

**NATIONAL ASSOCIATION FOR THE
EDUCATION OF YOUNG CHILDREN**

FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION

AUGUST 31, 2016

**NATIONAL ASSOCIATION FOR THE
EDUCATION OF YOUNG CHILDREN**

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

YEAR ENDED AUGUST 31, 2016

CONTENTS

	PAGE
Report of Independent Auditors	1
Statements of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	6
Notes to Financial Statements	8
Supplemental Information	
Schedule of Functional Expenses	18

REPORT OF INDEPENDENT AUDITORS

The Governing Board
National Association for the Education of Young Children

We have audited the accompanying financial statements of the National Association for the Education of Young Children (NAEYC, a nonprofit organization), which comprise the statements of financial position as of August 31, 2016 and 2015, and the related statements of activities and cash flows for the year ended August 31, 2016, 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.

Auditors' Responsibility

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. Those standards require that we plan and perform the audits 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, 2016 and 2015, and the changes in its net assets and its cash flows for the year ended August 31, 2016, in accordance with accounting principles generally accepted in the United States of America.

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses for the year ended August 31, 2016, 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 audits 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 2016 financial statements as a whole. The 2015 summarized comparative information in the schedule of functional expenses was subjected to auditing procedures applied in the audit of the 2015 basic financial statements by us and the report on such information stated that it was fairly stated in all material respects in relation to the 2015 financial statements as a whole.

Calibre CPA Group, PLLC

Bethesda, MD
December 2, 2016

**NATIONAL ASSOCIATION FOR THE
EDUCATION OF YOUNG CHILDREN**

STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2016 AND 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,113,595	\$ 1,462,361
Short-term investments	5,083,669	4,359,018
Accounts and other receivables, net of allowance for doubtful accounts of \$240,619 and \$216,082 for 2016 and 2015, respectively	777,175	509,793
Grants receivable	428,765	119,228
Inventory, net of reserve of \$165,959 and \$260,431 for 2016 and 2015, respectively	595,470	671,247
Prepaid expenses and other current assets	788,220	447,407
Total current assets	8,786,894	7,569,054
LONG-TERM INVESTMENTS	8,998,550	9,623,484
PROPERTY AND EQUIPMENT, NET	19,335,249	19,638,087
DEFERRED LEASE ASSET	91,956	149,445
Total assets	\$ 37,212,649	\$ 36,980,070
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Bonds payable, current portion	\$ 367,000	\$ 350,000
Accounts payable and accrued expenses	962,736	1,000,968
Accrued annual leave	512,600	599,031
Deferred revenue		
Membership dues	1,741,502	1,988,643
Accreditation fees	52,350	164,100
Conference	1,100,618	1,190,090
Other	117,804	244,785
Due to affiliates	130,566	124,032
Refundable advances	259,970	413,741
Total current liabilities	5,245,146	6,075,390
LONG-TERM LIABILITIES		
Bonds payable, net of current portion	12,122,000	12,410,000
Interest rate swap obligation	4,725,858	3,918,184
Deposits payable	56,277	56,277
Total long-term liabilities	16,904,135	16,384,461
Total liabilities	22,149,281	22,459,851
NET ASSETS		
Unrestricted	13,702,232	13,881,213
Temporarily restricted	1,361,136	639,006
Total net assets	15,063,368	14,520,219
Total liabilities and net assets	\$ 37,212,649	\$ 36,980,070

See accompanying notes to financial statements.

**NATIONAL ASSOCIATION FOR THE
EDUCATION OF YOUNG CHILDREN**

STATEMENT OF ACTIVITIES

YEAR ENDED AUGUST 31, 2016

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED AUGUST 31, 2015)

