

**National Association for the
Education of Young Children**

Financial Statements and
Supplemental Information

August 31, 2018 and 2017



**National Association for the
Education of Young Children**

**Financial Statements and
Supplemental Information**

Years Ended August 31, 2018 and 2017

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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, 2018 and 2017, and the related statements of activities and cash flows for the years 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 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.



Report on Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses are presented for the purposes of additional analysis and are 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 financial statements as a whole.

Calibre CPA Group, PLLC

Bethesda, MD
February 27, 2019

National Association for the Education of Young Children

Statements of Financial Position

As of August 31, 2018 and 2017

	2018	2017
Assets		
Current assets		
Cash and cash equivalents	\$ 1,071,991	\$ 588,945
Short-term investments	6,918,540	7,946,474
Accounts and other receivables, net of allowance for doubtful accounts of \$186,295 for both years 2018 and 2017	1,842,712	1,319,156
Grants receivable	920,190	200,000
Inventory, net of reserve of \$104,132 and \$29,547 for 2018 and 2017, respectively	403,091	641,097
Prepaid expenses and other current assets	766,938	929,979
Total current assets	11,923,462	11,625,651
Long-term investments	5,862,636	5,309,448
Property and equipment, net	19,914,190	19,863,812
Deferred lease asset	94,287	42,716
Total assets	\$ 37,794,575	\$ 36,841,627
Liabilities and Net Assets		
Current liabilities		
Bonds payable, current portion	\$ 410,000	\$ 389,000
Accounts payable and accrued expenses	1,273,152	1,254,116
Accrued annual leave	567,092	533,039
Deferred revenue		
Membership dues	1,250,341	1,372,456
Accreditation fees	292,099	330,412
Conference	1,346,456	1,297,986
Other	448,010	230,633
Due to affiliates	111,110	107,140
Total current liabilities	5,698,260	5,514,782
Long-term liabilities		
Bonds payable, net of current portion	11,323,000	11,733,000
Interest rate swap obligation	2,582,767	3,600,743
Deposits payable	54,789	46,441
Total long-term liabilities	13,960,556	15,380,184
Total liabilities	19,658,816	20,894,966
Net assets		
Unrestricted	15,675,425	15,104,608
Temporarily restricted	2,460,334	842,053
Total net assets	18,135,759	15,946,661
Total liabilities and net assets	\$ 37,794,575	\$ 36,841,627

See accompanying notes to financial statements.

National Association for the Education of Young Children

Statements of Activities

Years Ended August 31, 2018 and 2017

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue						
Grants	\$ -	\$2,938,078	\$ 2,938,078	\$ -	\$ 738,291	\$ 738,291
Fees						
Membership	2,806,498	-	2,806,498	2,672,306	-	2,672,306
Accreditation	6,243,205	-	6,243,205	6,393,343	-	6,393,343
Conferences and seminars	4,763,881	-	4,763,881	4,969,764	-	4,969,764
Publications	2,725,883	-	2,725,883	2,868,612	-	2,868,612
Contracts and consulting	1,357,474	-	1,357,474	507,565	-	507,565
Miscellaneous income	45,125	-	45,125	33,419	-	33,419
Rental income (loss), net of related expenses of \$1,084,442 and \$959,584 respectively	(379,355)	-	(379,355)	26,471	-	26,471
Income on investments	655,283	-	655,283	599,792	-	599,792
Contributed services	37,626	-	37,626	49,689	-	49,689
Net assets released from restriction	1,319,797	(1,319,797)	-	1,257,374	(1,257,374)	-
Total revenue	<u>19,575,417</u>	<u>1,618,281</u>	<u>21,193,698</u>	<u>19,378,335</u>	<u>(519,083)</u>	<u>18,859,252</u>
Expenses						
Program services						
Accreditation and Early Learning Systems	6,120,981	-	6,120,981	5,511,212	-	5,511,212
Publications	3,051,531	-	3,051,531	2,969,433	-	2,969,433
Conferences and seminars	2,704,942	-	2,704,942	2,951,503	-	2,951,503
Membership	2,145,277	-	2,145,277	2,377,591	-	2,377,591
Grants and awards	1,545,820	-	1,545,820	1,635,032	-	1,635,032
Contracts and consulting	819,319	-	819,319	521,779	-	521,779
Total program services	<u>16,387,870</u>	<u>-</u>	<u>16,387,870</u>	<u>15,966,550</u>	<u>-</u>	<u>15,966,550</u>
Supporting services	3,414,603	-	3,414,603	3,134,524	-	3,134,524
Total expenses	<u>19,802,473</u>	<u>-</u>	<u>19,802,473</u>	<u>19,101,074</u>	<u>-</u>	<u>19,101,074</u>
Change in net assets before other items	(227,056)	1,618,281	1,391,225	277,261	(519,083)	(241,822)
Other items						
Loss on disposal of property and equipment	(220,103)	-	(220,103)	-	-	-
Unrealized gain on interest rate swap	1,017,976	-	1,017,976	1,125,115	-	1,125,115
Change in net assets	570,817	1,618,281	2,189,098	1,402,376	(519,083)	883,293
Net assets						
Beginning of year	<u>15,104,608</u>	<u>842,053</u>	<u>15,946,661</u>	<u>13,702,232</u>	<u>1,361,136</u>	<u>15,063,368</u>
End of year	<u>\$15,675,425</u>	<u>\$2,460,334</u>	<u>\$18,135,759</u>	<u>\$15,104,608</u>	<u>\$ 842,053</u>	<u>\$15,946,661</u>

