

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

FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION

AUGUST 31, 2015

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

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

YEAR ENDED AUGUST 31, 2015

CONTENTS

	PAGE
Report of Independent Auditors	1
Statements of Financial Position	4
Statement of Activities	5
Statement of Cash Flows	7
Notes to Financial Statements	9
Supplemental Information	
Schedule of Functional Expenses	21

REPORT OF INDEPENDENT AUDITORS

The Governing Board
National Association for the Education of Young Children

We have audited the accompanying 2015 financial statements of the National Association for the Education of Young Children (NAEYC, a nonprofit organization), which comprise the statement of financial position as of August 31, 2015, 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 2015 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, 2015, 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.

Adjustments to Prior Period Financial Statements

The financial statements of NAEYC as of and for the year ended August 31, 2014, were audited by other auditors whose opinion dated January 12, 2015, expressed an unmodified opinion on those statements. As discussed in Note 12 to the financial statements, NAEYC restated its 2014 financial statements during the current year to correct misstatements identified in the previously issued financial statements. The other auditors reported on the 2014 financial statements before the restatement.

As part of our audit of the 2015 financial statements, we also audited the adjustments described in Note 12 that were applied to restate the 2014 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2014 financial statements of NAEYC other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2014 financial statements as a whole.

Report on Summarized Comparative Information

As noted above, the financial statements of NAEYC as of and for the year ended August 31, 2014, were audited by other auditors whose opinion dated January 12, 2015, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived, taking into consideration the prior period adjustments noted above.

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the 2015 financial statements as a whole. The schedule of functional expenses for the year ended August 31, 2015, 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 2015 financial statements as a whole. The 2014 summarized comparative information in the schedule of functional expenses was subjected to auditing procedures applied in the audit of the 2014 basic financial statements by other auditors, whose report on such information stated that it was fairly stated in all material respects in relation to the 2014 financial statements as a whole.

Calibre CPA Group, PLLC

Bethesda, MD
January 22, 2016

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

STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2015 AND 2014

	2015	2014 (Restated)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,462,361	\$ 1,867,409
Short-term investments	4,359,018	4,325,201
Accounts and other receivables, net of allowance for doubtful accounts of \$216,082 and \$194,636 for 2015 and 2014, respectively	509,793	447,724
Grants receivable	119,228	405,504
Inventory, net of reserve of \$260,431 and \$252,905 for 2015 and 2014, respectively	671,247	663,713
Prepaid expenses and other current assets	<u>447,407</u>	<u>393,446</u>
Total current assets	7,569,054	8,102,997
LONG-TERM INVESTMENTS	9,623,484	9,632,216
PROPERTY AND EQUIPMENT, NET	19,638,087	19,953,808
DEFERRED LEASE ASSET	<u>149,445</u>	<u>195,768</u>
Total assets	<u>\$ 36,980,070</u>	<u>\$ 37,884,789</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Bonds payable, current portion	\$ 350,000	\$ 330,000
Accounts payable and accrued expenses	1,000,968	844,374
Accrued annual leave	599,031	679,682
Deferred revenue		
Membership dues	1,988,643	2,411,723
Accreditation fees	164,100	316,975
Conference	1,190,090	1,058,191
Other	244,785	110,240
Due to affiliates	124,032	261,096
Refundable advances	<u>413,741</u>	<u>424,752</u>
Total current liabilities	6,075,390	6,437,033
LONG-TERM LIABILITIES		
Bonds payable, net of current portion	12,410,000	12,760,000
Interest rate swap obligation	3,918,184	3,812,235
Deposits payable	<u>56,277</u>	<u>56,277</u>
Total long-term liabilities	16,384,461	16,628,512
Total liabilities	<u>22,459,851</u>	<u>23,065,545</u>
NET ASSETS		
Unrestricted	13,881,213	13,911,160
Temporarily restricted	<u>639,006</u>	<u>908,084</u>
Total net assets	14,520,219	14,819,244
Total liabilities and net assets	<u>\$ 36,980,070</u>	<u>\$ 37,884,789</u>

See accompanying notes to financial statements.