	2016			2015
	Unrestricted	Temporarily Restricted	Total	Total
REVENUE				
Grants	\$ -	\$ 1,357,143	\$ 1,357,143	\$ 305,957
Fees				
Membership	2,839,310	-	2,839,310	3,059,111
Accreditation	5,874,458	-	5,874,458	6,833,433
Conferences and seminars	5,180,591	-	5,180,591	4,821,349
Publications	3,604,811	-	3,604,811	3,575,316
Contracts and consulting	31,598	-	31,598	690,255
Miscellaneous income	260,995	-	260,995	304,425
Rental income, net of related expenses of \$1,065,744 and \$1,018,033, respectively	121,522	-	121,522	132,541
Income on investments	462,572	-	462,572	25,826
Contributed services	140,308	-	140,308	164,976
Net assets released from restriction	635,013	(635,013)	-	-
Total revenue	<u>19,151,178</u>	<u>722,130</u>	<u>19,873,308</u>	<u>19,913,189</u>
EXPENSES				
Program services				
Accreditation	5,372,571	-	5,372,571	5,581,601
Office of the Executive Director	1,800,284	-	1,800,284	1,597,999
Affiliates	495,203	-	495,203	474,120
Contracts and consulting	88,277	-	88,277	521,910
Professional development	823,319	-	823,319	1,000,938
Publications and journal	1,897,261	-	1,897,261	2,298,068
Membership	1,887,453	-	1,887,453	1,873,155
Conferences and seminars	2,705,121	-	2,705,121	2,561,646
Public advocacy/public information	322,030	-	322,030	369,438
Program support services	500,643	-	500,643	745,676
Total program services	<u>15,892,162</u>	<u>-</u>	<u>15,892,162</u>	<u>17,024,551</u>

See accompanying notes to financial statements.

**NATIONAL EDUCATION FOR THE
EDUCATION OF YOUNG CHILDREN**

STATEMENT OF ACTIVITIES (CONTINUED)

YEAR ENDED AUGUST 31, 2016
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED AUGUST 31, 2015)

	2016			2015
	Unrestricted	Temporarily Restricted	Total	Total
Supporting services				
Finance	\$ 868,187	\$ -	\$ 868,187	\$ 958,913
Governing Board/Nom. Panel/YCI	371,684	-	371,684	376,108
Human resources	519,012	-	519,012	387,211
Marketing and communications	391,527	-	391,527	655,283
General and administrative	479,913	-	479,913	704,199
Total supporting services	<u>2,630,323</u>	<u>-</u>	<u>2,630,323</u>	<u>3,081,714</u>
Total expenses	<u>18,522,485</u>	<u>-</u>	<u>18,522,485</u>	<u>20,106,265</u>
CHANGE IN NET ASSETS BEFORE OTHER ITEMS	628,693	722,130	1,350,823	(193,076)
OTHER ITEMS				
Unrealized loss on interest rate swap	<u>(807,674)</u>	<u>-</u>	<u>(807,674)</u>	<u>(105,949)</u>
CHANGE IN NET ASSETS	(178,981)	722,130	543,149	(299,025)
NET ASSETS				
Beginning of year	<u>13,881,213</u>	<u>639,006</u>	<u>14,520,219</u>	<u>14,819,244</u>
End of year	<u>\$ 13,702,232</u>	<u>\$ 1,361,136</u>	<u>\$ 15,063,368</u>	<u>\$ 14,520,219</u>

See accompanying notes to financial statements.

**NATIONAL ASSOCIATION FOR THE
EDUCATION OF YOUNG CHILDREN**

STATEMENT OF CASH FLOWS

YEAR ENDED AUGUST 31, 2016
(WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED AUGUST 31, 2015)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Grants received	\$ 1,047,606	\$ 592,233
Membership fees received	2,592,169	1,256,876
Accreditation fees received	5,419,912	6,714,448
Conference and seminar fees received	5,033,749	4,964,185
Publications income received	3,538,707	4,995,864
Contracts and consulting income received	31,598	690,755
Other income received	199,602	221,987
Rental income received	1,197,044	1,196,897
Investment income received	82,834	79,787
Payments to vendors, suppliers, affiliates, and employees	(18,426,261)	(19,596,745)
Interest paid	(754,421)	(738,390)
Net cash provided by (used for) operating activities	(37,461)	377,897
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(13,149,733)	(5,285,736)
Proceeds from sales of investments	13,418,653	5,207,975
Purchases of property and equipment	(309,225)	(375,184)
Net cash used for investing activities	(40,305)	(452,945)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on bonds payable	(271,000)	(330,000)
Net cash used for financing activities	(271,000)	(330,000)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(348,766)	(405,048)
CASH AND CASH EQUIVALENTS		
Beginning of year	1,462,361	1,867,409
End of year	\$ 1,113,595	\$ 1,462,361

See accompanying notes to financial statements.

