



NATIONAL ASSOCIATION FOR THE EDUCATION OF YOUNG CHILDREN

Financial Statements

For the Year Ended August 31, 2020

(With Summarized Financial Information for the Year Ended August 31, 2019)



**and
Report Thereon**



NATIONAL ASSOCIATION FOR THE EDUCATION OF YOUNG CHILDREN

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For the Year Ended August 31, 2020

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INDEPENDENT AUDITORS' REPORT

To the Governing Board of the
National Association for the Education of Young Children

Report on the Financial Statements

We have audited the accompanying financial statements of the National Association for the Education of Young Children (NAEYC), which comprise the statement of financial position as of August 31, 2020, and the related statements of activities, functional expenses 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.

Auditors' 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 auditors' 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.

Continued

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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, 2020, 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 NAEYC's 2019 financial statements, and in our report dated February 11, 2020, we expressed an unmodified audit opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Marcum LLP". The script is cursive and fluid, with the letters "M", "a", "r", "c", "u", "m" and "L", "L", "P" clearly visible.

Washington, DC
February 2, 2021

NATIONAL ASSOCIATION FOR THE EDUCATION OF YOUNG CHILDREN

STATEMENT OF FINANCIAL POSITION

August 31, 2020

(With Summarized Financial Information as of August 31, 2019)

	<u>2020</u>	<u>2019</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,597,603	\$ 826,077
Short term investments	-	3,465,414
Accounts and other receivables, net of allowance for doubtful accounts of \$330,014	1,979,587	3,098,574
Grants receivable	1,431,707	1,020,190
Inventory, net of reserve of \$42,624	439,658	482,230
Prepaid expenses and other current assets	391,064	686,205
Assets held for sale	-	17,198,199
Total Current Assets	<u>5,839,619</u>	<u>26,776,889</u>
Long-term investments	25,815,488	5,990,724
Property and equipment, net	2,372,079	2,551,938
Security deposit	591,820	-
Deferred lease asset	-	133,849
TOTAL ASSETS	<u>\$ 34,619,006</u>	<u>\$ 35,453,400</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses	\$ 719,567	\$ 805,205
Due to affiliates	80,796	93,762
Bonds payable	-	11,321,000
Paycheck Protection Program loan payable	1,550,000	-
Accrued annual leave	472,663	575,262
Contract liabilities		
Membership dues	1,178,835	1,220,147
Conference	450,152	1,494,380
Other	321,931	364,800
Interest rate swap obligation	-	3,609,341
Total Current Liabilities	<u>4,773,944</u>	<u>19,483,897</u>
Deposits payable	-	51,239
TOTAL LIABILITIES	<u>4,773,944</u>	<u>19,535,136</u>
NET ASSETS		
Without donor restrictions	27,688,987	14,233,780
With donor restrictions	<u>2,156,075</u>	<u>1,684,484</u>
TOTAL NET ASSETS	<u>29,845,062</u>	<u>15,918,264</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 34,619,006</u>	<u>\$ 35,453,400</u>

The accompanying notes are an integral part of these financial statements.