See accompanying notes to financial statements.

National Association for the Education of Young Children

Statements of Cash Flows

Years Ended August 31, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Grants received	\$ 2,217,888	\$ 967,056
Membership fees received	2,684,383	2,303,260
Accreditation fees received	6,254,544	5,812,349
Conference and seminar fees received	4,812,351	5,218,824
Publication income received	2,335,681	2,836,868
Contracts and consulting income received	1,083,692	507,565
Other income received	368,308	162,581
Rental income received	653,516	1,035,295
Investment income received	212,626	185,636
Payments to vendors, suppliers, affiliates, and employees	(19,129,728)	(18,717,122)
Interest paid	(639,126)	(661,458)
Net cash provided by (used for) operating activities	854,135	(349,146)
Cash flows from investing activities		
Purchases of investments	(7,534,627)	(6,031,670)
Proceeds from sales of investments	8,437,000	7,267,736
Purchases of property and equipment	(884,462)	(1,044,570)
Net cash provided by investing activities	17,911	191,496
Cash flows from financing activities		
Principal payments on bonds payable	(389,000)	(367,000)
Net cash used for financing activities	(389,000)	(367,000)
Net change in cash and cash equivalents	483,046	(524,650)
Cash and cash equivalents		
Beginning of year	588,945	1,113,595
End of year	\$ 1,071,991	\$ 588,945

See accompanying notes to financial statements.

National Association for the Education of Young Children

Statements of Cash Flows (continued)

Years Ended August 31, 2018 and 2017

	2018	2017
Reconciliation of change in net assets to net cash provided by (used for) operating activities		
Change in net assets	\$ 2,189,098	\$ 883,293
Adjustments		
Net appreciation of investments	(427,627)	(409,769)
Depreciation and amortization of property and equipment	613,981	516,007
Loss on disposal of property and equipment	220,103	-
Amortization of deferred costs	31,536	31,536
Bad debt expense (recovery)	133,935	(23,153)
Gain on interest rate swap obligation	(1,017,976)	(1,125,115)
Change in assets		
Accounts receivable	(657,491)	(518,828)
Grants and pledges receivable	(720,190)	228,765
Inventory	238,006	(45,627)
Prepaid expenses and other current assets	131,505	(173,295)
Deferred lease asset	(51,571)	49,240
Change in liabilities		
Accounts payable and accrued expenses	19,036	316,591
Accrued leave	34,053	20,439
Deferred revenue	105,419	(78,710)
Due to affiliates	3,970	(23,426)
Refundable advance	-	12,742
Deposits payable	8,348	(9,836)
Net cash provided by (used for) operating activities	\$ 854,135	\$ (349,146)

See accompanying notes to financial statements.

National Association for the Education of Young Children

Notes to Financial Statements

NOTE 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 membership dues, accreditation fees, conference and seminar fees, publications sales, and grants and contracts.

NOTE 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.

Risks and Uncertainties

NAEYC's assets that are exposed to credit risk consist primarily of cash and cash equivalents, investments, accounts receivable, and grants receivable. 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 is minimal. Investment securities are exposed to various financial risks such as interest rate, 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. Accounts receivable and grants receivable consist primarily of amounts due from various members, clients, donors, and governmental agencies. Historically, NAEYC has not experienced significant losses related to accounts receivables and grants receivable and, therefore, believes that the credit risk is minimal.

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.

