



NATIONAL ASSOCIATION FOR THE EDUCATION OF YOUNG CHILDREN

Financial Statements

For the Year Ended August 31, 2022

(With Summarized Financial Information for the Year Ended August 31, 2021)



**and
Report Thereon**



NATIONAL ASSOCIATION FOR THE EDUCATION OF YOUNG CHILDREN

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For the Year Ended August 31, 2022

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the financial statements of the National Association for the Education of Young Children (NAEYC), which comprise the statement of financial position as of August 31, 2022, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of NAEYC as of August 31, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of NAEYC and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about NAEYC's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 NAEYC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about NAEYC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Matter

Report on Summarized Comparative Information

We have previously audited NAEYC's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 25, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Marcum LLP

Washington, DC
March 31, 2023

NATIONAL ASSOCIATION FOR THE EDUCATION OF YOUNG CHILDREN

STATEMENT OF FINANCIAL POSITION

August 31, 2022

(With Summarized Financial Information as of August 31, 2021)

	2022	2021
ASSETS		
Current assets		
Cash and cash equivalents	\$ 9,774,187	\$ 7,349,734
Accounts and other receivables, net of allowance for doubtful accounts of \$224,186	1,305,547	2,015,644
Grants receivable	700,000	1,162,104
Inventory, net of reserve of \$106,241	287,730	247,935
Prepaid expenses and other current assets	463,908	358,788
Total Current Assets	12,531,372	11,134,205
Long-term investments	26,479,781	31,043,333
Property and equipment, net	4,922,844	5,581,101
Right of use asset	13,425,201	14,097,993
Security deposit	443,865	591,820
TOTAL ASSETS	\$ 57,803,063	\$ 62,448,452
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses	\$ 1,734,399	\$ 1,091,645
Due to affiliates	104,311	90,144
Paycheck Protection Program (PPP) loan payable	-	1,565,000
Accrued annual leave	423,648	503,896
Operating lease liability, current	1,103,409	146,145
Contract liabilities:		
Membership dues	1,209,903	1,217,388
Conference	982,613	49,091
Other	453,039	373,100
Total Current Liabilities	6,011,322	5,036,409
Long-term liabilities		
Operating lease liability, net of current	17,969,309	18,780,428
Total Long-Term Liabilities	17,969,309	18,780,428
TOTAL LIABILITIES	23,980,631	23,816,837
NET ASSETS		
Without donor restrictions	31,347,498	36,661,857
With donor restrictions	2,474,934	1,969,758
TOTAL NET ASSETS	33,822,432	38,631,615
TOTAL LIABILITIES AND NET ASSETS	\$ 57,803,063	\$ 62,448,452

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, 2022

(With Summarized Financial Information for the Year Ended August 31, 2021)

	Without Donor Restrictions	With Donor Restrictions	2022 Total	2021 Total
REVENUE				
Fees:				
Accreditation	\$ 4,537,003	\$ -	\$ 4,537,003	\$ 4,856,539
Membership	2,442,934	-	2,442,934	2,425,168
Conferences and seminars	2,408,679	-	2,408,679	2,279,729
Publications	3,161,014	-	3,161,014	2,733,705
Grants and contributions	171,429	1,975,785	2,147,214	2,019,547
Contracts and consulting	1,384,716	-	1,384,716	1,298,914
Investment (loss) income	(4,563,552)	-	(4,563,552)	4,726,628
Net assets released from restrictions	1,470,609	(1,470,609)	-	-
TOTAL REVENUE	11,012,832	505,176	11,518,008	20,340,230
EXPENSES				
Program Services:				
Accreditation and Early Learning Systems	5,910,685	-	5,910,685	3,274,006
Publications	2,650,179	-	2,650,179	2,863,578
Grants and awards	1,802,995	-	1,802,995	2,021,469
Conferences and seminars	1,589,636	-	1,589,636	1,266,178
Membership	1,146,335	-	1,146,335	1,070,660
Contracts and consulting	403,334	-	403,334	807,501
Total Program Services	13,503,164	-	13,503,164	11,303,392
Supporting Services:				
Management and general	4,664,487	-	4,664,487	3,624,505
Total Supporting Services	4,664,487	-	4,664,487	3,624,505
TOTAL EXPENSES	18,167,651	-	18,167,651	14,927,897
Change in net assets before other items	(7,154,819)	505,176	(6,649,643)	5,412,333
Other items				
Gain on sale of property and equipment	275,460	-	275,460	453,086
PPP forgiveness	1,565,000	-	1,565,000	1,550,000
Proceeds from insurance recoveries	-	-	-	1,371,134
CHANGE IN NET ASSETS	(5,314,359)	505,176	(4,809,183)	8,786,553
NET ASSETS, BEGINNING OF YEAR	36,661,857	1,969,758	38,631,615	29,845,062
NET ASSETS, END OF YEAR	\$ 31,347,498	\$ 2,474,934	\$ 33,822,432	\$ 38,631,615