NATIONAL ASSOCIATION FOR THE EDUCATION OF YOUNG CHILDREN

STATEMENT OF ACTIVITIES

For the Year Ended August 31, 2020

(With Summarized Financial Information for the Year Ended August 31, 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
REVENUE				
Fees				
Conferences and seminars	\$ 4,706,922	\$ -	\$ 4,706,922	\$ 5,644,207
Accreditation	4,326,622	-	4,326,622	6,433,794
Membership	2,580,418	-	2,580,418	2,760,055
Grants	325,000	2,933,634	3,258,634	1,359,240
Publications	2,434,623	-	2,434,623	2,710,945
Investment income	1,797,507	-	1,797,507	239,764
Contracts and consulting	681,640	-	681,640	885,682
Rental income	509,861	-	509,861	1,118,929
Miscellaneous income	52,570	-	52,570	25,883
Contributed services	-	-	-	20,066
Net assets released from restrictions	2,462,043	(2,462,043)	-	-
TOTAL REVENUE	19,877,206	471,591	20,348,797	21,198,565
EXPENSES				
Program Services:				
Accreditation and Early Learning Systems	6,890,066	-	6,890,066	5,458,794
Publications	3,364,792	-	3,364,792	3,302,024
Conferences and seminars	2,302,770	-	2,302,770	2,989,843
Membership	1,808,477	-	1,808,477	2,130,582
Grants and awards	1,033,138	-	1,033,138	2,184,747
Contracts and consulting	542,450	-	542,450	756,966
Total Program Services	15,941,693	-	15,941,693	16,822,956
Supporting Services:				
Management and general	4,094,509	-	4,094,509	3,769,310
Building operations	607,030	-	607,030	1,136,651
Total Supporting Services	4,701,539	-	4,701,539	4,905,961
TOTAL EXPENSES	20,643,232	-	20,643,232	21,728,917
Change in net assets before other items	(766,026)	471,591	(294,435)	(530,352)
Other items				
Gain on sale of property and equipment	14,001,559	-	14,001,559	-
Unrealized gain (loss) on interest rate swap	219,674	-	219,674	(1,026,574)
CHANGE IN NET ASSETS	13,455,207	471,591	13,926,798	(1,556,926)
NET ASSETS, BEGINNING OF YEAR	14,233,780	1,684,484	15,918,264	17,475,190
NET ASSETS, END OF YEAR	\$ 27,688,987	\$ 2,156,075	\$ 29,845,062	\$ 15,918,264

The accompanying notes are an integral part of these financial statements.

NATIONAL ASSOCIATION FOR THE EDUCATION OF YOUNG CHILDREN

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended August 31, 2020
(With Summarized Financial Information for the Year Ended August 31, 2019)

	Program Services							Supporting Services				
	Accreditation and Early Learning Systems	Publications	Conferences and Seminars	Membership	Grants and Awards	Contracts and Consulting	Total Program Services	Management and General	Building Operations	Total Supporting Services	2020 Total	2019 Total
Personnel	\$ 2,610,552	\$ 1,451,598	\$ 836,641	\$ 821,543	\$ 602,881	\$ 353,461	\$ 6,676,676	\$ 2,989,144	\$ 32,783	\$ 3,021,927	\$ 9,698,603	\$ 8,956,907
Consultants and contractors	1,175,487	193,437	43,825	110,958	195,515	63,490	1,782,712	271,224	-	271,224	2,053,936	2,746,104
Meeting facilities and services	119,827	46,749	894,264	40,044	36,930	2,256	1,140,070	34,621	3,002	37,623	1,177,693	1,914,250
Rental	355,195	178,008	138,174	126,766	-	40,318	838,461	-	131,538	131,538	969,999	-
Travel	705,176	12,244	21,819	30,754	37,509	52,257	859,759	73,678	8	73,686	933,445	1,417,685
Subgrants	821,250	12,816	-	-	68,250	-	902,316	-	-	-	902,316	702,777
Printing and production	3,897	418,978	75,134	229,617	25,091	5,300	758,017	35,355	-	35,355	793,372	902,451
Bad debt expense	541,852	192,589	10,077	6,900	-	1,616	753,034	(1,415)	5,287	3,872	756,906	130,486
Depreciation and amortization	207,058	93,687	5,738	120,826	-	3,770	431,079	54,434	1,921	56,355	487,434	874,488
Equipment and technology	59,316	117,162	18,522	18,334	4,165	6,458	223,957	215,147	14,665	229,812	453,769	707,851
Commissions	-	275,513	114,270	-	-	-	389,783	-	-	-	389,783	320,872
Postage and delivery	1,139	169,533	3,561	185,617	641	398	360,889	15,125	5	15,130	376,019	477,684
Bank and credit card fees	137,525	40,749	79,927	40,409	3,629	276	302,515	36,662	1	36,663	339,178	336,408
Utilities	43,240	25,344	41,291	15,111	340	4,952	130,278	98,729	14,530	113,259	243,537	434,869
Professional services	2,008	69,226	1,485	13,024	24,000	2,236	111,979	112,441	19	112,460	224,439	248,323
Financing	-	-	-	-	-	-	-	-	224,307	224,307	224,307	619,011
Miscellaneous	54,920	15,850	2,583	17,804	31,756	4,116	127,029	53,709	48	53,757	180,786	264,804
Real estate taxes	-	-	-	-	-	-	-	-	176,192	176,192	176,192	352,819
Insurance	46,227	6,520	12,625	2,786	-	775	68,933	72,230	1,790	74,020	142,953	170,531
Office supplies and services	5,397	44,789	2,834	27,984	2,431	771	84,206	33,425	934	34,359	118,565	150,597
TOTAL EXPENSES	<u>\$ 6,890,066</u>	<u>\$ 3,364,792</u>	<u>\$ 2,302,770</u>	<u>\$ 1,808,477</u>	<u>\$ 1,033,138</u>	<u>\$ 542,450</u>	<u>\$ 15,941,693</u>	<u>\$ 4,094,509</u>	<u>\$ 607,030</u>	<u>\$ 4,701,539</u>	<u>\$ 20,643,232</u>	<u>\$ 21,728,917</u>

