loss (gain) on sale of investments</td>
<td>-</td>
</tr>
<tr>
<td>Bad debt expense (recovery)</td>
<td>63,757</td>
</tr>
<tr>
<td>(Gain)/loss on interest rate swap obligation</td>
<td>412,095</td>
</tr>
<tr>
<td>(Increase) decrease in:</td>
<td></td>
</tr>
<tr>
<td>Accounts and other receivables</td>
<td>132,072</td>
</tr>
<tr>
<td>Grants receivable</td>
<td>(260,504)</td>
</tr>
<tr>
<td>Inventory</td>
<td>31,704</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>176,294</td>
</tr>
<tr>
<td>Deferred lease asset</td>
<td>(54,246)</td>
</tr>
<tr>
<td>Increase (decrease) in:</td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>(371,610)</td>
</tr>
<tr>
<td>Accrued annual leave</td>
<td>106,681</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>(158,787)</td>
</tr>
<tr>
<td>Due to affiliates</td>
<td>76,688</td>
</tr>
<tr>
<td>Refundable advance</td>
<td>(168,565)</td>
</tr>
<tr>
<td>Net cash provided (used) by operating activities</td>
<td>$2,207,489</td>
</tr>
</tbody>
</table>

| **CASH FLOWS FROM INVESTING ACTIVITIES** |         |
| Purchase of property and equipment  | (866,025)  | (767,016) |
| Net (purchase) sale of investments  | (2,740,318)  | (2,219,819) |
| Net cash provided (used) by investing activities  | (3,606,343)  | (2,986,835) |

| **CASH FLOWS FROM FINANCING ACTIVITIES** |         |
| Principal payments on bonds payable  | (320,000)  | (300,000) |
| Net cash used by financing activities  | (320,000)  | (300,000) |
| Net increase (decrease) in cash and cash equivalents  | (1,718,854)  | (1,935,229) |
| Cash and cash equivalents at beginning of year  | 6,059,180  | 7,994,409 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR**  | $4,340,326  | $6,059,180 |

| **SUPPLEMENTAL INFORMATION** |         |
| Interest paid  | 752,774  | 770,517 |
| Income taxes paid  | $-  | $- |

See accompanying notes to financial statements

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NOTE 1 - ORGANIZATION

The National Association for the Education of Young Children (NAEYC) is a membership organization, founded in 1926. NAEYC offers professional development opportunities to early childhood educators, which are designed to improve the quality of services to children, from birth to age eight, the critical years of development.

NAEYC also accredits early childhood facilities throughout the United States. The principal sources of revenue are membership dues, publications sales, conferences and accreditation fees.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Basis of presentation –

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, Not-For-Profit Entities.

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with NAEYC’s financial statements for the year ended August 31, 2014, from which the summarized information was derived. Some prior year information may have been restated for comparability with the current year.

Cash and cash equivalents –

NAEYC considers all cash and other highly liquid investments with initial maturities of three months or less to be cash and cash equivalents. NAEYC often maintains cash and investment balances at financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limits. Amounts in excess of insurance limits are typically invested in either government securities or government service enterprises (GSEs) fixed income securities. Management believes the financial risk in these situations to be minimal.

Investments –

Investments consist of mutual funds and related investments, certificates of deposit, U.S. Government obligations, and money market securities. Investments are recorded at their readily determinable fair value. Realized and unrealized gains and losses are included in income on investments in the accompanying Statement of Activities and Change in Net Assets.
Accounts receivable –

Accounts receivable are shown at their estimated net realizable value. Customer account balances with invoices dated over 30 days old are considered past due. The allowance for doubtful accounts is determined based upon an annual review of account balances, including the age of the balance and the historical experience with the customer. Receivables are written off as a charge to the allowance for doubtful accounts when, in management’s estimation, it is probable that the receivable is worthless.

Grants receivable –

Grants receivable are shown at their estimated net realizable value.

Inventory –

Inventory consists primarily of publications and is valued using the first-in, first-out method, at the lower of market or out-of-house printing cost. The value in excess of five years of sales is fully reserved for any item which has been in stock for more than two years.

Property and equipment –

Property and equipment are stated at cost and are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to thirty years. All property and equipment purchases over $2,500 with an estimated useful life of at least 2 years are capitalized. The cost of maintenance and repairs is expensed as incurred.