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, 2022

(With Summarized Financial Information for the Year Ended August 31, 2021)

	Program Services						Supporting Services	2022 Total	2021 Total	
	Accreditation and Early Learning Systems	Publications	Grants and Awards	Conferences and Seminars	Membership	Contracts and Consulting	Total Program Services			Management and General
Personnel	\$ 2,991,917	\$ 1,118,047	\$ 653,184	\$ 477,450	\$ 425,977	\$ 261,145	\$ 5,927,720	\$ 2,653,534	\$ 8,581,254	\$ 7,351,148
Consultants and contractors	455,197	77,374	432,760	91,220	91,755	37,580	1,185,886	815,580	2,001,466	1,314,188
Occupancy	823,558	290,152	179,999	121,961	112,103	69,875	1,597,648	-	1,597,648	1,654,895
Travel	992,102	5,084	14,271	43,219	3,701	789	1,059,166	44,397	1,103,563	222,577
Depreciation and amortization	347,146	142,096	33,956	24,471	117,586	11,944	677,199	54,281	731,480	642,168
Meeting facilities and services	18,852	7,327	1,173	639,844	598	4,400	672,194	35,624	707,818	326,918
Equipment and technology	151,811	85,115	19,690	8,160	8,110	801	273,687	406,402	680,089	578,608
Printing and production	3,339	309,008	4,466	25,576	145,144	9	487,542	125,830	613,372	620,518
Subgrants	-	-	386,070	-	-	-	386,070	-	386,070	683,250
Commissions	-	302,895	-	33,705	-	-	336,600	-	336,600	337,843
Bank and credit card fees	83,765	35,203	15,818	55,992	79,477	-	270,255	27,305	297,560	292,957
Postage and delivery	3,280	144,097	209	988	116,757	-	265,331	15,052	280,383	226,227
Miscellaneous	12,420	104,739	60,611	1,052	7,253	16,791	202,866	52,777	255,643	143,290
Office supplies and services	23,215	21,880	212	7,438	33,458	-	86,203	89,943	176,146	95,723
Insurance	2,840	2,613	265	42,542	1,564	-	49,824	112,217	162,041	127,932
Professional services	1,243	3,072	311	1,370	1,839	-	7,835	131,911	139,746	210,970
Utilities	-	1,477	-	14,648	1,013	-	17,138	99,634	116,772	97,607
Financing	-	-	-	-	-	-	-	-	-	1,078
TOTAL EXPENSES	\$ 5,910,685	\$ 2,650,179	\$ 1,802,995	\$ 1,589,636	\$ 1,146,335	\$ 403,334	\$ 13,503,164	\$ 4,664,487	\$ 18,167,651	\$ 14,927,897