The accompanying notes are an integral part of these financial statements.

NATIONAL ASSOCIATION FOR THE EDUCATION OF YOUNG CHILDREN

STATEMENT OF CASH FLOWS

For the Year Ended August 31, 2020

(With Summarized Financial Information for the Year Ended August 31, 2019)

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 13,926,798	\$ (1,556,926)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net appreciation of investments	(1,797,507)	(239,764)
Depreciation and amortization of property and equipment	474,294	842,952
Gain on sale of property and equipment	(14,001,559)	-
Amortization of deferred financing costs	13,140	31,536
Bad debt expense	756,906	132,864
(Gain) loss on interest rate swap obligation	(219,674)	1,026,574
Change in assets and liabilities		
Accounts and other receivables	362,081	(1,388,726)
Grants receivable	(411,517)	(100,000)
Inventory	42,572	(79,139)
Prepaid expenses and other current assets	282,001	80,733
Security deposit	(591,820)	-
Deferred lease asset	133,849	(39,562)
Accounts payable and accrued expenses	(85,638)	(1,436,942)
Accrued annual leave	(102,599)	8,170
Contract liabilities	(1,128,409)	92,197
Due to affiliates	(12,966)	(58,698)
Deposits payable	<u>(51,239)</u>	<u>(3,550)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(2,411,287)</u>	<u>(2,688,281)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(294,435)	(678,899)
Proceeds on sale of property and equipment	31,199,758	-
Purchases of investments	(18,077,546)	(5,106,536)
Proceeds from sales and maturities of investments	<u>3,515,703</u>	<u>8,639,802</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>16,343,480</u>	<u>2,854,367</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Paycheck Protection Program loan issuance	1,550,000	-
Principal payments on interest rate swap	(3,389,667)	-
Principal payments on bonds payable	<u>(11,321,000)</u>	<u>(412,000)</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(13,160,667)</u>	<u>(412,000)</u>
NET (DECREASE) INCREASE IN CASH	771,526	(245,914)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>826,077</u>	<u>1,071,991</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 1,597,603</u></u>	<u><u>\$ 826,077</u></u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during the year for interest	<u><u>\$ 223,557</u></u>	<u><u>\$ 617,696</u></u>

The accompanying notes are an integral part of these financial statements.

NATIONAL ASSOCIATION FOR THE EDUCATION OF YOUNG CHILDREN

NOTES TO FINANCIAL STATEMENTS For the Year Ended August 31, 2020

1. Organization

The National Association for the Education of Young Children (NAEYC) is a professional membership organization, founded in 1926, to promote high-quality early learning for all young children, birth through age 8, by connecting early childhood practice, policy and research. NAEYC advances a diverse, dynamic early childhood profession and supports all who care for, educate, and work on behalf of young children, as well as accrediting early childhood facilities and higher education programs.

The principal sources of revenue are conference and seminar fees, accreditation fees, grants, membership fees, publications, and contracts and consulting.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements are presented in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) and have been prepared on the accrual basis of accounting.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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.

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.

Investments

Investments consist of mutual funds. Investments are reported in the accompanying statement of financial position at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where quoted market prices are not available or the prices are based on quoted prices that are not actively traded, fair value is estimated using pricing models, quoted prices of securities that are actively traded with similar characteristics, or discounted cash flows. Investment income, including realized and unrealized gains and losses on investments, interests and dividends, is reflected as investment income in the accompanying statements of activities.

