NAFSA: Association of International Educators

Financial Statements
and Independent Auditor's Report

December 31, 2017
(With December 31, 2016 summarized comparative financial information)

COHNREZNICK
ACCOUNTING • TAX • ADVISORY

NAFSA: Association of International Educators

Index

Independent Auditor's Report

To the Board of Directors
NAFSA: Association of International Educators
Washington, DC

We have audited the accompanying financial statements of NAFSA: Association of International Educators (NAFSA), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, changes in net assets, 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.

Auditor's 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 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 NAFSA: Association of International Educators as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited NAFSA's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated our report dated March 21, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

CohnReznick LLP

Bethesda, Maryland
April 13, 2018

NAFSA: Association of International Educators

Statements of Financial Position
December 31, 2017
(With Summarized Comparative Financial Information for 2016)

Assets

	2017	2016
Current assets		
Cash and cash equivalents	$ 3,916,048	$ 2,702,770
Certificates of deposit	2,477,868	2,933,101
Accounts receivable, net of allowance for uncollectible accounts of $25,000 for 2017 and 2016	65,384	57,941
Prepaid expenses	612,460	613,219
Total current assets	7,071,760	6,307,031
Non-current assets		
Investments	15,729,132	14,241,884
Property and equipment, net	844,309	900,983
Prepaid expenses, net of current portion	105,649	59,721
Deposits	19,569	19,569
Total non-current assets	16,698,659	15,222,157
Total	$ 23,770,419	$ 21,529,188

Liabilities and Net Assets

	2017	2016
Current liabilities		
Accounts payable and accrued expenses	$ 907,994	$ 481,950
Deferred membership dues	1,837,432	1,940,307
Other deferred revenue	4,006,444	3,690,743
Total current liabilities	6,751,870	6,113,000
Other liabilities	414,000	316,007
Net assets		
Unrestricted	15,576,597	14,151,289
Temporarily restricted	308,852	229,792
Permanently restricted	719,100	719,100
Total net assets	16,604,549	15,100,181
Total	$ 23,770,419	$ 21,529,188

See Notes to Financial Statements.

NAFSA: Association of International Educators

Statements of Activities
Year Ended December 31, 2017
(With Summarized Comparative Financial Information for 2016)

	2017	2016
Revenue and support		
Conferences	$ 13,429,866	$ 12,903,789
Membership dues	3,978,016	4,175,245
Corporate and member support	1,274,521	1,278,566
Products and services sales	1,416,613	1,540,879
Programs and events	1,019,208	1,189,718
Other	50,435	88,061
Net assets released from restriction	32,329	52,324
Total revenue and support	21,200,988	21,228,582
Expenses		
Operating expenses		
Salaries, taxes, and benefits	9,744,340	9,591,354
Purchased services	1,365,762	1,721,870
Conferences and meetings	5,833,155	5,495,032
Publications and communications	115,941	122,509
Marketing and advertising	435,909	351,091
Occupancy expenses	676,503	741,573
General and administrative	2,414,089	2,557,127
Depreciation and amortization	560,002	385,805
Grants	250,000	-
Total expenses	21,395,701	20,966,361
Change in unrestricted net assets before unrealized gains on investments, interest, dividends and realized gains, net of investment fees, and contribution of region assets	(194,713)	262,221
Unrealized gains on investments	1,099,811	181,342
Interest, dividends and realized gains, net of investment fees	453,194	524,127
Contribution of region assets	67,016	-
Change in unrestricted net assets	1,425,308	967,690
Change in temporarily restricted net assets		
Contributions	12,334	56,823
Unrealized gains on investments	75,734	3,116
Interest, dividends and realized gains, net of investment fees	23,321	52,847
Net assets released from restriction	(32,329)	(52,324)
Change in temporarily restricted net assets	79,060	60,462
Change in net assets	$ 1,504,368	$ 1,028,152

See Notes to Financial Statements.

