

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

FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION

AUGUST 31, 2017

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

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

YEARS ENDED AUGUST 31, 2017 AND 2016

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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, 2017 and 2016, 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, 2017 and 2016, 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
December 15, 2017

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

STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2017 AND 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 588,945	\$ 1,113,595
Short-term investments	4,581,494	5,083,669
Accounts and other receivables, net of allowance for doubtful accounts of \$186,295 and \$240,619 for 2017 and 2016, respectively	1,319,156	777,175
Grants receivable	200,000	428,765
Inventory, net of reserve of \$29,547 and \$165,959 for 2017 and 2016, respectively	641,097	595,470
Prepaid expenses and other current assets	929,979	788,220
Total current assets	8,260,671	8,786,894
LONG-TERM INVESTMENTS	8,674,428	8,998,550
PROPERTY AND EQUIPMENT, NET	19,863,812	19,335,249
DEFERRED LEASE ASSET	42,716	91,956
Total assets	\$ 36,841,627	\$ 37,212,649
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Bonds payable, current portion	\$ 389,000	\$ 367,000
Accounts payable and accrued expenses	1,279,327	962,736
Accrued annual leave	533,039	512,600
Deferred revenue		
Membership dues	1,372,456	1,741,502
Accreditation fees	57,700	52,350
Conference	1,297,986	1,100,618
Other	205,422	117,804
Due to affiliates	107,140	130,566
Refundable advances	272,712	259,970
Total current liabilities	5,514,782	5,245,146
LONG-TERM LIABILITIES		
Bonds payable, net of current portion	11,733,000	12,122,000
Interest rate swap obligation	3,600,743	4,725,858
Deposits payable	46,441	56,277
Total long-term liabilities	15,380,184	16,904,135
Total liabilities	20,894,966	22,149,281
NET ASSETS		
Unrestricted	15,104,608	13,702,232
Temporarily restricted	842,053	1,361,136
Total net assets	15,946,661	15,063,368
Total liabilities and net assets	\$ 36,841,627	\$ 37,212,649

See accompanying notes to financial statements.

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

STATEMENTS OF ACTIVITIES

YEARS ENDED AUGUST 31, 2017 AND 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE						
Grants	\$ -	\$ 738,291	\$ 738,291	\$ -	\$ 1,357,143	\$ 1,357,143
Fees						
Membership	2,672,306	-	2,672,306	2,839,310	-	2,839,310
Accreditation	6,062,470	-	6,062,470	5,874,458	-	5,874,458
Conferences and seminars	4,969,764	-	4,969,764	5,180,591	-	5,180,591
Publications	2,807,130	-	2,807,130	3,604,811	-	3,604,811
Contracts and consulting	507,565	-	507,565	31,598	-	31,598
Miscellaneous income	425,774	-	425,774	260,995	-	260,995
Rental income, net of related expenses of \$959,584 and \$1,065,744, respectively	26,471	-	26,471	121,522	-	121,522
Income on investments	599,792	-	599,792	462,572	-	462,572
Contributed services	49,689	-	49,689	140,308	-	140,308
Net assets released from restriction	<u>1,257,374</u>	<u>(1,257,374)</u>	<u>-</u>	<u>635,013</u>	<u>(635,013)</u>	<u>-</u>
Total revenue	<u>19,378,335</u>	<u>(519,083)</u>	<u>18,859,252</u>	<u>19,151,178</u>	<u>722,130</u>	<u>19,873,308</u>
EXPENSES						
Program services						
Accreditation	5,152,744	-	5,152,744	5,372,571	-	5,372,571
Office of the Executive Director	1,602,507	-	1,602,507	1,800,284	-	1,800,284
Affiliates	338,955	-	338,955	495,203	-	495,203
Contracts and consulting	468,908	-	468,908	88,277	-	88,277
Professional development	893,863	-	893,863	823,319	-	823,319
Publications and journal	2,023,668	-	2,023,668	1,897,261	-	1,897,261
Membership	2,026,630	-	2,026,630	1,887,453	-	1,887,453
Conferences and seminars	2,951,503	-	2,951,503	2,705,121	-	2,705,121
Public advocacy/public information	301,489	-	301,489	322,030	-	322,030
Program support services	<u>997,379</u>	<u>-</u>	<u>997,379</u>	<u>500,643</u>	<u>-</u>	<u>500,643</u>
Total program services	<u>16,757,646</u>	<u>-</u>	<u>16,757,646</u>	<u>15,892,162</u>	<u>-</u>	<u>15,892,162</u>
Supporting services						
Finance	1,029,690	-	1,029,690	868,187	-	868,187
Governing Board/Nom. Panel/YCI	383,417	-	383,417	371,684	-	371,684
Human resources	449,178	-	449,178	519,012	-	519,012
Marketing and communications	411,473	-	411,473	391,527	-	391,527
General and administrative	<u>69,670</u>	<u>-</u>	<u>69,670</u>	<u>479,913</u>	<u>-</u>	<u>479,913</u>
Total supporting services	<u>2,343,428</u>	<u>-</u>	<u>2,343,428</u>	<u>2,630,323</u>	<u>-</u>	<u>2,630,323</u>
Total expenses	<u>19,101,074</u>	<u>-</u>	<u>19,101,074</u>	<u>18,522,485</u>	<u>-</u>	<u>18,522,485</u>
CHANGE IN NET ASSETS BEFORE OTHER ITEMS	277,261	(519,083)	(241,822)	628,693	722,130	1,350,823
OTHER ITEMS						
Unrealized gain (loss) on interest rate swap	<u>1,125,115</u>	<u>-</u>	<u>1,125,115</u>	<u>(807,674)</u>	<u>-</u>	<u>(807,674)</u>
CHANGE IN NET ASSETS	1,402,376	(519,083)	883,293	(178,981)	722,130	543,149
NET ASSETS						
Beginning of year	<u>13,702,232</u>	<u>1,361,136</u>	<u>15,063,368</u>	<u>13,881,213</u>	<u>639,006</u>	<u>14,520,219</u>
End 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>