Income taxes –

NAEYC is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Income taxes are paid on activities unrelated to NAEYC’s exempt function. There were no income taxes for unrelated business income for the year ended August 31, 2014. NAEYC is not a private foundation.

Uncertain tax positions –

In June 2006, the Financial Accounting Standards Board (FASB) released Financial Accounting Standard FAS ASC 740-10, Income Taxes, that provides guidance for reporting uncertainty in income taxes. For the year ended August 31, 2014, NAEYC has documented its consideration of FAS ASC 740-10 and determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.
Deferred revenue –

Deferred revenue consists primarily of membership dues, accreditation fees, conference fees, exhibit fees, and contract fees collected in advance. Membership dues are recorded as deferred revenue upon receipt and are recognized as revenue ratably over the period to which the dues relate. Accreditation, conference and exhibit fees are recorded as deferred revenue and are recognized as revenue in the period in which the accreditation or conference occurs.

Net asset classification –

The net assets of NAEYC are reported in two groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operations of NAEYC and include both internally designated and undesignated resources.

- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by actions of NAEYC and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Change in Net Assets as net assets released from restrictions.

NAEYC has no permanently restricted net assets.

Grants –

Grants are recorded as temporarily restricted revenue in the year of award by the donor. Grants are transferred to unrestricted net assets to the extent of actual expenses incurred in compliance with the donor-imposed restrictions. Grants revenue in excess of expenses incurred is shown as temporarily restricted net assets in the accompanying financial statements.

Use of estimates –

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.
Contributed Professional Services –

Contributed services, which require a specialized skill and which NAEYC would have paid for if not donated, are recorded at their estimated fair value as of the date of the donation.

Functional allocation of expenses –

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Risks and uncertainties –

NAEYC invests in various investment securities. Investment securities are exposed to various financial risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the accompanying financial statements.

Fair value measurements –

NAEYC adopted the provisions of FASB ASC 820, *Fair Value Measurements and Disclosures*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) and enhances disclosure requirements for fair value measurements. NAEYC accounts for all of its financial instruments at fair value or considers fair value in their measurement.

**NOTE 3 - INVESTMENTS**

Investments are stated at their readily determinable fair value at August 31, 2014, and are comprised of the following:

<table>
<thead>
<tr>
<th>Investment</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certificates of deposit</td>
<td>$ 7,447,010</td>
</tr>
<tr>
<td>Mutual funds and related investments</td>
<td>$ 4,037,490</td>
</tr>
<tr>
<td><strong>TOTAL INVESTMENTS</strong></td>
<td><strong>$ 11,484,500</strong></td>
</tr>
</tbody>
</table>
Income on investments consisted of the following at August 31, 2014:

- Interest and dividend income $51,370
- Unrealized market value gain on investments $89,918

**TOTAL INCOME ON INVESTMENTS** $141,288

For the year ended August 31, 2014, investment expense not included in the purchase price of fixed income securities was $39,138.

### NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at August 31, 2014:

- Land $8,829,620
- Buildings and improvements $13,794,691
- Furniture and equipment $1,051,171
- Computer equipment and software $3,026,972
- Tenant improvements $170,221
- Work-in progress $833,020

**Less: Accumulated depreciation and amortization** $(7,751,887)

**Property and Equipment, Net** $19,953,808

Depreciation and amortization expense for the year ended August 31, 2014 was $795,577.

### NOTE 5 - BONDS PAYABLE

On March 1, 2006, the District of Columbia issued $15,000,000 of variable rate bonds (Variable Rate Revenue Bonds Series 2006), the proceeds of which were used to purchase property at 1307 through 1313 L Street, NW, Washington, DC. The bonds will mature April 1, 2036. Principal payments are made in April and October of each year until paid in full. The bonds are secured by the property located at 1313 L Street, NW, Washington, DC.

On November 10, 2011, NAEYC entered into an agreement with the District of Columbia government and the trustee of the bonds, Wells Fargo Bank, to refinance the bonds in order to reduce costs. Interest is paid monthly. The bonds’ maturity period remains unchanged.