**NATIONAL ASSOCIATION FOR THE
EDUCATION OF YOUNG CHILDREN**

STATEMENT OF CASH FLOWS (CONTINUED)

YEAR ENDED AUGUST 31, 2016
(WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED AUGUST 31, 2015)

	2016	2015
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED		
BY (USED FOR) OPERATING ACTIVITIES		
Change in net assets	\$ 543,149	\$ (299,025)
Adjustments		
Net (appreciation) depreciation of investments	(368,637)	52,676
Depreciation and amortization of property and equipment	612,063	690,905
Amortization of deferred costs	26,928	49,788
Bad debt expense (recovery)	(8,870)	55,898
Loss on interest rate swap obligation	807,674	105,949
Decrease (increase) in assets		
Accounts receivable	(258,512)	(117,967)
Grants and pledges receivable	(309,537)	286,276
Inventory	75,777	(7,534)
Prepaid expenses and other current assets	(367,741)	(103,749)
Deferred lease asset	57,489	46,323
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(38,232)	156,594
Accrued leave	(86,431)	(80,651)
Deferred revenue	(575,344)	(309,511)
Due to affiliates	6,534	(137,064)
Refundable advance	(153,771)	(11,011)
	\$ (37,461)	\$ 377,897
Net cash provided by (used for) operating activities		

See accompanying notes to financial statements.

**NATIONAL ASSOCIATION FOR THE
EDUCATION OF YOUNG CHILDREN**

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2016

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

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), Not-For-Profit Entities*.

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, except for amounts invested in a short-term portfolio of laddered certificates of deposit. 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 that the financial risk in these situations are minimal.

Investments - Investments primarily 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 values. Realized and unrealized gains and losses are included in income in the statement of activities.

Accounts Receivable - Accounts receivable is 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. Amounts that are more than 90 days past due are fully reserved. 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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 two years are capitalized. The cost of repairs and maintenance is expensed as incurred.

Income Taxes - NAEYC is generally exempt from Federal and related state and local income taxes under Section 501(c)(3) of the Internal Revenue Code, and is classified as a publicly-supported organization. Income taxes are paid on net income generated by activities unrelated to NAEYC's exempt function. There were no income taxes for unrelated business income for the year ended August 31, 2016.

Uncertain Tax Positions - NAEYC accounts for income tax uncertainties in accordance with the Accounting Standard Codification (ASC) Topic *Income Taxes*. For the year ended August 31, 2016, NAEYC performed an evaluation of all tax positions taken and determined there were no matters that require 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 as net assets released from restriction.

NAEYC has no permanently restricted net assets.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grants - Grants received are generally accounted for as contributions rather than as exchange transactions. Consequently, grants are reported as temporarily restricted revenue in the year of award by the donor. Amounts are transferred to unrestricted net assets to the extent of actual expenses incurred in compliance with the donor-imposed restrictions. Grant revenue in excess of expenses incurred is reported 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 reported 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. 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 follows the provisions of FASB ASC Topic, *Fair Value Measurements and Disclosures*. This Topic 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.

Reclassifications - Certain amounts previously reported for 2015 have been reclassified to conform with the 2016 presentation.