See accompanying notes to financial statements.

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

STATEMENTS OF CASH FLOWS

YEARS ENDED AUGUST 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Grants received	\$ 967,056	\$ 1,047,606
Membership fees received	2,303,260	2,592,169
Accreditation fees received	5,812,349	5,419,912
Conference and seminar fees received	5,218,824	5,033,749
Publications income received	2,836,868	3,538,707
Contracts and consulting income received	507,565	31,598
Other income received	162,581	199,602
Rental income received	1,035,295	1,197,044
Investment income received	185,636	82,834
Payments to vendors, suppliers, affiliates, and employees	(18,717,122)	(18,426,261)
Interest paid	<u>(661,458)</u>	<u>(754,421)</u>
Net cash used for operating activities	<u>(349,146)</u>	<u>(37,461)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(6,031,670)	(13,149,733)
Proceeds from sales of investments	7,267,736	13,418,653
Purchases of property and equipment	<u>(1,044,570)</u>	<u>(309,225)</u>
Net cash provided by (used for) investing activities	<u>191,496</u>	<u>(40,305)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on bonds payable	<u>(367,000)</u>	<u>(271,000)</u>
Net cash used for financing activities	<u>(367,000)</u>	<u>(271,000)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(524,650)	(348,766)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>1,113,595</u>	<u>1,462,361</u>
End of year	<u>\$ 588,945</u>	<u>\$ 1,113,595</u>

See accompanying notes to financial statements.

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

STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED AUGUST 31, 2017 AND 2016

	2017	2016
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH		
USED FOR OPERATING ACTIVITIES		
Change in net assets	\$ 883,293	\$ 543,149
Adjustments		
Net appreciation of investments	(409,769)	(368,637)
Depreciation and amortization of property and equipment	516,007	612,063
Amortization of deferred costs	31,536	26,928
Bad debt recovery	(23,153)	(8,870)
(Gain) loss on interest rate swap obligation	(1,125,115)	807,674
Decrease (increase) in assets		
Accounts receivable	(518,828)	(258,512)
Grants and pledges receivable	228,765	(309,537)
Inventory	(45,627)	75,777
Prepaid expenses and other current assets	(173,295)	(367,741)
Deferred lease asset	49,240	57,489
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	316,591	(38,232)
Accrued leave	20,439	(86,431)
Deferred revenue	(78,710)	(575,344)
Due to affiliates	(23,426)	6,534
Refundable advance	12,742	(153,771)
Deposits payable	(9,836)	-
	<u>\$ (349,146)</u>	<u>\$ (37,461)</u>

See accompanying notes to financial statements.