Fair Value Measurement

In accordance with the accounting standards for fair value measurement for those assets and liabilities that are measured at fair value on a recurring basis, NAEYC has categorized its applicable assets and liabilities measured at fair value into the required fair value hierarchy. The

NATIONAL ASSOCIATION FOR THE EDUCATION OF YOUNG CHILDREN

NOTES TO FINANCIAL STATEMENTS For the Year Ended August 31, 2020

2. Summary of Significant Accounting Policies (continued)

Fair Value Measurement (continued)

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 the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Applicable financial assets and liabilities are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that NAEYC has the ability to access.

Level 2 – Financial assets and liabilities whose 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 asset or liability.

Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

As of and for the year ended August 31, 2020, only NAEYC's investments, as described in Note 3 of these financial statements, were measured at fair value on a recurring basis.

Accounts and Other Receivables and Grants Receivable

Accounts and other receivables and grants receivable are recorded at their present net realizable value. Accounts past due are individually analyzed for collectability. When all collection efforts have been exhausted, the account is written off against an allowance account. Management annually adjusts the allowance account based upon its estimate of those accounts and grants receivable it believes to be uncollectible.

Inventory

Inventory consists primarily of publications and is valued using the first-in, first-out method, at the lower of net realizable value and out-of-house printing cost.

Property and Equipment

Property and equipment purchases greater than \$2,500 and an economic life in excess of one year are capitalized and carried at cost in the statement of financial position. Expenditures for major additions, renewals and improvements are capitalized; expenditures for repairs and maintenance are expensed when incurred. Upon the retirement or disposal of assets, the cost and accumulated depreciation and amortization are eliminated from the accounts and the resulting gain or loss is reflected in the accompanying statement of activities. Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the assets.

NATIONAL ASSOCIATION FOR THE EDUCATION OF YOUNG CHILDREN

NOTES TO FINANCIAL STATEMENTS For the Year Ended August 31, 2020

2. Summary of Significant Accounting Policies (continued)

Property and Equipment (continued)

The estimated useful lives for property and equipment are as follows:

<u>Category</u>	<u>Estimated Life</u>
Computer equipment and software	3-7 years
Furniture and equipment	5-10 years

Classification of Net Assets

NAEYC's net assets are reported as follows:

- Net assets without donor restrictions represent the portion of expendable funds that are available for any purpose in performing the primary objectives of NAEYC at the discretion of NAEYC's management and the Board of Directors (the Board). From time to time, the Board designates a portion of these net assets for specific purposes, which makes them unavailable for use at management's discretion. As of August 31, 2020, the Board has not designated net assets without donor restrictions.
- Net assets with donor restrictions represent funds that are specifically restricted by donors for use in various programs and/or for a specific period of time. These donor restrictions can be temporary in nature in that they will be met by actions of NAEYC and/or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated that the funds be maintained in perpetuity. As of August 31, 2020, NAEYC had no net assets with donor restrictions that are required to be maintained in perpetuity.

Revenue Recognition

Conference and Seminar Fees and Accreditation Fees

Conference and seminar fees and accreditation fees are recognized as revenue at the point in time in which the accreditation, conference or seminar occurs. Amounts received in advance of the event are included in contract liabilities in the accompanying statement of financial position. Any event specific costs paid in advance for the events are reported as prepaid expenses in the accompanying statement of financial position.

Membership Dues

Membership dues are recognized as revenue in the membership period to which the dues relate. There are no distinct performance obligation and the general member benefits are considered a bundled group of performance obligations that are delivered to members throughout the membership period. Amounts received in advance of the membership period are included in contract liabilities in the accompanying statement of financial position. Revenue recognized for which payments have not been received is reflected as accounts receivable in the accompanying statement of financial position.

NATIONAL ASSOCIATION FOR THE EDUCATION OF YOUNG CHILDREN

NOTES TO FINANCIAL STATEMENTS For the Year Ended August 31, 2020

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Grants

Unconditional grants and contributions are recognized as revenue and support in the accounting period in which they are received or when an unconditional promise to give is made. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met. Unconditional contributions are considered available for general expenditure unless specifically restricted by a donor. Amounts that are designated for future periods or restricted by the donor for a specific purpose are reported as grants and contributions with donor restrictions in the accompanying statement of activities. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and released from restriction. Grants or contributions that have been committed to NAEYC, but have not been received as of year-end, are reflected as grant receivables in the accompanying statement of financial position.