NAFSA: Association of International Educators

Statements of Changes in Net Assets
Year Ended December 31, 2017
(With Summarized Comparative Financial Information for 2016)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets at January 1, 2016	$ 13,183,599	$ 169,330	$ 719,100	$ 14,072,029
Change in net assets	967,690	60,462	-	1,028,152
Net assets at December 31, 2016	14,151,289	229,792	719,100	15,100,181
Change in net assets	1,425,308	79,060	-	1,504,368
Net assets at December 31, 2017	$ 15,576,597	$ 308,852	$ 719,100	$ 16,604,549

See Notes to Financial Statements.

NAFSA: Association of International Educators

Statements of Functional Expenses
Year Ended December 31, 2017
(With Summarized Totals for the Year Ended December 31, 2016)

	Member programs & services	Conferences	Publications	Public policy	Regional activity	Total program services	General and administrative	Organizational advancement	Governance	Total supporting services	2017 total	Summarized 2016 total
Salaries, taxes and benefits	$ 4,128,317	$ 1,657,604	$ 649,197	$ 1,062,547	$ 225	$ 7,497,890	$ 1,909,868	$ 336,582	$ -	$ 2,246,450	$ 9,744,340	$ 9,591,354
Purchased services	250,093	504,318	180,354	46,161	16,093	997,019	361,597	6,646	500	368,743	1,365,762	1,721,870
Conferences and meetings	744,270	3,348,415	15,998	115,980	1,413,142	5,637,805	35,126	31,944	128,280	195,350	5,833,155	5,495,032
Publications and communications	9,133	-	106,808	-	-	115,941	-	-	-	-	115,941	122,509
Marketing and advertising	141,648	154,724	62,757	907	414	360,450	-	75,459	-	75,459	435,909	351,091
Occupancy expenses	-	-	-	-	997	997	675,506	-	-	675,506	676,503	741,573
General and administrative	565,486	463,605	262,449	144,120	27,194	1,462,854	939,166	11,584	485	951,235	2,414,089	2,557,127
Depreciation and amortization	341,976	1,770	5,857	5,328	-	354,931	205,071	-	-	205,071	560,002	385,805
Grants	-	-	-	250,000	-	250,000	-	-	-	-	250,000	-
Total expenses	$ 6,180,923	$ 6,130,436	$ 1,283,420	$ 1,625,043	$ 1,458,065	$ 16,677,887	$ 4,126,334	$ 462,215	$ 129,265	$ 4,717,814	$ 21,395,701	$ 20,966,361

See Notes to Financial Statements.

NAFSA: Association of International Educators

Statements of Cash Flows
Year Ended December 31, 2017
(With Summarized Totals for the Year Ended December 31, 2016)

	2017	2016
Cash flows from operating activities		
Change in net assets	$ 1,504,368	$ 1,028,152
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Net realized gains on sales of investments	(220,168)	(384,619)
Unrealized gains	(1,175,545)	(184,458)
Depreciation and amortization	560,002	385,805
Bad debt expense	19,112	3,950
Change in		
Accounts receivable	(26,555)	8,734
Long-term receivables - investments	-	20,884
Prepaid expenses	(45,169)	(86,916)
Accounts payable and accrued expenses	426,044	(22,182)
Deferred membership dues	(102,875)	(95,254)
Other deferred revenue	315,701	(101,094)
Other liabilities	97,993	41,399
Net cash provided by operating activities	1,352,908	614,401
Cash flows from investing activities		
Purchases of certificates of deposit	2,472,000	(2,881,859)
Redemptions of certificates of deposit	(2,016,767)	-
Proceeds from sales of investments	427,372	26,303,099
Purchases of investments	(518,907)	(27,945,369)
Purchase of property and equipment	(503,328)	(282,030)
Net cash used in investing activities	(139,630)	(4,806,159)
Net increase (decrease) in cash and cash equivalents	1,213,278	(4,191,758)
Cash and cash equivalents, beginning	2,702,770	6,894,528
Cash and cash equivalents, end	$ 3,916,048	$ 2,702,770
Supplemental cash flow information		
Cash paid for income taxes	$ 48,126	$ 4,406

See Notes to Financial Statements.

Note 1 - Organization and significant accounting policies

Organization

NAFSA: Association of International Educators ("NAFSA") was incorporated in Washington, D.C. in January 1989, is headquartered in Washington, D.C., and serves international educators and their institutions and organizations.