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

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED AUGUST 31, 2017 AND 2016

NOTE 1. ORGANIZATION

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

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Cash and Cash Equivalents - NAEYC considers all cash and other highly liquid investments with initial maturities of three months or less to be cash and cash equivalents, except for amounts invested in a short-term portfolio of laddered certificates of deposit. NAEYC often maintains cash and investment balances at financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limits. Amounts in excess of insurance limits are typically invested in either government securities or government service enterprises (GSEs) fixed income securities. Management believes that the financial risk in these situations are minimal.

Investments - Investments primarily consist of mutual funds and related investments, certificates of deposit, U.S. Government obligations, and money market securities. Investments are recorded at their readily determinable fair values. Realized and unrealized gains and losses are included in income in the statement of activities.

Accounts Receivable - Accounts receivable is shown at their estimated net realizable value. Customer account balances with invoices dated over 30 days old are considered past due. The allowance for doubtful accounts is determined based upon an annual review of account balances, including the age of the balance and the historical experience with the customer. Amounts that are more than 90 days past due are fully reserved. Receivables are written off as a charge to the allowance for doubtful accounts when, in management's estimation, it is probable that the receivable is worthless.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grants Receivable - Grants receivable are shown at their estimated net realizable value.

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

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

Income Taxes - NAEYC is generally exempt from Federal and related state and local income taxes under Section 501(c)(3) of the Internal Revenue Code, and is classified as a publicly-supported organization. Income taxes are paid on net income generated by activities unrelated to NAEYC's exempt function. There were no income taxes for unrelated business income for the year ended August 31, 2017.

Uncertain Tax Positions - NAEYC accounts for income tax uncertainties in accordance with the Accounting Standard Codification (ASC) Topic *Income Taxes*. For the year ended August 31, 2017, 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 Financial Accounting Standards Board (FASB) Accounting Standard Codification (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 2016 have been reclassified to conform with the 2017 presentation.

NOTE 3. INVESTMENTS

Investments are stated at their readily determinable fair values at August 31, 2017 and 2016, and are comprised of the following:

	<u>2017</u>	<u>2016</u>
Certificates of deposit	\$ 7,946,474	\$ 10,047,210
Mutual funds	5,309,448	4,031,273
Alternative investments	<u>-</u>	<u>3,736</u>
Total investments	<u>\$ 13,255,922</u>	<u>\$ 14,082,219</u>

Income on investments consisted of the following for the years ended August 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Interest and dividend income	\$ 190,023	\$ 93,935
Net appreciation in fair value	<u>409,769</u>	<u>368,637</u>
Total income on investments	<u>\$ 599,792</u>	<u>\$ 462,572</u>

NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at August 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Land	\$ 8,829,620	\$ 8,829,620
Building and improvements	14,034,821	13,918,482
Furniture and equipment	957,285	1,051,171
Computer equipment and software	3,042,837	3,052,412
Tenant improvements	253,536	253,536
Work-in-progress	<u>2,090,468</u>	<u>1,184,883</u>
	29,208,567	28,290,104
Less: accumulated depreciation and amortization	<u>(9,344,755)</u>	<u>(8,954,855)</u>
Property and equipment, net	<u>\$ 19,863,812</u>	<u>\$ 19,335,249</u>

Depreciation expense for the years ended August 31, 2017 and 2016 amounted to \$516,007 and \$612,063, respectively.

NOTE 5. BONDS PAYABLE

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

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

The monthly interest rate, which is variable, is calculated at 70% of one month LIBOR plus a spread of 1.76%. To mitigate the effect of fluctuations in interest rates, NAEYC has hedged these bonds using the interest rate swap agreement described in Note 6, effectively locking into a fixed rate of 5.5%.

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

- NAEYC must maintain cash and liquid investments with an aggregate value of the lesser of \$10,000,000 or 70% of the remaining principal balance of the loan, provided that if the calculation of 70% of the remaining principal balance results in a number less than \$6,000,000, then the liquidity should not be less than \$6,000,000. In addition, as the last day of each fiscal year the debt service coverage ratio should not be less than 1.00 to 1.00. NAEYC must also present the annual audited financial reports to TD Bank N.A. within 6 months after the close of the fiscal year.
- As of August 31, 2017, the outstanding principal balance of the bond loan is \$12,122,000. NAEYC has a cash reserve in the amount of \$13,255,922, which exceeds the requirement. This reserve consists of cash and highly liquid investments, less deferred revenue.