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

STATEMENT OF ACTIVITIES

YEAR ENDED AUGUST 31, 2015

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED AUGUST 31, 2014)

REVENUE	2015			2014 (Restated)
	Unrestricted	Temporarily Restricted	Total	Total
	Grants	\$ -	\$ 305,957	\$ 305,957
Fees				
Membership	1,679,956	-	1,679,956	1,503,167
Accreditation	6,831,161	-	6,831,161	6,645,211
Conferences and seminars	4,872,542	-	4,872,542	4,666,181
Publications	5,073,176	-	5,073,176	5,342,405
Contracts and consulting	690,755	-	690,755	880,564
Miscellaneous income	136,299	-	136,299	309,170
Rental income, net of related expenses of \$1,018,033 and \$972,307, respectively	132,541	-	132,541	132,947
Income on investments	25,826	-	25,826	141,288
Contributed services	164,976	-	164,976	118,919
Net assets released from restriction	575,035	(575,035)	-	-
Total revenue	20,182,267	(269,078)	19,913,189	20,515,703
EXPENSES				
Program services				
Accreditation	5,581,601	-	5,581,601	5,288,192
Office of the Executive Director	1,597,999	-	1,597,999	1,343,839
Affiliates	474,120	-	474,120	405,746
Contracts and Consulting	521,910	-	521,910	749,899
Professional Development	1,000,938	-	1,000,938	665,794
Publications and Journal	3,480,965	-	3,480,965	3,441,819
Membership	690,258	-	690,258	606,139
Conferences and Seminars	2,561,646	-	2,561,646	2,378,485
Public Advocacy/Public Information	369,438	-	369,438	416,284
Program Support Services	745,676	-	745,676	430,325
Total program services	17,024,551	-	17,024,551	15,726,522

See accompanying notes to financial statements.

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

STATEMENT OF ACTIVITIES (CONTINUED)

YEAR ENDED AUGUST 31, 2015

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED AUGUST 31, 2014)

	2015			2014 (Restated)
	Unrestricted	Temporarily Restricted	Total	Total
Supporting services				
Finance	\$ 958,913	\$ -	\$ 958,913	\$ 1,064,277
Governing Board/Nom. Panel/YCI	376,108	-	376,108	340,634
Human Resources	387,211	-	387,211	256,695
Marketing and Communications	655,283	-	655,283	651,744
General and Administrative	704,199	-	704,199	661,485
Total supporting services	<u>3,081,714</u>	<u>-</u>	<u>3,081,714</u>	<u>2,974,835</u>
 Total expenses	<u>20,106,265</u>	<u>-</u>	<u>20,106,265</u>	<u>18,701,357</u>
CHANGE IN NET ASSETS BEFORE OTHER ITEMS	76,002	(269,078)	(193,076)	1,814,346
OTHER ITEMS				
Unrealized loss on interest rate swap	<u>(105,949)</u>	<u>-</u>	<u>(105,949)</u>	<u>(412,095)</u>
CHANGE IN NET ASSETS	(29,947)	(269,078)	(299,025)	1,402,251
NET ASSETS				
Beginning of year (restated - See Note 12)	<u>13,911,160</u>	<u>908,084</u>	<u>14,819,244</u>	<u>13,416,993</u>
End of year	<u>\$ 13,881,213</u>	<u>\$ 639,006</u>	<u>\$ 14,520,219</u>	<u>\$ 14,819,244</u>

See accompanying notes to financial statements.

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

STATEMENT OF CASH FLOWS

YEAR ENDED AUGUST 31, 2015
(WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED AUGUST 31, 2014)