The monthly interest rate, which is variable, is calculated at 65.7% of one month LIBOR plus a spread of 1.28%. To mitigate the effect of fluctuations in interest rates, NAEYC has hedged these bonds using the interest rate swap agreement described in Note 6, effectively locking into a fixed rate of approximately 5.7%.
The bond agreements, among other provisions, require NAEYC to meet the following financial ratio test:

- NAEYC must maintain cash and liquid investments with an aggregate value of the lesser of $10,000,000 or 65% of the remaining principal balance of the loan plus one year of principal and interest. NAEYC must also present financial reports to Wells Fargo Bank, N.A. for the first three fiscal quarters of each year, as well as a yearly annual report audited by an independent audit firm.

- As of August 31, 2014, the outstanding principal balance of the bond loan is $13,090,000. NAEYC has a cash reserve in the amount of $12,924,834 which exceeds the $10,000,000 that is required to meet the financial ratio test. This reserve consists of cash and highly liquid investments, less deferred revenue.

Principal payments are due as follows:

<table>
<thead>
<tr>
<th>Year Ending August 31</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>$ 330,000</td>
</tr>
<tr>
<td>2016</td>
<td>350,000</td>
</tr>
<tr>
<td>2017</td>
<td>370,000</td>
</tr>
<tr>
<td>2018</td>
<td>380,000</td>
</tr>
<tr>
<td>2019</td>
<td>410,000</td>
</tr>
<tr>
<td>Thereafter</td>
<td>11,250,000</td>
</tr>
<tr>
<td></td>
<td>13,090,000</td>
</tr>
<tr>
<td>Less: Current portion</td>
<td>330,000</td>
</tr>
</tbody>
</table>

LONG-TERM PORTION $12,760,000

NOTE 6 - INTEREST RATE SWAP

On September 14, 2006, NAEYC entered into an interest rate swap agreement to fix its outstanding variable rate bonds (SEE NOTE 5) at a synthetic fixed rate of approximately 4.395%. Interest on the swap is due monthly. The bonds and the related swap agreement will mature on April 1, 2036. Under the swap agreement, NAEYC pays Wells Fargo Bank, N.A. a fixed rate of 4.395%. On the first of each month, the LIBOR interest rate is determined, and NAEYC then pays Wells Fargo Bank the variance of 67% of the LIBOR rate and NAEYC’s fixed rate at 4.395%. In the event the LIBOR rate exceeds the NAEYC fixed rate of 4.395%, Wells Fargo Bank pays the variance to NAEYC. During the fiscal year, the 30-day LIBOR rate ranged from 0.1504% to 0.1806%. The 30-day LIBOR rate at August 31, 2014 was 0.156%.

Should NAEYC terminate the swap prior to maturity, NAEYC will either receive or pay a termination payment. This payment is equal to the fair value of the swap at the time the swap is terminated.
As of August 31, 2014, the swap notional amount was $13,090,000. The swap had a negative fair value of $3,812,235, which is included in the accompanying Statement of Financial Position. The swap valuation was determined by a Wells Fargo proprietary model which serves as a proxy for the market price required to be paid in order to terminate the swap as of the balance sheet date.

The combined effect of the interest rate swap and the bonds payable mentioned in Note 5 effectively provides the organization with an interest rate of approximately 5.7% for the obligations on the building.

NOTE 7 - UNRESTRICTED NET ASSETS

As of August 31, 2014, unrestricted net assets have been designated by the Board of Directors for the following purposes:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emergency reserve</td>
<td>$6,835,110</td>
</tr>
<tr>
<td>Outstanding payables</td>
<td>1,524,056</td>
</tr>
<tr>
<td>Encumbered reserve</td>
<td>89,370</td>
</tr>
<tr>
<td>Building reserve</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Research &amp; Development</td>
<td>1,708,777</td>
</tr>
<tr>
<td>Discretionary</td>
<td>611,577</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>2,292,270</td>
</tr>
<tr>
<td><strong>TOTAL UNRESTRICTED NET ASSETS</strong></td>
<td><strong>$14,061,160</strong></td>
</tr>
</tbody>
</table>