Principal payments are due as follows:

<u>Year Ending August 31:</u>	
2018	\$ 389,000
2019	410,000
2020	432,000
2021	456,000
2022	481,000
Thereafter	<u>9,954,000</u>
	12,122,000
Less: current portion	<u>(389,000)</u>
Long-term portion	<u>\$ 11,733,000</u>

NOTE 6. INTEREST RATE SWAP

On September 14, 2006, NAEYC entered into an interest rate swap agreement to fix its outstanding variable rate bonds (see Note 5) at a synthetic fixed rate. Interest on the swap is due monthly. The bonds and the related swap agreement will mature on April 1, 2036. On March 22, 2016, the interest rate swap agreement was amended. Under the amended swap agreement, NAEYC pays Wells Fargo Bank, N.A. a fixed rate of 4.469%. On the first of each month, the LIBOR interest rate is determined, and NAEYC then pays Wells Fargo Bank the variance of 70% of the LIBOR rate and NAEYC's fixed rate at 4.469%. In the event the LIBOR rate exceeds the NAEYC fixed rate of 4.469%, Wells Fargo Bank pays the variance to NAEYC. During the fiscal year, the 30-day LIBOR rate ranged from 0.5132% to 1.2388%. The 30-day LIBOR rate at August 31, 2017 was 1.2372%.

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, 2017 and 2016, the swap notional amount was \$12,122,000 and \$12,489,000, respectively. The swap had a negative fair value of \$3,600,743 and \$4,725,858 as of August 31, 2017 and 2016, 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 statement of financial position date.

The combined effect of the interest rate swap and the bonds payable mentioned in Note 5 effectively provides the organization with an interest rate of 5.5% for the obligations on the building.

NOTE 7. UNRESTRICTED NET ASSETS

As of August 31, 2017 and 2016, unrestricted net assets have been designated by the Governing Board for the following purposes:

	<u>2017</u>	<u>2016</u>
Emergency reserve	\$ 7,307,836	\$ 7,553,150
Infrastructure reserve	1,989,381	1,933,525
Miscellaneous	<u>5,807,391</u>	<u>4,215,557</u>
Total unrestricted net assets	<u>\$ 15,104,608</u>	<u>\$ 13,702,232</u>

NOTE 8. TEMPORARILY RESTRICTED NET ASSETS

As of August 31, 2017 and 2016, temporarily restricted net assets consisted of the following:

	<u>2017</u>	<u>2016</u>
Office of the Executive Director	\$ 202,689	\$ 205,031
Accreditation	<u>639,364</u>	<u>1,156,105</u>
Total temporarily restricted net assets	<u>\$ 842,053</u>	<u>\$ 1,361,136</u>

The following is a summary of net assets released from restriction during the years ended August 31, 2017 and 2016 by satisfying restrictions imposed by donors:

	<u>2017</u>	<u>2016</u>
Office of the Executive Director	\$ 130,397	\$ 284,825
Accreditation	<u>1,126,977</u>	<u>350,188</u>
Total net assets released from restriction	<u>\$ 1,257,374</u>	<u>\$ 635,013</u>

NOTE 9. PENSION COST

NAEYC has a defined contribution plan that covers all employees that meet the Plan's eligibility requirements. Under the plan, staff members may purchase tax deferred annuities through salary reduction agreements as provided for by Section 403(b) of the Internal Revenue Code. Pension expense for the years ended August 31, 2017 and 2016 was \$275,256 and \$269,224, respectively.

NOTE 10. RENTAL INCOME

NAEYC has entered into several operating lease agreements with tenants to occupy excess space in NAEYC's headquarters building. Rental income for the years ended August 31, 2017 and 2016 totaled \$986,055 and \$1,187,266, respectively.