	<u>2015</u>	<u>2014</u> (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Grants received	\$ 592,233	\$ 515,347
Membership fees received	1,256,876	1,215,931
Accreditation fees received	6,714,448	6,536,061
Conference and seminar fees received	4,964,185	4,740,310
Publications income received	4,995,864	5,477,910
Contracts and consulting income received	690,755	880,564
Other income received	221,987	345,722
Rental income received	1,196,897	1,051,008
Investment income received	79,787	56,533
Payments to vendors, suppliers, affiliates, and employees	(19,596,745)	(17,972,668)
Interest paid	<u>(738,390)</u>	<u>(752,774)</u>
Net cash provided by operating activities	<u>377,897</u>	<u>2,093,944</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(5,285,736)	(3,154,559)
Proceeds from sales of investments	5,207,975	3,098,000
Purchases of property and equipment	<u>(375,184)</u>	<u>(816,236)</u>
Net cash used for investing activities	<u>(452,945)</u>	<u>(872,795)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on bonds payable	<u>(330,000)</u>	<u>(320,000)</u>
Net cash used for financing activities	<u>(330,000)</u>	<u>(320,000)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(405,048)	901,149
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>1,867,409</u>	<u>966,260</u>
End of year	<u>\$ 1,462,361</u>	<u>\$ 1,867,409</u>

See accompanying notes to financial statements.

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

STATEMENT OF CASH FLOWS (CONTINUED)

YEAR ENDED AUGUST 31, 2015

(WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED AUGUST 31, 2014)

	2015	2014 (Restated)
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED		
BY OPERATING ACTIVITIES		
Change in net assets	\$ (299,025)	\$ 1,402,251
Adjustments		
Net (appreciation) depreciation of investments	52,676	(89,918)
Depreciation and amortization of property and equipment	690,905	745,789
Amortization of deferred costs	49,788	49,788
Bad debt expense	55,898	63,757
Loss on interest rate swap obligation	105,949	412,095
Decrease (increase) in assets		
Accounts receivable	(117,967)	217,989
Grants and pledges receivable	286,276	(260,504)
Inventory	(7,534)	31,704
Prepaid expenses and other current assets	(103,749)	126,506
Deferred lease asset	46,323	(54,246)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	156,594	(371,610)
Accrued leave	(80,651)	106,681
Deferred revenue	(309,511)	(194,787)
Due to affiliates	(137,064)	76,688
Refundable advance	(11,011)	(168,239)
	<u>\$ 377,897</u>	<u>\$ 2,093,944</u>
Net cash provided by operating activities	<u>\$ 377,897</u>	<u>\$ 2,093,944</u>

See accompanying notes to financial statements.

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2015

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 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. 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, 2015.

Uncertain Tax Positions - NAEYC accounts for income tax uncertainties in accordance with the ASC Topic *Income Taxes*. For the year ended August 31, 2015, 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 2014 have been reclassified to conform with the 2015 presentation.

NOTE 3. INVESTMENTS

Investments are stated at their readily determinable fair values at August 31, 2015 and 2014 and are comprised of the following:

	<u>2015</u>	<u>2014</u>
Certificates of deposit	\$ 9,960,542	\$ 9,919,927
Mutual funds	3,767,672	3,807,537
Exchange traded funds	169,765	147,341
Alternative investments	<u>84,523</u>	<u>82,612</u>
Total investments	<u>\$ 13,982,502</u>	<u>\$ 13,957,417</u>

Income on investments consisted of the following for the years ended August 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Interest and dividend income	\$ 78,501	\$ 51,370
Net appreciation (depreciation) in fair value	<u>(52,675)</u>	<u>89,918</u>
Total income on investments	<u>\$ 25,826</u>	<u>\$ 141,288</u>

NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at August 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Land	\$ 8,829,620	\$ 8,829,620
Buildings and improvements	13,877,305	13,794,691
Furniture and equipment	1,051,171	1,051,171
Computer equipment and software	3,093,467	3,026,972
Tenant improvements	253,536	170,221
Work-in-progress	<u>975,780</u>	<u>833,020</u>
	28,080,879	27,705,695
Less: accumulated depreciation and amortization	<u>(8,442,792)</u>	<u>(7,751,887)</u>
Property and equipment, net	<u>\$ 19,638,087</u>	<u>\$ 19,953,808</u>

Depreciation and amortization expense for the years ended August 31, 2015 and 2014 amounted to \$690,905 and \$745,789, 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 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. The bonds' maturity period remains unchanged. Interest is paid monthly.