NOTE 3. INVESTMENTS

Investments are stated at their readily determinable fair values at August 31, 2016 and 2015 and are comprised of the following:

	<u>2016</u>	<u>2015</u>
Certificates of deposit	\$ 10,047,210	\$ 9,960,542
Mutual funds	4,031,273	3,767,672
Exchange traded funds	-	169,765
Alternative investments	<u>3,736</u>	<u>84,423</u>
Total investments	<u>\$ 14,082,219</u>	<u>\$ 13,982,402</u>

Income on investments consisted of the following for the years ended August 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 93,935	\$ 78,501
Net appreciation (depreciation) in fair value	<u>368,637</u>	<u>(52,675)</u>
Total income on investments	<u>\$ 462,572</u>	<u>\$ 25,826</u>

NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at August 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Land	\$ 8,829,620	\$ 8,829,620
Buildings and improvements	13,918,482	13,877,305
Furniture and equipment	1,051,171	1,051,171
Computer equipment and software	3,052,412	3,093,467
Tenant improvements	253,536	253,536
Work-in-progress	<u>1,184,883</u>	<u>975,780</u>
	28,290,104	28,080,879
Less: accumulated depreciation and amortization	<u>(8,954,855)</u>	<u>(8,442,792)</u>
Property and equipment, net	<u>\$ 19,335,249</u>	<u>\$ 19,638,087</u>

Depreciation expense for the years ended August 31, 2016 and 2015 amounted to \$612,063 and \$690,905, respectively.

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 and are secured by the property located at 1313 L Street, NW, Washington, DC.

On March 1, 2016, NAEYC entered into an agreement with the District of Columbia government and the trustee of the bonds, TD Bank N.A., to refinance the bonds in order to reduce costs and have a mandatory purchase from Wells Fargo. The bonds' maturity period remains unchanged. Interest is paid monthly.

The monthly interest rate, which is variable, is calculated at 70% of one month LIBOR plus a spread of 1.24%. 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 5.5%.

The bond agreements, among other provisions, require NAEYC to meet the following liquidity covenant:

- NAEYC must maintain cash and liquid investments with an aggregate value of the lesser of \$10,000,000 or 70% of the remaining principal balance of the loan, provided that if the calculation of 70% of the remaining principal balance results in a number less than \$6,000,000, then the liquidity should not be less than \$6,000,000. In addition, as the last day of each fiscal year the debt service coverage ratio should not be less than 1.00 to 1.00. NAEYC must also present the annual audited financial reports to TD Bank N.A. within 6 months after the close of the fiscal year.
- As of August 31, 2016, the outstanding principal balance of the bond loan is \$12,489,000. NAEYC has a cash reserve in the amount of \$12,183,540 which exceeds the \$10,000,000 that is required to meet the liquidity covenant. This reserve consists of cash and highly liquid investments, less deferred revenue.

Principal payments are due as follows:

<u>Year Ending August 31:</u>	
2017	\$ 367,000
2018	389,000
2019	410,000
2020	432,000
2021	456,000
Thereafter	<u>10,435,000</u>
	12,489,000
Less: current portion	<u>(367,000)</u>
Long-term portion	<u>\$ 12,122,000</u>

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. Interest on the swap is due monthly. The bonds and the related swap agreement will mature on April 1, 2036. On March 22, 2016 the interest rate swap agreement was amended. Under the amended swap agreement, NAEYC pays Wells Fargo Bank, N.A. a fixed rate of 4.469%. On the first of each month, the LIBOR interest rate is determined, and NAEYC then pays Wells Fargo Bank the variance of 70% of the LIBOR rate and NAEYC's fixed rate at 4.469%. In the event the LIBOR rate exceeds the NAEYC fixed rate of 4.469%, Wells Fargo Bank pays the variance to NAEYC. During the fiscal year, the 30-day LIBOR rate ranged from 0.1918% to 0.5248%. The 30-day LIBOR rate at August 31, 2016 was 0.5248%.

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, 2016, the swap notional amount was \$12,489,000. The swap had a negative fair value of \$4,725,858, 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 statement of financial position 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 5.5% for the obligations on the building.

