



NATIONAL ASSOCIATION FOR THE EDUCATION OF YOUNG CHILDREN

Financial Statements

For the Year Ended August 31, 2019

(With Summarized Financial Information for the Year Ended August 31, 2018)



**and
Report Thereon**



NATIONAL ASSOCIATION FOR THE EDUCATION OF YOUNG CHILDREN

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For the Year Ended August 31, 2019

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the National Association for the Education of Young Children (NAEYC), which comprise the statement of financial position as of August 31, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Continued

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Opinion

In our opinion, the 2019 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, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

NAEYC's 2018 financial statements were audited by other auditors whose report dated February 27, 2019, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Marcum LLP

Washington, DC
February 11, 2020

NATIONAL ASSOCIATION FOR THE EDUCATION OF YOUNG CHILDREN

STATEMENT OF FINANCIAL POSITION

August 31, 2019

(With Summarized Financial Information as of August 31, 2018)

	<u>2019</u>	<u>2018</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 826,077	\$ 1,071,991
Short term investments	3,465,414	6,918,540
Accounts and other receivables, net of allowance for doubtful accounts \$39,893	3,098,574	1,842,712
Grants receivable	1,020,190	920,190
Inventory, net of reserve of \$82,350	482,230	403,091
Prepaid expenses and other current assets	686,205	766,938
Assets held for sale	<u>17,198,199</u>	<u>-</u>
Total Current Assets	<u>26,776,889</u>	<u>11,923,462</u>
Long-term investments	5,990,724	5,862,636
Property and equipment, net	2,551,938	19,914,190
Deferred lease asset	<u>133,849</u>	<u>94,287</u>
TOTAL ASSETS	<u><u>\$ 35,453,400</u></u>	<u><u>\$ 37,794,575</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses	\$ 805,205	\$ 2,242,147
Due to affiliates	93,762	152,460
Bonds payable	11,321,000	410,000
Accrued annual leave	575,262	567,092
Deferred revenue		
Membership dues	1,220,147	1,250,341
Conference	1,494,380	1,346,456
Other	364,800	390,333
Interest rate swap obligation	<u>3,609,341</u>	<u>2,582,767</u>
Total Current Liabilities	19,483,897	8,941,596
Bonds payable, net of current portion	-	11,323,000
Deposits payable	<u>51,239</u>	<u>54,789</u>
TOTAL LIABILITIES	<u>19,535,136</u>	<u>20,319,385</u>
NET ASSETS		
Without donor restrictions	14,233,780	15,014,856
With donor restrictions	<u>1,684,484</u>	<u>2,460,334</u>
TOTAL NET ASSETS	<u>15,918,264</u>	<u>17,475,190</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 35,453,400</u></u>	<u><u>\$ 37,794,575</u></u>

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

NATIONAL ASSOCIATION FOR THE EDUCATION OF YOUNG CHILDREN

STATEMENT OF ACTIVITIES

For the Year Ended August 31, 2019

(With Summarized Financial Information for the Year Ended August 31, 2018)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2019 Total</u>	<u>2018 Total</u>
REVENUE				
Fees				
Accreditation	\$ 6,433,794	\$ -	\$ 6,433,794	\$ 6,243,205
Conferences and seminars	5,644,207	-	5,644,207	4,763,881
Membership	2,760,055	-	2,760,055	2,806,498
Publications	2,710,945	-	2,710,945	2,725,883
Grants	-	1,359,240	1,359,240	2,938,078
Rental income	1,118,929	-	1,118,929	705,087
Contracts and consulting	885,682	-	885,682	1,357,474
Investment income	239,764	-	239,764	655,283
Miscellaneous income	25,883	-	25,883	45,125
Contributed services	20,066	-	20,066	37,626
Net assets released from restrictions	<u>2,135,090</u>	<u>(2,135,090)</u>	<u>-</u>	<u>-</u>
TOTAL REVENUE	<u>21,974,415</u>	<u>(775,850)</u>	<u>21,198,565</u>	<u>22,278,140</u>
EXPENSES				
Program Services:				
Accreditation and Early Learning Systems	5,458,794	-	5,458,794	6,120,981
Publications	3,302,024	-	3,302,024	3,051,531
Conferences and seminars	2,989,843	-	2,989,843	2,704,942
Grants and awards	2,184,747	-	2,184,747	1,545,820
Membership	2,130,582	-	2,130,582	2,145,277
Contracts and consulting	<u>756,966</u>	<u>-</u>	<u>756,966</u>	<u>819,319</u>
Total Program Services	<u>16,822,956</u>	<u>-</u>	<u>16,822,956</u>	<u>16,387,870</u>
Supporting Services:				
Management and general	3,769,310	-	3,769,310	3,414,603
Building operations	<u>1,136,651</u>	<u>-</u>	<u>1,136,651</u>	<u>1,084,442</u>
Total Supporting Services	<u>4,905,961</u>	<u>-</u>	<u>4,905,961</u>	<u>4,499,045</u>
TOTAL EXPENSES	<u>21,728,917</u>	<u>-</u>	<u>21,728,917</u>	<u>20,886,915</u>
Change in net assets before other items	245,498	(775,850)	(530,352)	1,391,225
Other items				
Loss on disposal of property and equipment	-	-	-	(220,103)
Unrealized (loss) gain on interest rate swap	<u>(1,026,574)</u>	<u>-</u>	<u>(1,026,574)</u>	<u>1,017,976</u>
CHANGE IN NET ASSETS	(781,076)	(775,850)	(1,556,926)	2,189,098
NET ASSETS,				
BEGINNING OF YEAR, AS RESTATED	<u>15,014,856</u>	<u>2,460,334</u>	<u>17,475,190</u>	<u>15,286,092</u>
NET ASSETS, END OF YEAR	<u>\$ 14,233,780</u>	<u>\$ 1,684,484</u>	<u>\$ 15,918,264</u>	<u>\$ 17,475,190</u>