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 liquidity covenant:

- 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, 2015, the outstanding principal balance of the bond loan is \$12,760,000. NAEYC has a cash reserve in the amount of \$11,857,245 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>	
2016	\$ 350,000
2017	370,000
2018	380,000
2019	410,000
2020	430,000
Thereafter	<u>10,820,000</u>
	12,760,000
Less: current portion	<u>(350,000)</u>
Long-term portion	<u>\$ 12,410,000</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 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 0.1525% to 0.1918%. The 30-day LIBOR rate at August 31, 2015 was 0.1918%.

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, 2015, the swap notional amount was \$12,760,000. The swap had a negative fair value of \$3,918,184, 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 approximately 5.7% for the obligations on the building.

NOTE 7. UNRESTRICTED NET ASSETS

As of August 31, 2015 and 2014, unrestricted net assets have been designated by the Board of Directors for the following purposes:

	<u>2015</u>	<u>2014</u>
Emergency reserve	\$ 7,948,696	6,835,110
Outstanding payables	-	1,524,056
Encumbered reserve	-	89,370
Infrastructure reserve	1,899,772	1,000,000
Research and development	-	1,708,777
Discretionary	-	611,577
Miscellaneous	<u>4,032,745</u>	<u>2,142,270</u>
Total unrestricted net assets	<u>\$ 13,881,213</u>	<u>\$ 13,911,160</u>

NOTE 8. TEMPORARILY RESTRICTED NET ASSETS

As of August 31, 2015 and 2014, temporarily restricted net assets consisted of the following:

	<u>2015</u>	<u>2014</u>
Office of the Executive Director	\$ 176,723	158,807
Accreditation	<u>462,283</u>	<u>749,277</u>
Total temporarily restricted net assets	<u>\$ 639,006</u>	<u>\$ 908,084</u>

The following is a summary of net assets released from restriction during the year ended August 31, 2015 by satisfying restrictions imposed by donors:

Office of the Executive Director	\$ 288,041
Accreditation	<u>286,994</u>
Total net assets released from restriction	<u>\$ 575,035</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, 2015 was \$305,119.

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, 2015 totaled \$1,150,574.

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

<u>Year Ending August 31</u>	
2016	\$ 1,069,745
2017	844,428
2018	322,756
2019	<u>186,596</u>
Total	<u>\$ 2,423,525</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, 2015 and 2014 are as follows:

	<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>\$ 13,897,979</u>	<u>\$ -</u>	<u>\$ 84,423</u>
Liabilities				
Interest rate swap obligator	<u>\$ 3,918,184</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,918,184</u>

NOTE 11. FAIR VALUE MEASUREMENTS (CONTINUED)

	<u>Total at 8/31/14</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Assets				
Certificates of deposit	\$ 9,919,927	\$ 9,919,927	\$ -	\$ -
Mutual funds	3,807,537	3,807,537	-	-
Exchange traded funds	147,341	147,341	-	-
Alternative investments	<u>82,612</u>	<u>-</u>	<u>-</u>	<u>82,612</u>
	<u>\$ 13,957,417</u>	<u>\$ 13,874,805</u>	<u>\$ -</u>	<u>\$ 82,612</u>
Interest rate swap obligation	<u>\$ 3,812,235</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,812,235</u>

The following is a summary of changes in the fair value of NAEYC's level 3 assets and liabilities for the year ended August 31, 2015:

Alternative investments, beginning of year	\$ 82,612
Purchases	5,299
Unrealized market value gain/(loss)	<u>(3,388)</u>
Alternative investments, ending of year	<u>\$ 84,523</u>
<u>Liabilities:</u>	
Interest rate swap obligation, beginning of year	\$ 3,812,235
Unrealized market value (gain)/loss	<u>105,949</u>
Interest rate swap obligation, ending of year	<u>\$ 3,918,184</u>

NOTE 12. PRIOR PERIOD ADJUSTMENTS

NAEYC restated its 2014 financial statements during the current year to correct misstatements identified in the previously issued financial statements. Prior period adjustments were recorded to reclassify deferred lifetime membership dues from temporarily restricted net assets to deferred revenue, and to reduce other income by \$150,000 for credit memos and miscellaneous liabilities improperly recognized as revenue during fiscal year 2014.