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

<u>Year Ending August 31</u>	
2018	\$ 536,820
2019	222,357
2020	<u>107,999</u>
Total	<u>\$ 867,176</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, 2017 and 2016 are as follows:

	<u>Total at 8/31/17</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Assets				
Certificates of deposit	\$ 7,946,474	\$ -	\$ 7,946,474	\$ -
Mutual funds	5,309,448	5,309,448	-	-
Alternative investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 13,255,922</u>	<u>\$ 5,309,448</u>	<u>\$ 7,946,474</u>	<u>\$ -</u>
Liabilities				
Interest rate swap obligation	<u>\$ 3,600,743</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,600,743</u>
	<u>Total at 8/31/16</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Assets				
Certificates of deposit	\$ 10,047,210	\$ -	\$ 10,047,210	\$ -
Mutual funds	4,031,273	4,031,273	-	-
Alternative investments	<u>3,736</u>	<u>-</u>	<u>-</u>	<u>3,736</u>
	<u>\$ 14,082,219</u>	<u>\$ 4,031,273</u>	<u>\$ 10,047,210</u>	<u>\$ 3,736</u>
Interest rate swap obligation	<u>\$ 4,725,858</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,725,858</u>

NOTE 11. FAIR VALUE MEASUREMENTS (CONTINUED)

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

<u>Assets</u>	<u>2017</u>	<u>2016</u>
Alternative investments, beginning of year	\$ 3,736	\$ 84,523
Purchases (sales)	(3,736)	(76,775)
Unrealized market value loss	-	(4,012)
Alternative investments, ending of year	<u>\$ -</u>	<u>\$ 3,736</u>
<u>Liabilities</u>		
Interest rate swap obligation, beginning of year	\$ 4,725,858	\$ 3,918,184
Unrealized market value (gain) loss	(1,125,115)	807,674
Interest rate swap obligation, ending of year	<u>\$ 3,600,743</u>	<u>\$ 4,725,858</u>

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at August 31, 2017 and 2016.

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.

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

NOTE 12. CONTINGENCIES

NAEYC is subject to legal actions arising in the ordinary course of its business. In management's opinion, NAEYC has adequate legal defenses and/or insurance coverage with respect to the eventuality of such actions. Management does not believe any settlement or judgment would materially affect NAEYC's financial position or results of operations for the year ended August 31, 2017.

NOTE 13. SUBSEQUENT EVENTS

In preparing these financial statements, NAEYC has evaluated events and transactions for potential recognition or disclosure through December 15, 2017, 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, 2017**