NOTE 7. UNRESTRICTED NET ASSETS

As of August 31, 2016 and 2015, unrestricted net assets have been designated by the Board of Directors for the following purposes:

	<u>2016</u>	<u>2015</u>
Emergency reserve	\$ 7,553,150	\$ 7,948,696
Infrastructure reserve	1,933,525	1,899,772
Miscellaneous	<u>4,215,557</u>	<u>4,032,745</u>
Total unrestricted net assets	<u>\$ 13,702,232</u>	<u>\$ 13,881,213</u>

NOTE 8. TEMPORARILY RESTRICTED NET ASSETS

As of August 31, 2016 and 2015, temporarily restricted net assets consisted of the following:

	<u>2016</u>	<u>2015</u>
Office of the Executive Director	\$ 205,031	\$ 176,723
Accreditation	<u>1,156,105</u>	<u>462,283</u>
Total temporarily restricted net assets	<u>\$ 1,361,136</u>	<u>\$ 639,006</u>

The following is a summary of net assets released from restriction during the year ended August 31, 2016 by satisfying restrictions imposed by donors:

Office of the Executive Director	\$ 284,825
Accreditation	<u>350,188</u>
Total net assets released from restriction	<u>\$ 635,013</u>

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 expense for the year ended August 31, 2016 was \$269,224.

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 years ended August 31, 2016 and 2015 totaled \$1,187,266 and \$1,150,574, respectively.

Future minimum rental receipts from these tenants over the next five years are as follows:

<u>Year Ending August 31</u>	
2017	\$ 919,728
2018	775,683
2019	<u>568,732</u>
Total	<u>\$ 2,264,143</u>

NOTE 11. FAIR VALUE MEASUREMENTS

U.S. generally accepted accounting principles related to Fair Value Measurements establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that inputs that are most observable be used when available. Observable inputs are inputs that market participants operating within the same marketplace as NAEYC would use in pricing the organization's assets or liabilities based on independently derived and observable market data. Unobservable inputs are inputs that cannot be sourced from a broad active market in which assets or liabilities identical or similar to those of NAEYC are traded.

Level 1 - Valuation based on quoted market prices in active markets for identical assets or liabilities.

Level 2 - Valuation based on quoted prices for similar assets or liabilities, or inputs that are observable, either directly or indirectly, for substantially the full term through corroboration with observable market data.

Level 3 - Valuation based on inputs that are unobservable and reflect management's best estimate of what market participants would use in estimating fair value.

Inputs used to determine the fair values of financial instruments measured on a recurring basis at August 31, 2016 and 2015 are as follows:

	<u>Total at 8/31/16</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Assets				
Certificates of deposit	\$ 10,047,210	\$ -	\$ 10,047,210	\$ -
Mutual funds	4,031,273	4,031,273	-	-
Alternative investments	<u>3,736</u>	<u>-</u>	<u>-</u>	<u>3,736</u>
	<u>\$ 14,082,219</u>	<u>\$ 4,031,273</u>	<u>\$ 10,047,210</u>	<u>\$ 3,736</u>
Liabilities				
Interest rate swap obligation	<u>\$ 4,725,858</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,725,858</u>

NOTE 11. FAIR VALUE MEASUREMENTS (CONTINUED)

	<u>Total at 8/31/15</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Assets				
Certificates of deposit	\$ 9,960,542	\$ -	\$ 9,960,542	\$ -
Mutual funds	3,767,672	3,767,672	-	-
Exchange traded funds	169,765	169,765	-	-
Alternative investments	<u>84,423</u>	<u>-</u>	<u>-</u>	<u>84,423</u>
	<u>\$ 13,982,402</u>	<u>\$ 3,937,437</u>	<u>\$ 9,960,542</u>	<u>\$ 84,423</u>
Interest rate swap obligation	<u>\$ 3,918,184</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,918,184</u>

The following is a summary of changes in the fair value of NAEYC's level 3 assets and liabilities for the years ended August 31:

<u>Assets:</u>	<u>2016</u>	<u>2015</u>
Alternative investments, beginning of year	\$ 84,523	\$ 82,612
Purchases (sales)	(76,775)	5,299
Unrealized market value gain (loss)	<u>(4,012)</u>	<u>(3,388)</u>
Alternative investments, ending of year	<u>\$ 3,736</u>	<u>\$ 84,523</u>
 <u>Liabilities:</u>		
Interest rate swap obligation, beginning of year	\$ 3,918,184	\$ 3,812,235
Unrealized market value (gain) loss	<u>807,674</u>	<u>105,949</u>
Interest rate swap obligation, ending of year	<u>\$ 4,725,858</u>	<u>\$ 3,918,184</u>

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at August 31, 2016 and 2015.