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, 2019

(With Summarized Financial Information for the Year Ended August 31, 2018)

	Program Services						Supporting Services				2019 Total	2018 Total
	Accreditation and Early Learning Systems	Publications	Conferences and Seminars	Grants and Awards	Membership	Contracts and Consulting	Total Program Services	Management and General	Building Operations	Total Supporting Services		
Personnel	\$ 2,222,933	\$ 1,533,445	\$ 783,712	\$ 936,838	\$ 1,033,872	\$ 393,592	\$ 6,904,392	\$ 2,007,947	\$ 44,568	\$ 2,052,515	\$ 8,956,907	\$ 8,931,600
Consultants and contractors	1,345,257	210,008	79,988	1,058,196	98,164	106,820	2,898,433	529,445	509	529,954	3,428,387	2,644,203
Meeting facilities and services	153,955	47,602	1,510,904	40,495	71,522	29,703	1,854,181	57,757	2,312	60,069	1,914,250	1,880,647
Travel	951,594	27,335	53,441	94,538	83,654	93,694	1,304,256	123,332	24	123,356	1,427,612	1,834,732
Printing and production	3,600	474,531	82,354	13,516	232,110	21,043	827,154	76,080	3	76,083	903,237	967,780
Depreciation and amortization	307,589	171,275	45,742	11,786	162,910	24,680	723,982	101,182	49,324	150,506	874,488	583,294
Equipment and technology	95,543	83,453	55,445	14,562	31,881	15,435	296,319	380,675	30,857	411,532	707,851	742,646
Financing	-	-	-	-	-	-	-	-	619,011	619,011	619,011	640,422
Postage and delivery	2,830	208,734	5,524	591	228,786	1,054	447,519	30,151	14	30,165	477,684	437,697
Utilities	89,559	59,532	92,142	7,661	34,873	13,227	296,994	108,853	29,022	137,875	434,869	401,136
Real estate taxes	-	-	-	-	-	-	-	-	352,819	352,819	352,819	472,294
Bank and credit card fees	116,328	77,617	87,786	3,255	16,921	435	302,342	34,066	-	34,066	336,408	337,421
Commissions	-	218,536	100,341	-	1,995	-	320,872	-	-	-	320,872	94,395
Miscellaneous	30,666	22,328	3,792	-	80,206	4,060	141,052	91,389	23	91,412	232,464	239,976
Professional services	4,186	21,374	8,509	690	5,459	45,025	85,243	93,794	1,294	95,088	180,331	246,032
Insurance	55,864	10,679	18,252	851	6,638	1,896	94,180	72,790	3,561	76,351	170,531	133,935
Office supplies and services	13,603	47,504	16,985	1,765	12,535	4,738	97,130	50,172	3,295	53,467	150,597	191,649
Bad debt expense	19,218	84,437	44,178	-	(19,349)	875	129,359	3,504	-	3,504	132,863	(4,646)
Dues and subscriptions	46,069	3,634	748	3	48,405	689	99,548	8,173	15	8,188	107,736	111,702
Total Expenses by Function	5,458,794	3,302,024	2,989,843	2,184,747	2,130,582	756,966	16,822,956	3,769,310	1,136,651	4,905,961	21,728,917	20,886,915
Plus: Loss on Disposal of Property and Equipment	-	-	-	-	-	-	-	-	-	-	-	220,103
TOTAL EXPENSES INCLUDED ON THE STATEMENT OF ACTIVITIES	\$ 5,458,794	\$ 3,302,024	\$ 2,989,843	\$ 2,184,747	\$ 2,130,582	\$ 756,966	\$ 16,822,956	\$ 3,769,310	\$ 1,136,651	\$ 4,897,773	\$ 21,728,917	\$ 21,107,018