NOTE 12. PRIOR PERIOD ADJUSTMENT (CONTINUED)

The following financial statement line items for fiscal year 2014 were affected by the changes:

Statement of Activities - Year Ended August 31, 2014

	As Originally Reported	As Adjusted	Effect of Change
Membership fees	\$ 1,467,167	\$ 1,503,167	\$ 36,000 (A)
Miscellaneous income	459,170	309,170	(150,000) (B)
Other revenues	<u>19,675,673</u>	<u>18,703,366</u>	<u>(972,307)</u>
Total revenue	21,602,010	20,515,703	(1,086,307)
Total expenses	<u>19,673,664</u>	<u>18,701,357</u>	<u>(972,307)</u>
Change in net assets before other items	1,928,346	1,814,346	(114,000)
Unrealized (loss) on interest rate swap	<u>(412,095)</u>	<u>(412,095)</u>	<u>-</u>
Change in net assets	1,516,251	1,402,251	(114,000) (C)
Net assets, beginning of year	<u>14,450,156</u>	<u>13,416,993</u>	<u>(1,033,163) (A)</u>
Net assets, end of year	<u>\$ 15,966,407</u>	<u>\$ 14,819,244</u>	<u>\$ (1,147,163)</u>

Statement of Financial Position - August 31, 2014

	As Originally Reported	As Adjusted	Effect of Change
Assets			
Accounts and other receivables, net of allowance for doubtful accounts	\$ 597,398	\$ 447,724	\$ (149,674) (B)
Other current assets	<u>17,287,489</u>	<u>7,655,273</u>	<u>(9,632,216)</u>
Total current assets	17,884,887	8,102,997	(9,781,890)
Non-current assets	<u>20,149,576</u>	<u>29,781,792</u>	<u>9,632,216</u>
Total assets	<u>\$ 38,034,463</u>	<u>\$ 37,884,789</u>	<u>\$ (149,674)</u>
Liabilities and Net Assets			
Deferred membership dues	\$ 1,414,560	\$ 2,411,723	\$ 997,163 (A)
Refundable advances	424,426	424,752	326 (B)
Other current liabilities	<u>3,600,558</u>	<u>3,600,558</u>	<u>-</u>
Total current liabilities	5,439,544	6,437,033	997,489
Long-term liabilities	<u>16,628,512</u>	<u>16,628,512</u>	<u>-</u>
Total liabilities	<u>22,068,056</u>	<u>23,065,545</u>	<u>997,489</u>
Net assets - unrestricted	14,061,160	13,911,160	(150,000) (B)
Net assets - temporarily restricted	<u>1,905,247</u>	<u>908,084</u>	<u>(997,163) (A)</u>
Total net assets	<u>15,966,407</u>	<u>14,819,244</u>	<u>(1,147,163)</u>
Total assets and liabilities	<u>\$ 38,034,463</u>	<u>\$ 37,884,789</u>	<u>\$ (149,674)</u>

NOTE 12. PRIOR PERIOD ADJUSTMENTS (CONTINUED)

Statement of Cash Flows - Year Ended August 31, 2014

	<u>As Originally Reported</u>	<u>As Adjusted</u>	<u>Effect of Change</u>
Cash Flow from Operating Activities			
Reconciliation of change in net assets to net cash provided operating activities			
Change in net assets	\$ 1,516,251	\$ 1,402,251	\$ (114,000) (C)
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Decrease (increase) in assets			
Accounts and other receivables	132,072	217,989	85,917 (B)(D)
Prepaid and other current assets	176,294	126,506	(49,788) (D)
Other decreases (increases)	(283,046)	(283,046)	-
Increase (decrease) in liabilities			
Deferred revenue	(158,787)	(194,787)	(36,000) (A)
Other increases (decreases)	(356,806)	(356,480)	326 (B)
Net cash provided by operating activities	<u>2,207,489</u>	<u>2,093,944</u>	<u>(113,545)</u>
Cash Flows from Investing Activities			
Net (purchase) sale of investments	(2,740,318)	(3,154,559)	(414,241) (D)
Purchases of property and equipment	(866,025)	(816,236)	49,789 (D)
Net cash used for investing activities	<u>(3,606,343)</u>	<u>(3,970,795)</u>	<u>(364,452)</u>
Cash Flows from Financing Activities			
	<u>(320,000)</u>	<u>(320,000)</u>	<u>-</u>
Net decrease in cash and cash equivalents	(1,718,854)	(2,196,851)	(477,997)
Cash and cash equivalents at beginning of year	<u>6,059,180</u>	<u>966,260</u>	<u>(5,092,920)</u>
Cash and cash equivalents at end of year	<u>\$ 4,340,326</u>	<u>\$ (1,230,591)</u>	<u>\$ (5,570,917)</u>