Mutual Funds - The investments in mutual funds are valued at the daily closing as reported by the fund. These investments invest principally in equity securities, fixed-income instruments and short-term investments in accordance with each portfolio's investment objectives.

Certificates of deposits – The carrying amount approximates fair value because the instruments are liquid in nature.

The fair value of the Level 3 assets are primarily determined based on estimates provided by the fund manager using pricing models that utilize market prices of the underlying investments, recent trades for securities in active markets and dealer quotes for those securities considered to be inactive. The fair value of the interest rate swap is based on an estimate of the obligation required were NAEYC to terminate the underlying agreement using the published LIBOR interest rate as of the date of the financial statements.

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, 2016.

NOTE 13. SUBSEQUENT EVENTS

In preparing these financial statements, NAEYC has evaluated events and transactions for potential recognition or disclosure through December 2, 2016, the date the financial statements were available to be issued, and no events or transactions were noted that would materially impact the financial statements.

SUPPLEMENTAL INFORMATION

NATIONAL ASSOCIATION FOR THE
EDUCATION OF YOUNG CHILDREN

SCHEDULE OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2016

(WITH COMPARATIVE TOTALS FOR YEAR ENDED AUGUST 31, 2015)

	Program Services										Supporting Services					Common Costs				2016 Total	2015 Total	
	Accreditation	Office of the Executive Director	Affiliates	Contracts and Consulting	Professional Development	Publications and Journal	Membership	Conferences and Seminars	Public Advocacy/ Public Information	Program Support Services	Total Program	Finance	Governing Board/Nom. Panel/YCI	Human Resources	Marketing and Communications	General and Administrative	Total Supporting	Information Technology	Building Operations			Total Common
Personnel	\$ 1,988,723	\$ 1,139,984	\$ 227,803	\$ 1,802	\$ 559,759	\$ 654,173	\$ 707,008	\$ 515,959	\$ 102,541	507,660	\$ 6,405,412	\$ 412,672	\$ 184,984	344,771	\$ 211,173	\$ 105,111	\$ 1,258,711	\$ 313,469	\$ 353,128	\$ 666,597	\$ 8,330,720	\$ 8,743,911
Consultants and contractors	1,448,737	248,904	45,893	62,500	449	66,706	65,726	70,613	40,185	37,565	2,087,278	173,582	13,318	31,369	50,077	9,916	278,262	187,554	6,584	194,138	2,559,678	2,932,166
Creative services	-	-	-	-	-	192,693	126,830	236,078	-	(599,081)	(43,480)	-	-	-	43,480	-	43,480	-	-	-	-	-
Utilities	4,272	1,450	4,918	120	241	120	-	26,465	16	6,338	43,940	616	-	-	877	1,893	3,386	84,104	267,300	351,404	398,730	412,067
Meeting facilities and services	57,215	19,772	58,955	-	3,774	13,407	4,443	1,132,927	64,448	3,649	1,358,590	-	6,769	-	2,001	-	8,770	46	11,309	11,355	1,378,715	1,422,042
Professional services	4,182	1,927	-	-	4,954	-	-	834	2,103	-	14,000	54,765	-	14,273	345	157,085	226,468	100	1,701	1,801	242,269	289,089
Insurance	42,478	-	-	-	-	-	-	12,787	-	-	55,265	-	-	-	-	89,913	89,913	-	30,769	30,769	175,947	167,927
Depreciation and amortization	51,392	-	-	-	5,498	1,141	110	-	-	13,468	71,609	-	-	-	-	16,467	16,467	125,548	425,367	550,915	638,991	740,693