Publication Sales

Publication sales includes books and merchandise sales and journal subscription revenue. Revenue for books and merchandise sales is recognized at the point in time the performance obligation is satisfied. The performance obligation is satisfied when the order is placed, as fulfillment of these items normally occurs within 24 hours of the purchase and NAEYC utilized freight on board shipping points. Journal subscription revenue is recognized over time as the periodical issues are released and shipped to the customer, with the unearned portion classified as contract liabilities in the accompanying statement of financial position.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statement of functional expenses. Expenses directly attributed to a specific functional area of NAEYC are reported as expenses of those functional areas, while shared costs that benefit multiple functional areas have been allocated among the various functional areas based on estimates determined by management to be equitable. Occupancy and certain general and administrative expenses are allocated by the proportion of salary expense incurred for the related department. Marketing and creative service costs that are shared across various departments are allocated based on a time study which is done every six months.

Fundraising Activities

Fund-raising activities include publicizing and conducting fund-raising campaigns; maintaining donor lists; cultivating donor relationships; and conducting other activities involved with soliciting contributions from individuals, foundations, and others. Fund-raising costs incurred in one year, which may result in contributions received in future years, are expensed as incurred in accordance with Accounting Standards Codification 958-20, *Not-for-Profit Entities – Other Expenses*. For the year ended August 31, 2020, fundraising expenses were \$211,268, and are included with management and general expenses in the statement of activities.

NATIONAL ASSOCIATION FOR THE EDUCATION OF YOUNG CHILDREN

NOTES TO FINANCIAL STATEMENTS For the Year Ended August 31, 2020

2. Summary of Significant Accounting Policies (continued)

Reclassifications

Certain amounts in the 2019 financial statements have been reclassified to conform to the 2020 presentation.

New Accounting Pronouncements

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. NAEYC adopted the standard applicable to contributions received and contributions paid to grantees in the accompanying financial statements under a modified prospective basis. As a result, there is no effect on net assets in connection with the implementation of the standard.

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), which requires an entity to recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. NAEYC adopted ASU 2014-09 and related amendments on September 1, 2019, using the modified retrospective method and elected to apply the standard only to program service contracts that were not completed as of that date. The adoption of the standard did not impact NAEYC's results of operations or change in net assets.

3. Investments and Fair Value Measurement

Investments measured at fair value on a recurring basis are as follows as of August 31, 2020:

	Total Fair Value	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Mutual funds				
Equity	\$ 17,038,899	\$ 17,038,899	\$ -	\$ -
Fixed-income	<u>8,776,589</u>	<u>8,776,589</u>	<u>-</u>	<u>-</u>
	<u>\$ 25,815,488</u>	<u>\$ 25,815,488</u>	<u>\$ -</u>	<u>\$ -</u>

Continued

NATIONAL ASSOCIATION FOR THE EDUCATION OF YOUNG CHILDREN

NOTES TO FINANCIAL STATEMENTS For the Year Ended August 31, 2020

3. Investments and Fair Value Measurement (continued)

Following are descriptions of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at August 31, 2020.

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.

4. Property and Equipment

Property and equipment consist of the following at August 31, 2020:

Computer equipment and software	\$ 6,424,385
Furniture and equipment	<u>963,144</u>
Total Property and Equipment	7,387,529
Less: Accumulated Depreciation and Amortization	<u>(5,015,450)</u>
Property and Equipment, Net	<u><u>\$ 2,372,079</u></u>

Depreciation and amortization expenses for the year ended August 31, 2020 amounted to \$474,294.

During fiscal year 2019, Governing Board unanimously approved the sale of NAEYC's main office space, which comprised land, building and building improvements located at 1313 L Street, NW, Washington, DC. On September 9, 2019, NAEYC entered into a purchase and sale agreement for the sale and lease back of the property. The purchase price totaled \$34,650,000, resulting in a gain of \$14,001,559, and, under the terms of the agreement, NAEYC is leasing the property from the closing date, which was February 10, 2020, through January 15, 2021. The monthly rent is \$145,000 per month and is not subject to escalation.

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 were 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. Interest was paid monthly. The monthly interest rate, which was variable, and was calculated at 70% of one month London Interbank Offered Rate (LIBOR) plus a spread of 1.76%.