National Association for the Education of Young Children

Notes to Financial Statements

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments primarily consist of mutual funds and related investments, certificates of deposit, U.S. Government obligations, and money market securities. Investments are measured and reported at fair value in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements* (ASC 820). Dividends and interest are reflected as income when earned. Realized and unrealized gains and losses are included in income in the statement of activities.

Accounts and Grants Receivable

Accounts receivable are reported at their estimated net realizable value. The allowance for doubtful accounts is determined based upon an annual review of account balances, including the age of the balance and the historical experience with the customer. Receivables are written off as a charge to the allowance for doubtful accounts when, in management's estimation, it is probable that the receivable is not collectible.

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. 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 purchase 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.

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 statements of activities as net assets released from restriction.
- NAEYC has no permanently restricted net assets as of August 31, 2018 and 2017.

National Association for the Education of Young Children

Notes to Financial Statements

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

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.

Membership dues

Membership dues are recorded as deferred revenue upon receipt and are recognized as revenue ratably over the membership period.

Accreditation, conference and seminar fees

Accreditation, conference and seminar fees are recorded as deferred revenue upon receipt and recognized as revenue during the period(s) in which the accreditation, conference or seminar occurs.

Publication sales

Publication sales includes books and merchandize sales and journal subscription revenue. Books and merchandize sales are recognized as revenue when ownership is transferred to the customer. Journal subscription revenue is recognized ratably over the subscription period.

Contract and Consulting

Contract and consulting funds are deferred upon receipt and are recognized as revenue ratably as services are performed and contractual obligations have been fulfilled. Additionally, contract and consulting services performed, but not yet billed or collected, are accrued and classified as accounts receivable in the Statements of Financial Position.

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.

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 years ended August 31, 2018 and 2017.

National Association for the Education of Young Children

Notes to Financial Statements

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Revenue

Deferred revenue consists primarily of membership dues, accreditation fees, conference fees, exhibit fees, and contract fees up on invoicing the customer. 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.

Uncertain Tax Positions

NAEYC files information and income tax returns in the U.S. federal jurisdiction and in various states. Under ASC 740-10, *Accounting for Uncertainty in Income Taxes*, an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more-likely than not that the position will be sustained. Management believes it has no material uncertain tax positions nor any penalties and interest to be accrued for the years ended August 31, 2018 and 2017, and, accordingly, there is no liability for unrecognized tax benefits. NAEYC is still open to examination by taxing authorities from fiscal year 2015 forward.

Functional Allocation of Expenses

NAEYC summarizes the costs of providing its various programs and other activities on a functional basis in the accompanying statements of activities and statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefitting from them, based on specific identification or reasonable allocation methodologies.

Fund-raising 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 ASC 958-20, *Not-for-Profit Entities - Other Expenses*. For the years ended August 31, 2018 and 2017, fund-raising expenses were \$240,754 and \$247,937, respectively, and are included with other supporting services expenses in the statements of activities.

Fair Value Measurements

NAEYC follows the provisions of ASC 820 which establishes a framework for measuring fair value, which 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 in the 2017 financial statements have been reclassified to conform to the 2018 presentation. These reclassifications have no effect on the previously reported change in net assets.

National Association for the Education of Young Children

Notes to Financial Statements

NOTE 3. INVESTMENTS

Investments at fair value consist of the following:

<i>August 31,</i>	2018	2017
Certificates of deposit	\$ 6,918,540	\$ 7,946,474
Mutual funds	5,862,636	5,309,448
Total	\$ 12,781,176	\$ 13,255,922

Investment income consists of the following:

<i>August 31,</i>	2018	2017
Net appreciation on investments	\$ 427,627	\$ 409,769
Interest and dividend income	227,656	190,023
Total	\$ 655,283	\$ 599,792

NOTE 4. FAIR VALUE MEASUREMENTS

ASC 820 provides the framework for measuring fair value which includes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that NAEYC has the ability to access.

Level 2 - Inputs to the valuation methodology include other significant observable inputs including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's and liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

National Association for the Education of Young Children

Notes to Financial Statements

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, 2018 and 2017.

- *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 deposit* - The carrying amount approximates fair value because the instruments are liquid in nature.