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, 2022

(With Summarized Financial Information for the Year Ended August 31, 2021)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (4,809,183)	\$ 8,786,553
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net appreciation (depreciation) of investments	4,563,552	(4,726,628)
Depreciation and amortization of property and equipment	731,480	642,168
Amortization of right of use asset	818,937	1,005,188
Gain on sale of property and equipment	(275,460)	(453,086)
Forgiveness of PPP loan	(1,565,000)	(1,550,000)
Reserve for inventory obsolescence	(73,584)	30,060
Change in assets and liabilities		
Accounts and other receivables	710,097	(36,057)
Grants receivable	462,104	269,603
Inventory	33,789	161,663
Prepaid expenses and other current assets	(105,120)	32,276
Security deposit	147,955	-
Accounts payable and accrued expenses	642,754	372,078
Accrued annual leave	(80,248)	31,233
Contract liabilities	1,005,976	(311,339)
Due to affiliates	14,167	9,348
	2,222,216	4,263,060
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(73,223)	(27,798)
Proceeds on sale of property and equipment	275,460	453,086
Purchases of investments	-	(501,217)
	202,237	(75,929)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Paycheck Protection Program loan issuance	-	1,565,000
	-	1,565,000
NET INCREASE IN CASH	2,424,453	5,752,131
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,349,734	1,597,603
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 9,774,187	\$ 7,349,734
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ -	\$ 1,097
NONCASH INVESTING ACTIVITIES		
Right of use asset	\$ -	\$ 14,633,553
Operating lease liability	-	(18,456,945)
Leasehold improvements acquired through lease incentive	-	3,823,392
Net cash outlay	\$ -	\$ -
Forgiveness of Paycheck Protection loan	\$ 1,565,000	\$ 1,550,000

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, 2022

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 and 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 statement 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, 2022

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, 2022, 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 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 it believes to be uncollectible.

Inventory

Inventory consists primarily of publications and is valued at net realizable value using the first-in, first-out method. 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 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, 2022

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, 2022, 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, 2022, 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, which are recognized as revenue in the subsequent year. Any event specific costs paid in advance for the events are reported as prepaid expenses in the accompanying statement of financial position. Insurance proceeds are recognized when the claim is approved by the insurance carrier.

Membership Dues

Membership dues are recognized as revenue in the membership period to which the dues relate. There are no distinct performance obligations 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, which are recognized as revenue in the subsequent year. 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, 2022

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Grants

Unconditional grants and contributions are recognized as revenue in the accounting period in which they are received or when an unconditional promise to give is made. 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. 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.

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, which are recognized as revenue in the subsequent year.

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

Fundraising activities include publicizing and conducting fundraising campaigns; maintaining donor lists; cultivating donor relationships; and conducting other activities involved with soliciting contributions from individuals, foundations, and others. Fundraising costs incurred in one year, which may result in contributions received in future years, are expensed as incurred in

NATIONAL ASSOCIATION FOR THE EDUCATION OF YOUNG CHILDREN

NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2022

2. Summary of Significant Accounting Policies (continued)

Fundraising Activities (continued)

accordance with Accounting Standards Codification 958-20, *Not-for-Profit Entities – Other Expenses*. For the year ended August 31, 2022, fundraising expenses were \$22,747, and are included with management and general expenses in the statement of activities.

Reclassifications

Certain amounts in the 2021 financial statements have been reclassified to conform to the 2022 presentation.

3. Investments and Fair Value Measurement

Investments measured at fair value on a recurring basis are as follows as of August 31, 2022:

	<u>Total Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets:				
Mutual funds:				
Equity	\$ 15,734,505	\$ 15,734,505	\$ -	\$ -
Fixed-income	<u>10,745,276</u>	<u>10,745,276</u>	<u>-</u>	<u>-</u>
	<u>\$ 26,479,781</u>	<u>\$ 26,479,781</u>	<u>\$ -</u>	<u>\$ -</u>

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, 2022.

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, 2022:

Leasehold improvements	\$ 3,823,392
Computer equipment and software	<u>3,574,146</u>
Total Property and Equipment	7,397,538

NATIONAL ASSOCIATION FOR THE EDUCATION OF YOUNG CHILDREN

NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2022

4. Property and Equipment (continued)

(continued)

Less: Accumulated Depreciation and Amortization	\$ <u>(2,474,694)</u>
Property and Equipment, Net	\$ <u>4,922,844</u>

Depreciation and amortization expenses for the year ended August 31, 2022 amounted to \$731,480.