NATIONAL ASSOCIATION FOR THE EDUCATION OF YOUNG CHILDREN

NOTES TO FINANCIAL STATEMENTS For the Year Ended August 31, 2020

5. Bonds Payable (continued)

On February 10, 2020, NAEYC sold the property located at 1313 L Street, NW, Washington, DC. As a result, the bonds payable balance was paid off with the proceeds from this sale.

6. Paycheck Protection Program Loan Payable

On April 14, 2020, NAEYC entered into a Small Business Administration (SBA) loan with its financial institution under the Paycheck Protection Program (PPP) for the amount of \$1,550,000. The loan will mature on April 14, 2022, and bears a fixed interest rate of 1% per annum. Monthly payments of principal and interest will commence ten months after the end of the forgiveness covered period. The loan amount may be eligible for forgiveness pursuant to the PPP, which established minimum amounts of the loan to be used to cover payroll costs and the remainder used for mortgage interest, rent and utility costs over a specified period of time after the loan was made and based on the assumption that the number of employees and compensation levels are maintained. On September 21, 2020, NAEYC applied for forgiveness of the PPP loan, and on January 5, 2021, received approval of the PPP loan forgiveness request.

7. Interest Rate Swap

On September 14, 2006, NAEYC entered into an interest rate swap agreement to fix its outstanding variable rate bonds at a synthetic fixed rate. Interest on the swap was due monthly. On March 22, 2016, the interest rate swap agreement was amended. Under the amended swap agreement, NAEYC paid 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.

NAEYC terminated the swap prior to maturity on February 10, 2020, and per the terms of the swap, NAEYC made a termination payment equal to the fair value of the swap at the time the swap was terminated.

8. Net Assets

Net Assets With Donor Restrictions

As of August 31, 2020, net assets with donor restrictions were restricted for the following purposes or period:

Subject to expenditure for specified purpose:

Early childhood profession	\$ 920,102
Early childhood education and development	<u>1,235,973</u>
Total Subject to Expenditure for Specified Purpose	<u>2,156,075</u>
Total Net Assets With Donor Restrictions	<u><u>\$ 2,156,075</u></u>

Continued

NATIONAL ASSOCIATION FOR THE EDUCATION OF YOUNG CHILDREN

NOTES TO FINANCIAL STATEMENTS For the Year Ended August 31, 2020

9. Availability and Liquidity

NAEYC regularly monitors liquidity required to meet its annual operating needs and other contractual commitments, while also striving to preserve the principal and return on the investment of its funds. NAEYC's financial assets available within one year of the statement of financial position date for general expenditures at August 31, 2020, were as follows:

Cash and cash equivalents	\$ 1,597,603
Investments	25,815,488
Accounts receivable	1,979,587
Grants receivable	<u>1,431,707</u>
Total Financial Assets Available Within One Year	30,824,385
Less:	
Amounts unavailable for general expenditures within one year due to donor's restriction with purpose restriction	<u>(2,156,075)</u>
Financial Assets Available to Meet General Expenditures Within One Year	<u>\$28,668,310</u>

NAEYC has various sources of liquidity at its disposal, including cash and cash equivalents and investments, which are available for general expenditures, liabilities and other obligations as they come due. Management is focused on sustaining the financial liquidity of NAEYC throughout the year. This is done through monitoring and reviewing NAEYC's cash flow needs on a weekly basis. As a result, management is aware of the cyclical nature of NAEYC's cash flow related to NAEYC's various funding sources and is therefore able to ensure that there is cash available to meet current liquidity needs. As part of its liquidity plan, excess cash is invested in publicly traded investment vehicles, including mutual funds, or to support organizational initiatives. NAEYC can liquidate its investments anytime, and therefore the investments are available to meet current cash flow needs.

10. 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. Beginning on January 2, 2018, a Roth contribution option was added to NAEYC's plan that allowed for both pre-tax and post-tax basis contributions for additional flexibility in retirement planning. Pension expense for the year ended August 31, 2020 was \$275,421.

11. Related Parties

The NAEYC Affiliate Network (Affiliates) is a vibrant community of nonprofit organizations dedicated to providing local member engagement opportunities, resources, conferences, professional development, and advocacy efforts for shared members. NAEYC and its Affiliates

NATIONAL ASSOCIATION FOR THE EDUCATION OF YOUNG CHILDREN

NOTES TO FINANCIAL STATEMENTS For the Year Ended August 31, 2020

11. Related Parties (continued)

share a core value in creating opportunities to widen reach to early educators; to enhance the influence NAEYC has on shaping a national, state and local agenda for young children; and to equip a growing and engaged membership with effective structures and processes for carrying out the work of the collective mission.