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

As of August 31, 2014, temporarily restricted net assets consisted of the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office of the Executive Director</td>
<td>$158,807</td>
</tr>
<tr>
<td>Membership</td>
<td>997,163</td>
</tr>
<tr>
<td>Accreditation</td>
<td>749,277</td>
</tr>
<tr>
<td><strong>TOTAL TEMPORARILY RESTRICTED NET ASSETS</strong></td>
<td><strong>$1,905,247</strong></td>
</tr>
</tbody>
</table>

The following is a summary of net assets released from restrictions by satisfying restrictions imposed by donors:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office of the Executive Director</td>
<td>$187,767</td>
</tr>
<tr>
<td>Membership</td>
<td>36,000</td>
</tr>
<tr>
<td>Accreditation</td>
<td>723</td>
</tr>
<tr>
<td><strong>TOTAL NET ASSETS RELEASED FROM RESTRICTIONS</strong></td>
<td><strong>$224,490</strong></td>
</tr>
</tbody>
</table>
NOTE 9 - PENSION COST

NAEYC has a defined contribution plan that covers all employees that meet the Plan’s eligibility requirements. Under the plan, staff members may purchase tax deferred annuities through salary reduction agreements as provided for by Section 403(b) of the Internal Revenue Code. The provision for pension expenses for the year ended August 31, 2014 was $290,819.

NOTE 10 - RENTAL INCOME

NAEYC has entered into several operating lease agreements with tenants to occupy excess space in NAEYC’s headquarters building. Rental income for the year ended August 31, 2014 was $1,105,254. Future minimum rental receipts from these tenants over the next five years are as follows:

<table>
<thead>
<tr>
<th>Year Ending August 31</th>
<th>Rental Income ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>1,011,922</td>
</tr>
<tr>
<td>2016</td>
<td>1,023,293</td>
</tr>
<tr>
<td>2017</td>
<td>785,098</td>
</tr>
<tr>
<td>2018</td>
<td>241,914</td>
</tr>
<tr>
<td>2019</td>
<td>121,602</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,183,829</strong></td>
</tr>
</tbody>
</table>

NOTE 11 - FAIR VALUE MEASUREMENTS OF INVESTMENTS

In accordance with FASB ASC 820, *Fair Value Measurements and Disclosures*, NAEYC has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level 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). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial instruments recorded in the Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

**Level 1.** These are financial instruments where values are based on unadjusted quoted prices for an identical asset in an active market NAEYC has the ability to access.

**Level 2.** These are financial instruments where values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full-term of the financial instruments.
Level 3. These are financial instruments where values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect assumptions of management about assumptions market participants would use in pricing the financial instruments. These financial instruments include non-readily marketable securities that do not have an active market. Financial instruments recorded in the Statement of Financial Position are categorized based on the inputs to the valuation technique as follows at August 31, 2014:

<table>
<thead>
<tr>
<th>Financial Assets:</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments</td>
<td>$ 3,956,793</td>
<td>$ 7,527,707</td>
<td>-</td>
<td>$11,484,500</td>
</tr>
<tr>
<td>Total Financial Assets</td>
<td>$ 3,956,793</td>
<td>$ 7,527,707</td>
<td>-</td>
<td>$11,484,500</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial Liabilities</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Rate Swap Obligation</td>
<td>-</td>
<td>-</td>
<td>$ 3,812,235</td>
<td>$ 3,812,235</td>
</tr>
<tr>
<td>Total Financial Liabilities</td>
<td>-</td>
<td>-</td>
<td>$ 3,812,235</td>
<td>$ 3,812,235</td>
</tr>
</tbody>
</table>

### NOTE 12 - CONTINGENCIES

NAEYC is subject to legal actions arising in the ordinary course of its business. In management's opinion, NAEYC has adequate legal defenses and/or insurance coverage with respect to the eventuality of such actions. Management does not believe any settlement or judgment would materially affect NAEYC’s financial position or results of operations for the year ended August 31, 2014.

### NOTE 13 - SUBSEQUENT EVENTS

In preparing these financial statements, NAEYC has evaluated events and transactions for potential recognition or disclosure through January 12, 2015 the date the financial statements were available to be issued, and no events or transactions were noted that would materially impact the financial statements.
INDEPENDENT AUDITOR’S REPORT ON SUPPLEMENTAL INFORMATION

To the Governing Board
National Association for the Education of Young Children
Washington, D.C.