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, 2019

(With Summarized Financial Information for the Year Ended August 31, 2018)

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,556,926)	\$ 2,189,098
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Net appreciation of investments	(239,764)	(427,627)
Depreciation and amortization of property and equipment	842,952	613,981
Loss on disposal of property and equipment	-	220,103
Amortization of deferred financing costs	31,536	31,536
Provision for doubtful accounts receivable	(146,402)	133,935
Loss (gain) on interest rate swap obligation	1,026,574	(1,017,976)
Change in assets and liabilities		
Accounts and other receivables	(1,109,460)	(657,491)
Grants receivable	(100,000)	(720,190)
Inventory	(79,139)	238,006
Prepaid expenses and other current assets	80,733	131,505
Deferred lease asset	(39,562)	(51,571)
Accounts payable and accrued expenses	(1,436,942)	19,036
Accrued annual leave	8,170	34,053
Deferred revenue	92,197	105,419
Due to affiliates	(58,698)	3,970
Deposits payable	(3,550)	8,348
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	<u>(2,688,281)</u>	<u>854,135</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(678,899)	(884,462)
Purchases of investments	(5,106,536)	(7,534,627)
Proceeds from sales and maturities of investments	<u>8,639,802</u>	<u>8,437,000</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>2,854,367</u>	<u>17,911</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on bonds payable	<u>(412,000)</u>	<u>(389,000)</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(412,000)</u>	<u>(389,000)</u>
NET (DECREASE) INCREASE IN CASH	(245,914)	483,046
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,071,991</u>	<u>588,945</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 826,077</u>	<u>\$ 1,071,991</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 617,696</u>	<u>\$ 639,126</u>

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

NATIONAL ASSOCIATION FOR THE EDUCATION OF YOUNG CHILDREN

NOTES TO FINANCIAL STATEMENTS For the Year Ended August 31, 2019

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

NATIONAL ASSOCIATION FOR THE EDUCATION OF YOUNG CHILDREN

NOTES TO FINANCIAL STATEMENTS For the Year Ended August 31, 2019

2. Summary of Significant Accounting Policies (continued)

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 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, 2019, only NAEYC's investments and interest rate swap obligation, as described in Notes 3 and 6 of these financial statements, were measured at fair value on a recurring basis.

Accounts and Other Receivables and Grants Receivable

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

Inventory

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

NATIONAL ASSOCIATION FOR THE EDUCATION OF YOUNG CHILDREN

NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2019

2. Summary of Significant Accounting Policies (continued)

Assets Held for Sale

During the year ended August 31, 2019, NAEYC's Board of Directors approved a plan to actively market NAEYC's headquarters, which is comprised of land, building and tenant improvements located in Washington, D.C. In accordance with U.S. GAAP, these assets were classified as assets held for sale in the statement of financial position according to the criteria: (1) the headquarters was immediately available for sale; (2) it was actively marketed for sale at a reasonable price in relation to its current fair value (3) an active program to locate a buyer and other actions required to complete the plan to sell the headquarters was initiated; and (4) the sale of the headquarters is probable, and transfer of the asset is expected to qualify for recognition as a completed sale within one year of statement of financial position date. Additionally, long-lived assets held for sale are reported at the lower of the asset's carrying value or fair value less cost to sell. No impairment was recognized, as the estimated fair value of the land less cost to sell exceeds the carrying value, and as such, the asset was reported at its carrying value.

Property and Equipment

Property and equipment purchases greater than \$2,500 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.

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. The Board has designated \$14,233,780 of net assets without donor restrictions for the purposes of emergency reserves, operational reserves and infrastructure reserves.