Investments measured at fair value on a recurring basis are as follows as of August 31, 2018:

	Level 1	Level 2	Level 3	Total
Assets				
Certificates of deposit	\$ -	\$ 6,918,540	\$ -	\$ 6,918,540
Mutual funds	5,862,636	-	-	5,862,636
	<u>\$ 5,862,636</u>	<u>\$ 6,918,540</u>	<u>\$ -</u>	<u>\$ 12,781,176</u>
Liabilities				
Interest rate swap obligation	\$ -	\$ -	\$ 2,582,767	\$ 2,582,767

Investments measured at fair value on a recurring basis are as follows as of August 31, 2017:

	Level 1	Level 2	Level 3	Total
Assets				
Certificates of deposit	\$ -	\$ 7,946,474	\$ -	\$ 7,946,474
Mutual funds	5,309,448	-	-	5,309,448
	<u>\$ 5,309,448</u>	<u>\$ 7,946,474</u>	<u>\$ -</u>	<u>\$ 13,255,922</u>
Liabilities				
Interest rate swap obligation	\$ -	\$ -	\$ 3,600,743	\$ 3,600,743

The following is a summary of changes in the fair value of NAEYC's Level 3 assets:

<i>Year ended August 31,</i>	2018	2017
Alternative investments, beginning of year	\$ -	\$ 3,736
Purchases (sales)	-	(3,736)
Alternative investments, end of year	<u>\$ -</u>	<u>\$ -</u>

The following is a summary of changes in the fair value of NAEYC's Level 3 liabilities:

<i>Year ended August 31,</i>	2018	2017
Interest rate swap obligation, beginning of year	\$ 3,600,743	\$ 4,725,858
Unrealized market value gain	(1,017,976)	(1,125,115)
Interest rate swap obligation, end of year	<u>\$ 2,582,767</u>	<u>\$ 3,600,743</u>

National Association for the Education of Young Children

Notes to Financial Statements

NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at:

<i>August 31,</i>	2018	2017
Building and improvements	\$ 14,036,567	\$ 14,034,821
Land	8,829,620	8,829,620
Computer equipment and software	4,586,206	3,042,837
Work-in-progress	1,205,637	2,090,468
Furniture and equipment	957,285	957,285
Tenant improvements	257,611	253,536
	29,872,926	29,208,567
Less accumulated depreciation and amortization	(9,958,736)	(9,344,755)
Property and equipment, net	\$ 19,914,190	\$ 19,863,812

Depreciation and amortization expenses for the years ended August 31, 2018 and 2017 amounted to \$613,981 and \$516,007, respectively.

NOTE 6. 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. 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 1.76%. To mitigate the effect of fluctuations in interest rates, NAEYC has hedged these bonds using the interest rate swap agreement described in Note 7, effectively locking into a fixed rate of 5.5%.

The bond agreements, among other provisions, require NAEYC to meet the following liquidity and debt service covenants:

- 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 1.10 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.

National Association for the Education of Young Children

Notes to Financial Statements

NOTE 6. BONDS PAYABLE (CONTINUED)

- As of August 31, 2018, the outstanding principal balance of the bond loan is \$11,733,000. NAEYC has a cash reserve in the amount of \$13,853,167, which exceeds the requirement of \$8,212,000 or 70% of the outstanding balance.
- As of August 31, 2018, the debt service coverage ratio of 1.10 was waived by the lender.

Principal payments are due as of August 31, are as follows:

2019	\$	410,000
2020		432,000
2021		456,000
2022		481,000
2023		507,000
Thereafter		9,447,000
		11,733,000
Less: current portion		(410,000)
		\$ 11,323,000

NOTE 7. INTEREST RATE SWAP

On September 14, 2006, NAEYC entered into an interest rate swap agreement to fix its outstanding variable rate bonds (see Note 6) 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 1.23056% to 2.10375%. The 30-day LIBOR rate at August 31, 2018 and 2017 was 2.10375% and 1.2372%, respectively.

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, 2018 and 2017, the swap notional amount was \$11,733,000 and \$12,122,000 respectively. The swap had a negative fair value of \$2,582,767 and \$3,600,743 as of August 31, 2018 and 2017, respectively, which is included in the accompanying statements 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 statements of financial position date.

The combined effect of the interest rate swap and the bonds payable mentioned in Note 6 effectively provides the organization with an interest rate of 5.5% for the obligations on the building.