(A) These changes resulted from a prior period adjustment recorded to reclassify deferred lifetime memberships from temporarily restricted net assets to deferred membership dues. The adjustment decreased temporarily restricted net assets and increased deferred membership dues by \$1,033,163 and \$997,163 as of August 31, 2013 and 2014, respectively. The reclassification also resulted in a \$36,000 increase in fiscal year 2014 membership fees. The fees were originally reported as a release of temporarily restricted net asset and addition of unrestricted net assets in the previously issued financial statements.

NOTE 12. PRIOR PERIOD ADJUSTMENTS (CONTINUED)

(B) These changes resulted from a prior period adjustment recorded to reduce other income by \$150,000 for revenue improperly recognized in fiscal year 2014. In the current year, NAEYC determined that the \$150,000 represented \$149,674 in customer credit memos and \$326 in miscellaneous liabilities. The adjustment resulted in \$150,000 reductions to fiscal year 2014 unrestricted revenue and unrestricted net assets as of August 31, 2104.

(C) These changes represent the net effect of the period adjustments described in (A) and (B) above.

(D) These changes represent various reclassifications made to the prior year statement of cash flows.

NOTE 13. 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, 2015.

NOTE 14. SUBSEQUENT EVENTS

In preparing these financial statements, NAEYC has evaluated events and transactions for potential recognition or disclosure through January 22, 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, 2015
(WITH COMPARATIVE TOTALS FOR YEAR ENDED AUGUST 31, 2014)