We have audited the financial statements of the National Association for the Education of Young Children as of and for the year ended August 31, 2014, and have issued our report thereon dated December 31, 2014, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole.

The Schedule of Functional Expenses is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

HeimLantz, PC
January 12, 2015
### NATIONAL ASSOCIATION FOR THE EDUCATION OF YOUNG CHILDREN
### SCHEDULE OF FUNCTIONAL EXPENSES
### FOR THE YEAR ENDED AUGUST 31, 2014
### WITH SUMMARIZED FINANCIAL INFORMATION FOR 2013

#### 2014

<table>
<thead>
<tr>
<th>Program Services</th>
<th>Accreditation</th>
<th>Office of the Executive Director</th>
<th>Governing Board/Nom. Panel/YCI Affiliates</th>
<th>Contracts and Consulting</th>
<th>Professional Development</th>
<th>Publications and Journal</th>
<th>Membership</th>
<th>Conferences and Seminars</th>
<th>Public Advocacy/ Public Information</th>
<th>Program Support Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel</td>
<td>2,025,652</td>
<td>939,403</td>
<td>118,195</td>
<td>216,528</td>
<td>401,663</td>
<td>406,334</td>
<td>1,306,038</td>
<td>215,179</td>
<td>472,955</td>
<td>223,357</td>
</tr>
<tr>
<td>Consultants &amp; Contractors</td>
<td>1,356,896</td>
<td>27,933</td>
<td>35,853</td>
<td>14,725</td>
<td>80,057</td>
<td>18,591</td>
<td>1,097,423</td>
<td>24,771</td>
<td>2,852</td>
<td></td>
</tr>
<tr>
<td>Creative services</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2,650</td>
<td>-</td>
<td>13,557</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Utilities</td>
<td>4,519</td>
<td>1,150</td>
<td>216</td>
<td>4,773</td>
<td>722</td>
<td>2,242</td>
<td>43,215</td>
<td>1,499</td>
<td>3,880</td>
<td></td>
</tr>
<tr>
<td>Meeting facilities &amp; services</td>
<td>42,691</td>
<td>55,568</td>
<td>37,936</td>
<td>43,430</td>
<td>6,898</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Professional services</td>
<td>333</td>
<td>566</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Insurance</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2,650</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>60,992</td>
<td>-</td>
<td>-</td>
<td>64,255</td>
<td>13,801</td>
<td>3,880</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>64,973</td>
</tr>
<tr>
<td>Travel</td>
<td>997,667</td>
<td>36,481</td>
<td>121,721</td>
<td>56,918</td>
<td>84,506</td>
<td>4,003</td>
<td>12,047</td>
<td>472,955</td>
<td>2,852</td>
<td></td>
</tr>
<tr>
<td>Postage &amp; Delivery</td>
<td>13,916</td>
<td>646</td>
<td>4,290</td>
<td>441</td>
<td>268</td>
<td>35</td>
<td>158,303</td>
<td>15,473</td>
<td>500</td>
<td>317,151</td>
</tr>
<tr>
<td>Equipment &amp; Technology</td>
<td>3,890</td>
<td>219</td>
<td>-</td>
<td>380</td>
<td>643</td>
<td>2,730</td>
<td>7,432</td>
<td>4,500</td>
<td>1,723</td>
<td>380</td>
</tr>
<tr>
<td>Office supplies &amp; services</td>
<td>1,962</td>
<td>1,022</td>
<td>854</td>
<td>402</td>
<td>1,911</td>
<td>2,424</td>
<td>2,037</td>
<td>127,915</td>
<td>744</td>
<td>45,233</td>
</tr>
<tr>
<td>Dues &amp; subscriptions</td>
<td>20,293</td>
<td>1,691</td>
<td>-</td>
<td>868</td>
<td>497</td>
<td>3,084</td>
<td>39</td>
<td>360</td>
<td>18,210</td>
<td>329</td>
</tr>
<tr>
<td>Printing &amp; production</td>
<td>36,201</td>
<td>272</td>
<td>967</td>
<td>497</td>
<td>52</td>
<td>12,974</td>
<td>47,189</td>
<td>149,022</td>
<td>530</td>
<td>2,282</td>
</tr>
<tr>
<td>Bad debt expense</td>
<td>24,493</td>
<td>-</td>
<td>-</td>
<td>4,713</td>
<td>187</td>
<td>-</td>
<td>(4,900)</td>
<td>12,359</td>
<td>-</td>
<td>29,455</td>
</tr>
<tr>
<td>Financing</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Real estate taxes</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>80,871</td>
<td>4,833</td>
<td>200</td>
<td>1,699</td>
<td>13,097</td>
<td>881</td>
<td>24,761</td>
<td>151,196</td>
<td>181</td>
<td>47,440</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>4,670,376</td>
<td>1,069,784</td>
<td>304,507</td>
<td>339,880</td>
<td>628,516</td>
<td>542,173</td>
<td>2,777,995</td>
<td>500,573</td>
<td>2,070,523</td>
<td>339,900</td>
</tr>
<tr>
<td>General and administrative allocation</td>
<td>448,453</td>
<td>188,569</td>
<td>26,065</td>
<td>47,522</td>
<td>84,899</td>
<td>90,378</td>
<td>291,204</td>
<td>103,740</td>
<td>66,770</td>
<td>-</td>
</tr>
<tr>
<td>Other indirect costs allocation</td>
<td>657,097</td>
<td>258,627</td>
<td>38,396</td>
<td>70,003</td>
<td>128,527</td>
<td>133,133</td>
<td>422,891</td>
<td>152,816</td>
<td>98,358</td>
<td>-</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>5,775,926</td>
<td>1,516,980</td>
<td>368,968</td>
<td>457,405</td>
<td>841,942</td>
<td>765,684</td>
<td>3,492,090</td>
<td>2,327,079</td>
<td>505,028</td>
<td>1,023,802</td>
</tr>
</tbody>
</table>
NATIONAL ASSOCIATION FOR THE EDUCATION OF YOUNG CHILDREN  
SCHEDULE OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED AUGUST 31, 2014  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2013