National Association for the Education of Young Children

Notes to Financial Statements

NOTE 8. UNRESTRICTED NET ASSETS

Unrestricted net assets have been designated by the Governing Board for the following purposes:

<i>August 31,</i>	2018	2017
Emergency reserve	\$ 7,747,543	\$ 7,307,836
Operations	5,936,463	5,807,391
Infrastructure reserve	1,991,419	1,989,381
Total	\$ 15,675,425	\$ 15,104,608

NOTE 9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following:

<i>August 31,</i>	2018	2017
Early childhood profession	\$ 2,233,747	\$ 635,270
Early childhood education/development	226,587	206,783
Total	\$ 2,460,334	\$ 842,053

During the years ended August 31, 2018 and 2017, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by the donor or by the passage of time, as follows:

<i>August 31,</i>	2018	2017
Early childhood profession	\$ 1,051,558	\$ 945,032
Early childhood education/development	268,239	312,342
Total	\$ 1,319,797	\$ 1,257,374

NOTE 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 years ended August 31, 2018 and 2017 was \$279,141 and \$275,256, respectively.

National Association for the Education of Young Children

Notes to Financial Statements

NOTE 11. 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, 2018 and 2017 totaled \$705,087 and \$986,055, respectively.

Future minimum lease receipts from these tenants are as follows:

2019	\$	893,744
2020		760,124
2021		707,757
2022		256,973
2023		177,012
Thereafter		90,254
<hr/>		
Total	\$	2,885,864

NOTE 12. 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 our shared members. NAEYC and its Affiliates share a core value in creating opportunities to widen our 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 our 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 2018 was \$1,381,288 and NAEYC remitted a total of \$1,270,178 to Affiliates. The total amount payable to Affiliates as of August 31, 2018 and 2017 were \$111,110 and \$107,140, respectively.

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, 2018.

NOTE 14. SUBSEQUENT EVENTS

In preparing these financial statements, NAEYC has evaluated events and transactions for potential recognition or disclosure through February 27, 2019, 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

Year Ended August 31, 2018

	Program Services									Total
	Accreditation and Early Learning Systems	Grants and Awards	Membership	Contracts and Consulting	Publications	Conferences and Seminars	Total Program	Support Services	Building Operations	
Personnel	\$ 2,314,340	\$ 781,628	\$ 892,945	\$ 309,344	\$ 1,318,099	\$ 498,136	\$ 6,114,492	\$ 2,470,223	\$ 405,039	\$ 8,989,754
Consultants and contractors	1,548,880	203,334	42,886	291,009	188,894	82,417	2,357,420	213,543	6,247	2,577,210
Travel	1,278,267	181,743	39,234	108,130	12,984	54,159	1,674,517	117,099	-	1,791,616
Meeting facilities and services	133,988	179,513	39,574	28,018	3,993	1,328,724	1,713,810	34,155	12,551	1,760,516
Miscellaneous	139,136	102,822	143,866	21,518	110,194	186,937	704,473	401,130	346	1,105,949
Printing and production	12,529	11,538	203,668	1,697	536,790	126,656	892,878	77,011	-	969,889
Financing	-	-	-	-	-	-	-	-	640,422	640,422
Depreciation and amortization	15,654	-	78,781	2,458	66,736	2,458	166,087	91,812	356,082	613,981
Equipment and technology	2,361	318	64,506	-	8,579	-	75,764	128,912	274,732	479,408
Real estate taxes	-	-	-	-	-	-	-	-	472,294	472,294
Postage and delivery	5,796	3,111	191,293	887	218,761	5,406	425,254	15,930	5	441,189
Utilities	4,840	845	27	252	1,909	42,355	50,228	105,693	270,964	426,885
Professional services	-	32,139	-	-	14,389	-	46,528	149,370	22,738	218,636
Office supplies and services	2,658	5,082	45,976	10,226	50,907	4,835	119,684	40,674	29,951	190,309
Insurance	48,892	-	-	-	-	10,364	59,256	43,323	31,356	133,935
Dues and subscriptions	44,658	2,023	56,990	-	2,210	360	106,241	11,873	-	118,114
Bad debt expense	(25)	-	(4,250)	-	-	(669)	(4,944)	298	-	(4,646)
Creative services	6,168	-	129,299	-	208,113	234,676	578,256	(616,802)	-	(38,546)
Subtotal	5,558,142	1,504,096	1,924,795	773,539	2,742,558	2,576,814	15,079,944	3,284,244	2,522,727	20,886,915
Allocation of building costs to tenant space	-	-	-	-	-	-	-	-	(1,084,442)	(1,084,442)
Total expenses before allocations	5,558,142	1,504,096	1,924,795	773,539	2,742,558	2,576,814	15,079,944	3,284,244	1,438,285	19,802,473
Allocation of common costs	562,839	41,724	220,482	45,780	308,973	128,128	1,307,926	130,359	(1,438,285)	-
Total before allocation of management, general and Executive office expenses	6,120,981	1,545,820	2,145,277	819,319	3,051,531	2,704,942	16,387,870	3,414,603	-	19,802,473
Allocation of management, general and Executive office expenses										
General and administrative allocation	1,227,809	227,355	560,313	100,009	746,779	511,256	3,373,521	(3,373,521)	-	-
Executive office allocations	-	2,457	-	-	-	-	2,457	(2,457)	-	-
Total expenses	\$ 7,348,790	\$ 1,775,632	\$ 2,705,590	\$ 919,328	\$ 3,798,310	\$ 3,216,198	\$ 19,763,848	\$ 38,625	\$ -	\$ 19,802,473