NATIONAL ASSOCIATION FOR THE EDUCATION OF YOUNG CHILDREN

NOTES TO FINANCIAL STATEMENTS For the Year Ended August 31, 2019

2. Summary of Significant Accounting Policies (continued)

Classification of Net Assets (continued)

- 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, 2019, NAEYC had no net assets with donor restrictions that are required to be maintained in perpetuity.

Revenue Recognition

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.

Membership Dues

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

Grants

NAEYC reports unconditional grants of cash and other assets as available for general operations unless specifically restricted by the donor. If grants are received with donor stipulations that limit the use of the donated funds or assets to a particular purpose or to specific time periods, NAEYC reports them as grants with donor restrictions. When a stipulated time restriction ends or purpose restriction is met, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Publication Sales

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

Deferred Revenue

Deferred revenue consists primarily of membership dues, accreditation fees, conference fees, exhibit fees, and contract fees upon 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.

NATIONAL ASSOCIATION FOR THE EDUCATION OF YOUNG CHILDREN

NOTES TO FINANCIAL STATEMENTS For the Year Ended August 31, 2019

2. Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses

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

Fundraising Activities

Fund-raising activities include publicizing and conducting fund-raising campaigns; maintaining donor lists; cultivating donor relationships; and conducting other activities involved with soliciting contributions from individuals, foundations, and others. Fund-raising costs incurred in one year, which may result in contributions received in future years, are expensed as incurred in accordance with ASC 958-20, *Not-for-Profit Entities – Other Expenses*. For the year ended August 31, 2019, fundraising expenses were \$240,754, and are included with management and general expenses in the statement of activities.

Reclassifications

Certain amounts in the 2018 financial statements have been reclassified to conform to the 2019 presentation.

New Accounting Pronouncements

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return for nonprofit organizations. NAEYC has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). This ASU provides guidance regarding recognition of revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An organization should identify the contract with the customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations in the contract; and recognize revenue when (or as) the entity satisfies a performance obligation. The standard is effective for annual reporting periods beginning December 15, 2018. The adoption of this update is not expected to have a significant impact on NAEYC's financial statements.

NATIONAL ASSOCIATION FOR THE EDUCATION OF YOUNG CHILDREN

NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2019

3. Investments and Fair Value Measurement

Investments at fair value consist of the following:

Certificates of deposit	\$ 3,465,414
Mutual funds	<u>5,990,724</u>
Total	<u>\$ 9,456,138</u>

Investments measured at fair value on a recurring basis are as follows as of August 31, 2019:

	<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:				
Certificates of deposit	\$ 3,465,414	\$ -	\$ 3,465,414	\$ -
Mutual funds	<u>5,990,724</u>	<u>5,990,724</u>	<u>-</u>	<u>-</u>
	<u>\$ 9,456,138</u>	<u>\$ 5,990,724</u>	<u>\$ 3,465,414</u>	<u>\$ -</u>
Liabilities:				
Interest rate swap obligation	<u>\$ 3,609,341</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,609,341</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, 2019.

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 – Valued at either cost plus accrued interest based on quoted prices for similar assets or liabilities, or identical assets or liabilities, in less active markets, such as dealer or broker markets; or through a survey of the dealer community by obtaining broker/dealer quotes on a daily basis.

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4. Property and Equipment

Property and equipment consists of the following at August 31, 2019:

Computer equipment and software	\$ 6,130,237
Furniture and equipment	<u>963,144</u>
Total Property and Equipment	7,093,381
Less: Accumulated Depreciation and Amortization	<u>(4,541,443)</u>
Property and Equipment, Net	<u>\$ 2,551,938</u>

Depreciation and amortization expenses for the year ended August 31, 2019 amounted to \$842,952.

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. 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%.

As of August 31, 2019, NAEYC was in compliance with all of its financial and affirmative covenants.

In September 2019, NAEYC entered into a sale agreement for the property located at 1313 L Street, NW, Washington, DC. The sale closed on February 10, 2020. This action qualified the underlying assets to be classified as assets held for sale for the year ended August 31, 2019. As a result, the bonds payable balance is considered to be due within the next year, totaling \$11,321,000.

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

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6. Interest Rate Swap (continued)

month, the London Interbank Offered Rate (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 2.08900% to 2.52238%. The 30-day LIBOR rate at August 31, 2019 was 2.08900%.

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, 2019, the swap notional amount was \$11,323,000. The swap had a negative fair value of \$3,609,341 as of August 31, 2019, which is included in the accompanying statement of financial position. The swap valuation was determined by a Wells Fargo proprietary model which serves as a proxy for the market price required to be paid in order to terminate the swap as of the statement of financial position date.