	Program Services										Supporting Services					Common Costs					
	Accreditation	Office of the Director	Affiliates	Contracts Consulting	Professional Development	Publications and Journals	Membership	Conferences and Seminars	Public Advocacy/Information	Program Services	Total Program	Finance	Governing Board/Parent/Youth	Human Resources	Marketing and Communications	General and Administrative	Total Supporting	Information Technology	Building Operations	Total Common	Total
Personnel	\$ 2,145,742	\$ 1,010,338	\$ 205,801	\$ 108,639	\$ 582,881	\$ 880,839	\$ 792,435	\$ 534,427	\$ 92,847	\$ 932,826	\$ 7,363,975	\$ 647,344	\$ 177,088	\$ 285,516	\$ 246,511	\$ (212,350)	\$ 1,144,059	\$ 49,818	\$ 456,591	\$ 896,209	\$ 9,404,243
Consultants and contractors	1,026,695	274,190	-	105,075	48,210	60,868	46,287	111,991	80,656	51,037	1,804,229	20,787	7,501	48,530	30,884	2,009	110,611	300,280	2,372	202,622	2,117,662
Office services	3,858	1,598	1,507	842	244	216,287	139,374	52,198	-	6	60,489	256	70	187	288	1,320	2,121	71,232	263,346	340,578	483,188
Utilities	58,630	22,221	3,423	0,663	9,986	9,986	8,696	1,220,049	76,540	6,939	1,417,877	-	5,647	299	2,283	-	8,229	-	18,995	23,540	1,449,646
Professional services	5,045	-	(1,000)	-	5,886	6,002	-	16,547	-	9,925	16,933	113,595	-	9,975	-	57,069	180,639	-	18,995	18,995	216,567
Insurance	80,791	-	-	-	-	-	-	-	-	-	5,838	-	-	-	-	17,660	15,398	-	22,932	52,992	529,450
Depreciation and amortization	926,461	41,306	39,165	42,145	53,095	5,418	3,934	146,932	9,016	9,925	1,206,680	2,434	-	1,635	4,375	60	124,755	5,922	45,628	5,922	1,399,327
Postage and delivery	14,731	3,332	14,281	253	780	30,955	137,245	3,619	17	231,281	436,494	1,459	16,627	38	6,400	3,275	29,859	14	17	202	466,853
Equipment and technology	11,368	168	2,830	-	399	10,983	33,505	6,293	56	8,891	67,497	6,128	-	15	15,995	38,783	60,906	80,530	221,415	400,338	
Office supplies and services	1,585	2,076	41	1,585	1,585	1,585	8,624	8,624	1,804	1,165	1,165	2,266	1,804	1,165	3,269	2,266	11,135	33,597	42,992	104,338	
Printing and production	14,498	2,976	54	-	14,000	1,888	51,235	100,858	10,619	16,619	109,478	888	2,242	927	379	3,499	4,673	11,135	335	114,486	
Bad debt expense	15,349	7,983	80	54	746	557,286	228,350	157,398	510	31,936	999,692	-	2,242	-	20,272	32,362	54,876	-	-	1,054,658	
Financing	71,320	-	-	-	-	(842)	(5,273)	(19,800)	-	(57,786)	(12,471)	-	-	-	-	(10,682)	(10,682)	-	-	(23,153)	
Miscellaneous	100,289	50,345	4,702	150,703	4,632	(69,439)	326,681	261,891	4,262	48,820	884,720	56,339	-	21,148	13,213	12,623	107,585	5,336	669,417	699,417	
Subtotal	4,437,303	1,423,574	271,244	468,908	723,090	1,726,921	1,763,864	2,771,303	275,100	686,549	14,547,856	851,296	31,822	368,857	340,767	69,670	1,962,412	917,686	2,632,704	3,550,390	20,960,658
Allocation of building costs to tenant space	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(959,584)	(959,584)
Total expenses before allocations	4,437,303	1,423,574	271,244	468,908	723,090	1,726,921	1,763,864	2,771,303	275,100	686,549	14,547,856	851,296	31,822	368,857	340,767	69,670	1,962,412	917,686	2,632,704	3,550,390	20,960,658
Allocation of common costs	718,441	178,933	67,711	-	170,773	296,747	262,765	180,200	26,389	310,830	2,209,790	178,394	51,595	80,321	70,206	-	381,016	(917,686)	1,673,120	(959,584)	19,101,074
Total before allocation of management, general and Executive Director's office expenses	5,155,744	1,602,507	338,955	468,908	893,863	2,023,668	2,026,630	2,951,503	301,489	997,379	16,757,646	1,029,690	381,417	449,178	411,473	69,670	2,343,428	-	-	2,590,806	21,692,450
Allocation of management, general and Executive Director's office expenses	831,981	(101,155)	87,298	205,100	206,569	464,166	412,359	520,235	7,809	(214,182)	2,316,389	(1,029,690)	(389,848)	(458,163)	(418,907)	(19,981)	(2,316,389)	-	-	-	1,910,774
General and administrative allocation	66,223	(227,323)	6,372	-	13,791	28,004	24,612	16,483	4,603	37,817	(23,820)	-	6,431	8,985	7,424	-	22,850	-	-	-	22,850
Executive Officer Allocations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total expenses	\$ 6,040,948	\$ 1,369,617	\$ 432,625	\$ 489,418	\$ 1,116,223	\$ 2,515,837	\$ 2,463,601	\$ 3,488,201	\$ 313,901	\$ 821,014	\$ 19,051,385	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 49,689	\$ -	\$ -	\$ -	\$ 19,101,074

**NATIONAL ASSOCIATION FOR THE
EDUCATION OF YOUNG CHILDREN
SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED AUGUST 31, 2016**