NAFSA is the largest association of professionals committed exclusively to advancing international higher education. NAFSA provides leadership to its diverse constituencies through establishing principles of good practice and providing professional development opportunities. NAFSA encourages networking among professionals, convenes conferences and collaborative dialogues, and promotes research and knowledge creation to strengthen and serve the field. NAFSA leads the way in advocating for a better world through international education.

NAFSA believes that international education advances learning and scholarship, fosters understanding and respect among people of diverse backgrounds and perspectives, is essential for developing globally competent individuals, and builds leadership for the global community. NAFSA believes that international education lies at the core of an interconnected world characterized by peace, security, and well-being for all.

NAFSA is organized into 11 regions whose purpose is to advance NAFSA's mission and respond to the needs of NAFSA members within various geographic areas around the country. NAFSA provides technical and conference registration assistance to the regions. The regions have adopted Operating Procedures that provide a framework for governance as well as various procedural guidelines, including guidelines on communications with NAFSA.

Effective January 1, 2015, certain changes were made with respect to the governance, operating agreements, bylaws, oversight, policies and procedures of the regions that resulted in NAFSA exercising control over the regions and having ownership of the regions' assets and assuming the liabilities of the regions. As a result, the activities of the regions are included within the NAFSA financial statements. There are also districts within certain regions, and effective in 2017, the net assets of those districts were transferred to NAFSA and are reported as a contribution of region assets on the statement of activities for the year ended December 31, 2017.

Basis of accounting

The accompanying financial statements have been prepared using the accrual basis of accounting. Consequently, revenue is recognized when earned and expenses when the obligation is incurred.

Prior year information

The accompanying financial statements include certain prior year summarized comparative totals as of and for the year ended December 31, 2016. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the financial statements for the year ended December 31, 2016, from which the summarized information was derived.

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 and disclosure of contingent 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
NAFSA considers all highly liquid instruments, which are to be used for current operations and which have an original maturity of three months or less, to be cash and cash equivalents, except for highly liquid instruments held within its investment portfolios.

Certificates of deposit
NAFSA holds certificates of deposit which serve as collateral for NAFSA's line of credit. The certificates of deposit from various institutions are recorded at fair value and are maintained within a single investment account housed by NAFSA's investment advisor.

Accounts receivable
NAFSA records accounts receivable net of an allowance for uncollectible accounts when necessary. Accounts receivable are comprised primarily of advertising and sponsorship receivables. The allowance is determined based on a review of the estimated collectability of the specific accounts, plus a general provision based on historical loss experience and existing economic conditions. Uncollectible amounts are charged off against the allowance for uncollectible accounts once management determines an account, or a portion thereof, to be worthless. Bad debt expense of $19,112 and $3,950 was recorded for the years ended December 31, 2017 and 2016, respectively.

Investments
Investments are reported using the fair value measurement standard. Liquid instruments which are to be used for the long-term purposes of NAFSA are classified as investments. Investments include annuities relating to NAFSA's 457(b) Plan.

NAFSA reports investments in accordance with FASB Accounting Standards Codification ("FASB ASC") Topic 820, *Fair Value Measurement*. FASB ASC Topic 820 defines *fair value* under U.S. generally accepted accounting principles, establishes a framework for measuring fair value and enhances disclosures about fair value measurements. *Fair value* is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction.

FASB ASC Topic 820 establishes a fair value hierarchy that encourages the use of observable inputs when measuring fair value, but allows for unobservable inputs when observable inputs do not exist. The following provides a description of the three levels of inputs that may be used to measure fair value of NAFSA investments under FASB ASC Topic 820:

Level 1 - Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and provide highest quality inputs.

Level 2 - Level 2 inputs are based primarily on quoted prices for identical assets in inactive markets or similar assets in active or inactive markets or other significant market-observable inputs. Cash and money funds have been valued at the closing price reported by the fund sponsor from an actively traded exchange. Corporate bonds for which quoted market prices are not available are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Municipal bonds are valued based upon recently executed transactions, market price quotations and pricing models that factor in, where applicable, interest rates, bond- or credit-default swap spreads and volatility. Annuities are presented at the underlying fair value of the mutual funds. Certificates of deposit with a bank are recorded at cost plus accrued interest.