National Association for the Education of Young Children

Schedule of Functional Expenses

Year Ended August 31, 2017

	Program Services									
	Accreditation and Early Learning Systems	Grants and Awards	Membership	Contracts and Consulting	Publications	Conferences and Seminars	Total Program	Support Services	Building Operations	Total
Personnel	\$ 2,260,354	\$ 924,921	\$ 998,236	\$ 313,827	\$ 1,350,814	\$ 534,427	\$ 6,382,579	\$ 2,565,273	\$ 456,391	\$ 9,404,243
Consultants and contractors	1,107,351	328,339	46,287	70,846	85,335	111,191	1,749,349	371,627	2,372	2,123,348
Meeting facilities and services	135,170	13,115	12,119	6,541	14,108	1,220,049	1,401,102	25,018	23,526	1,449,646
Travel	935,477	47,537	43,099	49,749	9,314	146,932	1,232,108	167,219	-	1,399,327
Printing and production	15,859	8,037	228,430	746	589,222	157,398	999,692	54,876	-	1,054,568
Miscellaneous	107,440	196,347	331,383	16,098	(18,134)	261,891	895,025	116,616	1,377	1,013,018
Financing	-	-	-	-	-	-	-	11,910	669,417	681,327
Depreciation and amortization	-	-	-	-	9,925	-	9,925	111,990	394,092	516,007
Real estate taxes	-	-	-	-	-	-	-	-	493,691	493,691
Postage and delivery	14,748	2,945	151,526	913	262,241	3,619	435,992	30,546	17	466,555
Equipment and technology	11,424	-	36,325	-	17,482	(293)	64,938	143,985	252,951	461,874
Utilities	3,858	1,662	1,507	402	258	52,198	59,885	79,957	263,346	403,188
Professional services	5,045	-	-	-	6,002	-	11,047	180,639	18,995	210,681
Insurance	38,791	-	(1,000)	-	-	16,547	54,338	81,193	22,932	158,463
Office supplies and services	4,720	72	1,826	1,214	47,605	8,624	64,061	49,731	33,597	147,389
Dues and subscriptions	28,018	192	63,345	-	1,988	-	93,543	6,943	-	100,486
Creative services	-	-	139,304	-	215,289	278,610	633,203	(633,203)	-	-
Bad debt expense	71,320	-	(5,273)	-	(58,628)	(19,890)	(12,471)	(10,682)	-	(23,153)
Subtotal	4,739,575	1,523,167	2,047,114	460,336	2,532,821	2,771,303	14,074,316	3,353,638	2,632,704	20,060,658
Allocation of building costs to tenant space	-	-	-	-	-	-	-	-	(959,584)	(959,584)
Total expenses before allocations	4,739,575	1,523,167	2,047,114	460,336	2,532,821	2,771,303	14,074,316	3,353,638	1,673,120	19,101,074
Allocation of common costs	771,637	111,865	330,477	61,443	436,612	180,200	1,892,234	(219,114)	(1,673,120)	-
Total before allocation of management, general and Executive office expenses	5,511,212	1,635,032	2,377,591	521,779	2,969,433	2,951,503	15,966,550	3,134,524	-	19,101,074
Allocation of management, general and Executive office expenses										
General and administrative allocation	926,333	128,678	499,657	109,817	678,163	520,235	2,862,883	(2,862,883)	-	-
Executive office allocations	78,469	45,346	30,984	6,148	44,540	16,463	221,950	(221,950)	-	-
Total expenses	<u>\$ 6,516,014</u>	<u>\$ 1,809,056</u>	<u>\$ 2,908,232</u>	<u>\$ 637,744</u>	<u>\$ 3,692,136</u>	<u>\$ 3,488,201</u>	<u>\$ 19,051,383</u>	<u>\$ 49,691</u>	<u>\$ -</u>	<u>\$ 19,101,074</u>