	Program Services										Supporting Services					Common Costs					
	Accreditation	Office of the Director	Affiliates	Courses Consulting	Professional Development	Publications and Journal	Membership	Conferences and Seminars	Public Advocacy/Information	Program Services	Total Program	Finance	Governing Board Pay/Yr	Human Resources	Marketing and Communications	General and Administrative	Total Supporting	Information Technology	Building Operations	Total Common	Total
Research	\$ 1,906,782	\$ 1,150,936	\$ 275,995	\$ 1,805	\$ 555,709	\$ 654,175	\$ 789,988	\$ 515,639	\$ 102,541	\$ 597,640	\$ 6,496,412	\$ 143,922	\$ 183,928	\$ 284,271	\$ 201,123	\$ 105,011	\$ 1,256,271	\$ 143,569	\$ 343,725	\$ 666,679	\$ 2,397,229
Consultants and contractors	4,272	1,450	4,918	120	241	66,706	62,726	26,678	40,185	37,565	2,082,278	173,852	13,218	31,349	30,077	9,316	43,480	187,854	5,584	184,134	2,581,363
Utilities	6,174	5,813	5,813	120	241	192,693	128,830	25,607	64	6,338	143,940	26,465	13,218	31,349	30,077	9,316	43,480	187,854	5,584	184,134	2,581,363
Professional services	4,192	1,927	4,918	120	241	192,693	128,830	25,607	64	6,338	143,940	26,465	13,218	31,349	30,077	9,316	43,480	187,854	5,584	184,134	2,581,363
Insurance	42,478	4,192	4,918	120	241	192,693	128,830	25,607	64	6,338	143,940	26,465	13,218	31,349	30,077	9,316	43,480	187,854	5,584	184,134	2,581,363
Depreciation and amortization	31,382	1,927	4,918	120	241	192,693	128,830	25,607	64	6,338	143,940	26,465	13,218	31,349	30,077	9,316	43,480	187,854	5,584	184,134	2,581,363
Postage and delivery	10,388	3,646	4,918	120	241	192,693	128,830	25,607	64	6,338	143,940	26,465	13,218	31,349	30,077	9,316	43,480	187,854	5,584	184,134	2,581,363
Equipment and technology	4,462	1,550	606	-	-	6,063	16,237	3,027	38,611	3,027	38,611	3,376	-	3,710	36,097	43,183	21,642	282	212,800	307,964	389,778
Printing and reproduction	28,327	1,034	335	-	316	2,136	4,963	8,492	12,188	4,963	12,188	1,280	14	2,279	6,628	5,899	13,406	4,617	34,179	46,617	70,213
Bad debt expense	35,037	17,405	2,118	48	201	729,526	391,044	156,197	2,008	23,350	1,338,423	-	2,953	-	9,865	20,680	33,598	-	745,745	785,210	8,870
Real estate taxes	-	-	-	-	-	1,199	2,177	(7,430)	-	(9,653)	(6,660)	-	-	-	-	11,675	11,675	-	-	564,765	564,765
Miscellaneous	96,366	21,124	5,529	17,571	1,067	18,888	199,582	277,617	(266)	54,892	642,296	82,440	1,500	28,267	15,550	5,051	132,815	2,950	4,048	564,765	6,870
Subtotal	4,730,104	1,514,889	387,196	873,315	587,289	1,724,213	1,660,012	2,524,218	232,118	340,796	13,841,150	732,324	303,890	421,941	347,612	479,913	2,285,680	824,039	2,694,560	3,488,399	10,883,229
Allocation of building costs to tenant space	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,026,124)	-
Total expenses before allocations	4,730,104	1,514,889	387,196	873,315	587,289	1,724,213	1,660,012	2,524,218	232,118	340,796	13,841,150	732,324	303,890	421,941	347,612	479,913	2,285,680	824,039	2,694,560	3,488,399	10,883,229
Allocation of common costs	622,467	284,396	108,007	962	234,010	173,048	231,441	180,903	89,912	159,847	2,070,012	135,863	67,794	97,071	43,915	-	344,643	(824,039)	(15,986,616)	(2,422,665)	-
Total before allocation of management, general and Executive Director's office expenses	5,372,571	1,800,284	495,203	882,277	823,319	1,897,261	1,891,453	2,705,121	322,030	500,643	15,911,162	868,187	371,684	519,012	391,527	479,913	2,630,323	-	-	-	18,522,485
Allocation of management, general and Executive Director's office expenses	1,165,164	(257,646)	131,491	14,527	38,095	314,275	428,845	36,625	89,242	259,549	2,152,511	(605,167)	(617,625)	(17,625)	(349,566)	(135,625)	(2,425,261)	-	-	-	-
Executive Director's office expenses	1,032,221	(254,652)	140,777	(321)	44,883	67,052	467,530	38,190	10,623	37,660	1,510,066	(3,100)	(1,550)	(1,248)	(2,889)	(14,281)	(151,006)	-	-	-	-
Total expenses	\$ 6,681,988	\$ 757,804	\$ 640,771	\$ 102,823	\$ 1,253,300	\$ 2,274,988	\$ 2,366,088	\$ 3,181,173	\$ 421,995	\$ 838,202	\$ 18,469,929	\$ -	\$ 4,672	\$ -	\$ 47,884	\$ -	\$ 52,556	\$ -	\$ -	\$ -	\$ 18,522,485