5. Paycheck Protection Program Loan Payable

During the year ended August 31, 2021, NAEYC applied for and was approved for a 2nd PPP loan in the amount of \$1,565,000, subject to similar terms as the 1st PPP loan. The loan amounts were eligible for forgiveness, pursuant to provisions of 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 is made and the number of employees and compensation levels are maintained. On November 15, 2021, NAEYC applied for forgiveness of the PPP loan, and on November 29, 2021, received approval of the PPP loan forgiveness request at the full amount of the loan's principal.

6. Net Assets

Net Assets With Donor Restrictions

As of August 31, 2022, net assets with donor restrictions were restricted for the following purposes.

Early childhood profession	\$ 1,720,563
Early childhood education and development	<u>754,371</u>
Total Net Assets With Donor Restrictions	<u>\$ 2,474,934</u>

7. Line of Credit

On November 20, 2020, NAEYC entered into a revolving line of credit with a financial institution with a maximum available credit of \$2,000,000. The line matured on March 31, 2022 and was not renewed.

NATIONAL ASSOCIATION FOR THE EDUCATION OF YOUNG CHILDREN

NOTES TO FINANCIAL STATEMENTS For the Year Ended August 31, 2022

8. 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, 2022, were as follows:

Cash and cash equivalents	\$ 9,774,187
Investments	26,479,781
Accounts receivable	1,305,547
Grants receivable	<u>700,000</u>
Total Financial Assets Available Within One Year	38,259,515
Less:	
Amounts unavailable for general expenditures within one year due to donors' restriction	<u>(2,474,934)</u>
Financial Assets Available to Meet General Expenditures Within One Year	<u>\$ 35,784,581</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.

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. 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, 2022 was \$223,422.

10. 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

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NOTES TO FINANCIAL STATEMENTS For the Year Ended August 31, 2022

10. 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 2022 was \$1,237,330 and NAEYC remitted a total of \$1,223,178 to Affiliates. The total amounts payable to Affiliates as of August 31, 2022 was \$104,311, and due to the nature of the transaction, are not included in NAEYC's revenue and expenses for the year ended August 31, 2022.

11. Leases

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 plus any unused tenant improvement allowance and annual escalations of approximately 2.5%. Additionally, the lease provides a tenant allowance of \$4,344,634, of which \$3,823,392 was used by NAEYC. NAEYC has recorded a lease obligation equal to the present value of the future payments under the terms of the lease, discounted at an estimated incremental borrowing rate of 4%. NAEYC has also recorded a right of use asset equal to the lease obligations. The asset will be amortized on a straight-line basis over the lease term. Rent expense for this lease for the year ended August 31, 2022 was \$1,597,648. NAEYC has no other significant leasing activities.

Future minimum lease payments under the lease are as follows:

For the Year Ending <u>August 31,</u>	
2023	\$ 1,846,456
2024	1,892,596
2025	1,939,859
2026	1,988,356
2027	2,028,123
Thereafter	<u>14,339,002</u>
Total Lease Liability	24,044,332
Less: Present Value Discount	(3,868,205)
Less: Current Portion	<u>(1,103,409)</u>
Lease Liability, Net of Current	<u>\$ 19,072,718</u>

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NOTES TO FINANCIAL STATEMENTS For the Year Ended August 31, 2022

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, 2022, the Federal Deposit Insurance Corporation (FDIC) insured balances of a depositor, per financial institution, up to \$250,000. As of August 31, 2022, the amount held by NAEYC in excess of the amount guaranteed by the FDIC was \$9,304,487.

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.

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, 2022, 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, 2022, 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, 2022, 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, 2022, 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, 2021, from which the summarized information was derived.

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NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2022

15. Subsequent Events

In preparing these financial statements, NAEYC has evaluated events and transactions for potential recognition or disclosure through March 31, 2023, the date the financial statements were available to be issued. There were no events or transactions noted that would materially impact the financial statements.