<table>
<thead>
<tr>
<th>Category</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Finance</td>
<td>Human</td>
</tr>
<tr>
<td></td>
<td>Resources</td>
<td>Resources</td>
</tr>
<tr>
<td>Personnel</td>
<td>709,889</td>
<td>171,077</td>
</tr>
<tr>
<td>Consultants &amp; Contractors</td>
<td>21,123</td>
<td>5,885</td>
</tr>
<tr>
<td>Creative services</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Utilities</td>
<td>10</td>
<td>-</td>
</tr>
<tr>
<td>Meeting facilities &amp; services</td>
<td>-</td>
<td>171</td>
</tr>
<tr>
<td>Professional services</td>
<td>50,000</td>
<td>-</td>
</tr>
<tr>
<td>Insurance</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Travel</td>
<td>-</td>
<td>2,095</td>
</tr>
<tr>
<td>Postage &amp; Delivery</td>
<td>1,252</td>
<td>320</td>
</tr>
<tr>
<td>Equipment &amp; Technology</td>
<td>3,539</td>
<td>1,970</td>
</tr>
<tr>
<td>Office supplies &amp; services</td>
<td>962</td>
<td>-</td>
</tr>
<tr>
<td>Dues &amp; subscriptions</td>
<td>1,558</td>
<td>185</td>
</tr>
<tr>
<td>Printing &amp; production</td>
<td>-</td>
<td>145</td>
</tr>
<tr>
<td>Bad debt expense</td>
<td>-</td>
<td>(2,250)</td>
</tr>
<tr>
<td>Financing</td>
<td>750</td>
<td>-</td>
</tr>
<tr>
<td>Real estate taxes</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>58,920</td>
<td>23,219</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(405)</td>
</tr>
<tr>
<td>Subtotal</td>
<td>848,003</td>
<td>205,067</td>
</tr>
<tr>
<td></td>
<td>544,368</td>
<td></td>
</tr>
<tr>
<td></td>
<td>882,497</td>
<td></td>
</tr>
<tr>
<td>General and administrative allocation</td>
<td>156,040</td>
<td>37,250</td>
</tr>
<tr>
<td>Other indirect costs allocation</td>
<td>(1,004,043)</td>
<td>(242,317)</td>
</tr>
<tr>
<td></td>
<td>72,210</td>
<td>(956,892)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$665,601</td>
<td>$664,765</td>
</tr>
</tbody>
</table>

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