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

7. Net Assets

Net Assets Without Donor Restrictions

NAEYC's net assets without donor restrictions have been designated by the Governing Board for the following purposes:

Board-designated – emergency reserve	\$ 7,504,174
Board-designated – operations	4,754,592
Board-designated – infrastructure reserve	<u>1,975,014</u>
Total Net Assets Without Donor Restrictions	<u>\$ 14,233,780</u>

Net Assets With Donor Restrictions

As of August 31, 2019, net assets with donor restrictions were restricted for the following purposes or period:

Subject to expenditure for specified purpose:

Early childhood profession	\$ 1,367,586
Early childhood education and development	<u>316,898</u>
Total Subject to Expenditure for Specified Purpose	<u>1,684,484</u>
Total Net Assets With Donor Restrictions	<u>\$ 1,684,484</u>

Continued

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NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2019

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, 2019, were as follows:

Cash and cash equivalents	\$ 826,077
Investments	9,456,138
Accounts receivable	3,098,574
Grants receivable	<u>1,020,190</u>
Total Financial Assets Available Within One Year	14,400,979
Less:	
Amounts unavailable for general expenditures within one year due to donor's restriction with purpose restriction	<u>(1,684,484)</u>
Financial Assets Available to Meet General Expenditures Within One Year	<u>\$ 12,716,495</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 and certificates of deposits, or to support organizational initiatives. NAEYC can liquidate its investments anytime, and therefore the investments are available to meet current cash flow needs. Additionally, NAEYC has board-designated net assets that could be available for current operations with Board approval, if necessary.

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, 2019 was \$274,419.

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NOTES TO FINANCIAL STATEMENTS For the Year Ended August 31, 2019

10. Rental Income

NAEYC has entered into several operating lease agreements with tenants to occupy excess space in NAEYC's headquarters building. Rental income for the year ended August 31, 2019 totaled \$1,118,929.

For the Year Ending August 31,	
2020	\$ 994,291
2021	707,224
2022	256,417
2023	176,429
2024	<u>105,296</u>
Total	<u>\$ 2,239,657</u>

11. Related Parties

The NAEYC Affiliate Network (Affiliates) is a vibrant community of nonprofit organizations dedicated to providing local member engagement opportunities, resources, conferences, professional development, and advocacy efforts for shared members. NAEYC and its Affiliates 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 2019 was \$1,416,727 and NAEYC remitted a total of \$1,399,379 to Affiliates. The total amounts payable to Affiliates as of August 31, 2019 was \$93,762.

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, 2019, the Federal Deposit Insurance Corporation (FDIC) insured balances of a depositor, per financial institution, up to \$250,000. As of August 31, 2019, the amount held by NAEYC in excess of the amount guaranteed by the FDIC was \$866,631.

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 for the year ended August 31, 2019.

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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, 2019, 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 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, 2019, and determined that there are no matters that would require recognition in the combined financial statements or which might have any effect on NAEYC's tax-exempt status. As of August 31, 2019, the statute of limitations for tax years 2016 through 2018 remained open for the U.S. jurisdictions in which NAEYC files tax returns; however, there are currently no examinations in progress. 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, 2019, 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, 2018, from which the summarized information was derived.

15. Prior Period Adjustment

During the year ended August 31, 2019, NAEYC changed payroll frequency and had to pay over an additional amount to employees to make the salaries current that relate to prior periods. An adjustment in the amount of \$126,389 was made to reduce current year salary expense and decrease beginning net asset balances. The net effect of this adjustment on the net asset balance and changes in net assets of NAEYC as of and for the year ended August 31, 2018, as previously reported, was to decrease net assets without donor restrictions by \$126,389.

Additionally, during the year ended August 31, 2019, NAEYC reviewed historical accounts and changed several processing systems which prompted management to review several suspense accounts that contained outstanding invoices related to activities from prior years. Upon review, management identified \$534,179 in revenue that was associated with prior periods. The net effect of this adjustment on the net asset balance and changes in net assets of NAEYC as of and for the year ended August 31, 2018, as previously reported, was to decrease net assets without donor restrictions by \$534,179.

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16. Subsequent Events

In September 2019, NAEYC entered into sale agreement for its office building in Washington, DC and the sale was finalized on February 10, 2020.

In preparing these financial statements, NAEYC has evaluated events and transactions for potential recognition or disclosure through February 11, 2020, the date the financial statements were available to be issued, and except the above property sale, there were no other events or transactions were noted that would materially impact the financial statements.