Travel	962,182	54,703	40,125	5,274	10,872	5,255	3,169	69,667	6,618	115	1,157,980	1,737	75,128	53	3,505	1,375	81,798	836	-	836	1,240,614	1,561,190
Postage and delivery	10,338	3,646	291	-	160	29,513	191,009	17,376	1,186	289,023	542,542	1,059	18,524	119	301	1,639	21,642	292	219	511	564,695	594,152
Equipment and technology	4,462	1,550	606	-	-	6,063	16,257	6,636	-	3,057	38,631	3,376	-	-	3,710	36,097	43,183	94,984	212,980	307,964	389,778	350,810
Office supplies and services	1,867	3,390	593	-	318	3,393	1,694	8,492	1,111	40,165	61,023	1,328	714	2,570	-	18,105	22,717	9,539	34,179	43,718	127,458	129,781
Dues and subscriptions	29,327	1,034	335	-	-	2,136	6,963	-	12,168	228	52,191	749	-	519	6,628	5,509	13,405	4,617	-	4,617	70,213	64,497
Printing and production	13,526	17,405	2,118	48	201	729,526	391,044	156,197	2,008	23,350	1,335,423	-	2,953	-	9,965	20,680	33,598	-	-	-	1,369,021	1,612,462
Bad debt expense	35,037	-	-	-	-	1,199	2,177	(7,430)	-	(39,633)	(8,650)	-	-	-	(10)	(10)	(10)	-	(210)	(210)	(8,870)	55,898
Financing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	11,075	11,075	-	755,171	755,171	766,246	751,295
Real estate taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	564,765	564,765	564,765	516,047
Miscellaneous	96,366	21,124	5,559	17,571	1,063	18,888	149,582	277,617	(266)	54,892	642,396	82,440	1,500	28,267	15,550	5,058	132,815	2,950	1,098	4,048	779,259	780,271
Subtotal	4,750,104	1,514,889	387,196	87,315	587,289	1,724,213	1,666,012	2,524,218	232,118	340,796	13,814,150	732,324	303,890	421,941	347,612	479,913	2,285,680	824,039	2,664,360	3,488,399	19,588,229	21,124,298
Allocation of building costs to tenant space	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,065,744)	(1,065,744)	(1,065,744)	(1,018,033)
Total expenses before allocations	4,750,104	1,514,889	387,196	87,315	587,289	1,724,213	1,666,012	2,524,218	232,118	340,796	13,814,150	732,324	303,890	421,941	347,612	479,913	2,285,680	824,039	1,598,616	2,422,655	18,522,485	20,106,265
Allocation of common costs	622,467	285,395	108,007	962	236,030	173,048	221,441	180,903	89,912	159,847	2,078,012	135,863	67,794	97,071	43,915	-	344,643	(824,039)	(1,598,616)	(2,422,655)	-	-
Total before allocation of management, general and Executive Director's office expenses	5,372,571	1,800,284	495,203	88,277	823,319	1,897,261	1,887,453	2,705,121	322,030	500,643	15,892,162	868,187	371,684	519,012	391,527	479,913	2,630,323	-	-	-	18,522,485	20,106,265
Allocation of management, general and Executive Director's office expenses	1,166,194	(787,844)	131,491	14,567	384,893	314,475	428,882	386,862	89,342	297,899	2,426,761	(865,087)	(364,456)	(517,672)	(340,984)	(338,562)	(2,426,761)	-	-	-	-	-
General and administrative allocation	143,223	(254,636)	14,077	(21)	45,088	67,052	49,750	38,190	10,623	37,660	151,006	(3,100)	(2,556)	(1,340)	(2,659)	(141,351)	(151,006)	-	-	-	-	-
Executive Office Allocations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total expenses	\$ 6,681,988	\$ 757,804	\$ 640,771	\$ 102,823	\$ 1,253,300	\$ 2,278,788	\$ 2,366,085	\$ 3,130,173	\$ 421,995	\$ 836,202	\$ 18,469,929	\$ -	\$ 4,672	\$ -	\$ 47,884	\$ -	\$ 52,556	\$ -	\$ -	\$ -	\$ 18,522,485	\$ 20,106,265