NAEYC collects membership dues that include a portion that is due to the Affiliates. The total collections on behalf of Affiliates for fiscal year 2020 was \$1,328,262 and NAEYC remitted a total of \$1,341,227 to Affiliates. The total amounts payable to Affiliates as of August 31, 2020 was \$80,796.

12. Concentrations and Contingencies

Concentration of Credit Risk

The cash and cash equivalents of NAEYC are comprised of amounts in accounts at financial institutions. While the amounts at times exceed the amount guaranteed by federal agencies and, therefore, bear some risk, NAEYC has not experienced, nor does it anticipate, any loss of funds. As of August 31, 2020, the Federal Deposit Insurance Corporation (FDIC) insured balances of a depositor, per financial institution, up to \$250,000. As of August 31, 2020, the amount held by NAEYC in excess of the amount guaranteed by the FDIC was \$1,234,807.

Risk and Uncertainty

The Coronavirus Disease 2019 (COVID-19) outbreak has caused business disruption through mandated and voluntary closings of businesses across the globe for non-essential services and widespread economic impact. While the disruption is currently expected to be temporary, there is considerable uncertainty about the duration of closings. NAEYC has been able to continue operations in a remote environment; however, at this point, the extent to which COVID-19 will impact NAEYC's financial condition or results of operations is uncertain and being evaluated by management and the Board.

Other Matters

NAEYC is subject to legal actions arising in the ordinary course of its operations. 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 significantly affect NAEYC's financial position or results of operations.

Office Lease

On February 18, 2020, NAEYC entered into a 13 year noncancelable operating lease agreement for office space in Washington, DC. The lease is effective the earlier of its occupancy date, or January 15, 2021. The lease includes 12 months of abated rent and annual escalations of approximately 2.5%. As an incentive to enter into the lease, NAEYC is receiving a tenant improvement allowance of \$4,194,000, which can be used to build out the office space. NAEYC took possession of the office space in July 2020, but construction of its tenant improvements was delayed until after August 31, 2020, due to regulatory requirements.

NATIONAL ASSOCIATION FOR THE EDUCATION OF YOUNG CHILDREN

NOTES TO FINANCIAL STATEMENTS For the Year Ended August 31, 2020

12. Concentrations and Contingencies (continued)

Office Lease (continued)

As of August 31, 2020, future minimum lease payment required under this operating lease were as follows:

For the Year Ending August 31,	
2021	\$ 652,500
2022	1,142,714
2023	1,846,456
2024	1,892,596
2025	1,939,859
Thereafter	<u>18,365,421</u>
Total	<u>\$ 25,839,546</u>

13. Income Taxes

Under Section 501(c)(3) of the IRC, NAEYC is exempt from federal taxes on income other than net unrelated business income. For the year ended August 31, 2020, no provision for income taxes was made, as NAEYC had no significant net unrelated business income.

NAEYC adopted the authoritative guidance relating to accounting for uncertainty in income taxes. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of a tax provision taken or expected to be taken in a tax return. NAEYC evaluated its uncertainty in income taxes for the year ended August 31, 2020, and determined that there are no matters that would require recognition in the financial statements or which might have any effect on NAEYC's tax-exempt status. As of August 31, 2020, the statute of limitations remained open for the U.S. jurisdictions in which NAEYC files tax returns; however, there are currently no examinations pending or in process. NAEYC's policy is to recognize interest and/or penalties related to uncertainty in income taxes, if any, in income tax or interest expense. As of August 31, 2020, NAEYC had no accrual for interest and/or penalties.

14. Prior Year Summarized Financial Information

The accompanying financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with NAEYC's financial statements for the year ended August 31, 2019, from which the summarized information was derived.

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NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2020

15. Subsequent Events

In preparing these financial statements, NAEYC has evaluated events and transactions for potential recognition or disclosure through February 2, 2021, the date the financial statements were available to be issued. Except for the application and approval for loan forgiveness described in Note 6, there were no events or transactions were noted that would materially impact the financial statements.