	Program Services											Supporting Services											Common Costs	
	Accreditation	Office of the Executive Director	Affiliates	Contracts and Consulting	Professional Development	Publications and Journals	Membership	Conferences and Seminars	Public Information	Program Support Services	Total Program	Finance	Governing Board/Non-Paid/ YCL	Human Resources	Marketing and Communications	General and Administrative	Total Supporting	Information Technology	Operations	Total Common	2015 Total	2014 Total (Revised)		
Personnel	\$ 1,918,709	\$ 968,640	\$ 235,028	\$ 252,888	\$ 584,991	\$ 1,206,968	\$ 238,887	\$ 497,992	\$ 163,747	\$ 555,578	\$ 6,623,428	\$ 604,651	\$ 165,481	238,524	\$ 325,278	\$ 172,156	\$ 1,526,090	\$ 249,722	\$ 334,671	\$ 594,493	\$ 8,743,911	\$ 8,743,911	\$ 8,743,911	
Consultants and contractors	1,653,308	188,969	36,546	100,928	108,703	123,327	316,226	40,536	98,800	22,789	2,414,532	26,182	12,245	4,228	39,431	4,803	129,545	384,799	3,290	388,089	2,922,166	2,922,166	2,140,000	
Creative services	2,525	3,227	5,145	1,401	326	266,712	40,143	164,177	5,680	(523,370)	63,806	160	6,007	212	961	3,223	4,556	85,630	288,075	343,705	412,667	412,667	393,725	
Utilities	66,421	21,650	63,546	2,928	22,364	26,070	798	50,293	667	1,579	1,398,516	160	8,029	8,249	8,029	14,286	2,000	9,240	9,240	9,240	1,422,842	1,422,842	1,366,223	
Meeting facilities and services	2,708	728	-	-	1,240	770	-	1,138,131	30,941	25,365	1,398,516	56,414	6,007	8,249	3,713	105,675	2,000	14,286	9,240	9,240	1,422,842	1,422,842	1,366,223	
Professional services	32,988	-	80	2,650	-	-	-	13,576	-	-	18,984	-	-	8,249	3,713	121,805	2,000	14,286	9,240	9,240	1,422,842	1,422,842	1,366,223	
Depreciation and amortization	55,180	74,198	-	64,255	13,801	13,801	1,396	-	-	12,074	146,706	-	-	212	961	21,016	21,016	136,105	27,438	27,438	167,927	167,927	163,435	
Travel	11,111.16	52,196	30,993	20,925	20,925	11,344	1,396	106,863	3,315	1,102	1,412,052	3,050	134,244	2,322	8,634	31	148,281	857	857	795,577	795,577	1,407,055		
Postage and delivery	15,034	4,097	910	11,696	263	157,356	44,290	25,647	128	314,934	574,555	2,296	1,409	397	14,540	751	19,393	376	28	857	1,561,190	1,407,055		
Equipment and technology	10,195	1,910	1,852	2,287	435	7,330	7,766	5,174	5,234	12,712	44,517	5,234	1,409	2,679	49,465	41,252	49,465	74,113	182,715	256,838	350,810	376,479		
Office supplies and services	2,623	2,623	452	2,623	2,623	6,641	565	5,174	193	39,636	40,886	1,202	193	1,202	1,202	18,699	33,892	7,429	23,523	30,652	129,744	129,744	129,744	
Printing and production	36,076	1,503	806	16,467	368	1,233,205	60,372	162,535	7,897	330	1,515,909	1,202	3,816	435	2,786	64,751	96,553	-	2,786	33,892	1,612,462	1,536,577	1,536,577	
Bad debt expense	(31,648)	-	-	-	-	5,905	-	22,867	-	58,824	55,948	-	-	-	27,986	(260)	96,553	-	27,986	210	55,898	63,757	63,757	
Financing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	12,155	(260)	-	739,140	739,140	751,295	784,563		
Real estate taxes	105,385	19,172	57,866	12,613	1,072	38,298	191,271	178,864	1,273	50,092	593,780	78,820	45	36,005	36,005	20,710	1,725,116	135	5,604	13,925	21,174	21,174	664,106	
Miscellaneous	4,983,692	1,284,219	401,075	442,590	819,453	3,102,859	615,754	2,406,655	319,758	571,573	14,957,628	780,735	323,440	310,965	553,082	704,199	2,672,421	949,166	8,464,666	3,460,965	21,174	19,692,833		
Allocation of building costs to rental space	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,018,033	1,018,033	1,018,033	
Total expenses before allocations	4,983,692	1,294,219	401,075	442,590	819,453	3,102,859	615,754	2,406,655	319,758	571,573	14,957,628	780,735	323,440	310,965	553,082	704,199	2,672,421	949,166	1,527,650	2,476,216	20,106,245	18,701,357		
Allocation of common costs	597,909	303,780	73,045	79,320	181,485	378,106	74,501	154,991	49,680	174,103	2,066,923	178,178	52,668	76,246	102,201	-	409,293	(849,166)	(1,527,050)	(2,476,216)	-	-	-	
Total before allocation of management, general and Executive Directors office expenses	5,581,601	1,597,999	474,120	521,910	1,000,938	3,480,965	690,255	2,561,646	369,438	745,676	17,024,551	958,913	376,108	387,211	655,283	704,199	3,081,714	-	-	-	20,106,245	18,701,357		
Allocation of management, general and Executive Director's office expenses	672,637	(120,382)	82,173	102,416	204,167	425,363	83,814	174,362	55,888	195,862	1,876,100	(98,913)	592,250	(87,211)	114,973	(704,199)	(1,876,100)	-	-	-	-	-	-	
General and administrative allocation	171,160	(549,059)	20,910	22,707	51,953	108,239	21,328	44,368	14,221	49,839	(44,334)	(98,913)	15,077	29,257	-	-	44,334	-	-	-	-	-	-	
Executive Office Allocations	-	-	-	647,033	1,127,058	4,014,567	795,400	2,780,376	439,547	891,177	18,565,317	-	450,435	-	799,413	-	1,529,948	-	-	-	-	20,106,245	18,701,357	
Total expenses	6,425,398	928,338	577,293	647,033	1,127,058	4,014,567	795,400	2,780,376	439,547	891,177	18,565,317	-	450,435	-	799,413	-	1,529,948	-	-	-	20,106,245	18,701,357		