Level 3 - Level 3 inputs provide the lowest quality inputs because there are no significant observable inputs.

All investments have been valued using a market approach. There were no changes in the valuation techniques during the current year.

Alternative investments
NAFSA has an investment in the PMF Fund, L.P. (the "PMF Fund"), which is considered an alternative investment. This investment is not readily marketable and is often highly illiquid. The estimated fair value of the alternative investment is subject to a high degree of uncertainty and the actual fair values could differ materially from the estimated fair values.

The PMF Fund began operations on March 31, 2014 as a non-diversified, closed-end management investment company. The PMF Fund is a liquidating fund that has an expected duration of 10 years. At December 31, 2017 and 2016, NAFSA's investment in the PMF Fund was $579,301 and $653,929, respectively. The PMF Fund is carried on NAFSA's December 31, 2017 and 2016 statements of financial position at the fund's Net Asset Value ("NAV"). The valuation of the PMF Fund investments is determined as of the close of business at the end of any fiscal period, generally monthly, as calculated by UMB Fund Services, Inc., the PMF Fund's independent administrator (the "Independent Administrator") at December 31, 2017 and 2016, in consultation with Endowment Advisers, L.P. (the "Adviser"). The PMF Fund's valuation policies are overseen by a valuation committee established by the PMF Fund Board to oversee the valuation of the investments, to make recommendations to the PMF Fund Board on valuation-related matters, and to oversee implementation by the Adviser of such valuation policies. Distributions from the PMF Fund are generally distributed quarterly, based upon excess cash as defined. The PMF Fund reserves the right to restrict liquidations.

Property and equipment
Property and equipment in excess of $2,500 are stated at cost and depreciated using the straight-line method over their estimated useful lives ranging from three to 10 years. Leasehold improvements are amortized using the straight-line method over the shorter of the useful lives of the improvements or the terms of the related lease.

Net asset classification
NAFSA's net assets are classified into three categories: unrestricted, temporarily restricted and permanently restricted. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor or by law.

Unrestricted net assets represent net resources that are not subject to donor-imposed restrictions and are available for operations. In 2016, in honor of NAFSA's retiring Executive Director & CEO, NAFSA's Board of Directors designated that $250,000 was to be used in 2017 to provide funding to a third-party organization with the intention to leverage increased student mobility between higher education institutions in the United States, Central America, and the Caribbean, with special consideration for partnerships between the United States and Cuba. NAFSA fulfilled the board designation by awarding the grant in 2017. As of December 31, 2017, NAFSA had no remaining board designated net assets.

Temporarily restricted net assets: NAFSA reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently restricted net assets represent resources whose use by NAFSA is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled. The income generated by these assets may be unrestricted or restricted according to donor stipulations.

NAFSA classifies its permanently restricted net assets according to the provisions of the Uniform Prudent Management of Institutional Funds Act, enacted in the District of Columbia in 2008. As interpreted by the Financial Accounting Standards Board, donor designated endowment funds are disclosed separately on the statements of financial position and in the accompanying footnotes.

Revenue recognition
Revenue is recognized during the period in which it is earned. For membership and global partnership dues, revenue is recognized over the period to which the dues apply. In addition, revenue received in advance for monthly subscriptions is recorded as deferred revenue based on the time period remaining on the subscription. Other revenue received in advance and not yet earned is deferred to the applicable period. NAFSA conference revenue is comprised of conference registration, exhibit and workshop revenue. Revenue from these events is recognized upon the occurrence of the events.

Functional allocation of expenses
The direct costs of providing various programs and other activities have been summarized on a functional basis. Indirect costs have not been allocated among the programs and supporting services benefitted.

Income tax status
NAFSA is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The NAFSA informational and income tax returns include the activities of the 11 regions. Income from certain activities not directly related to NAFSA's tax-exempt purpose is subject to taxation as unrelated business income. Unrelated business income was received in the form of advertising revenue for the years ended December 31, 2017 and 2016. NAFSA believes it has appropriate support for any tax position taken and, as such, does not have any uncertain tax positions that are material to the financial statements. NAFSA recognizes interest and penalties expense related to uncertain tax positions in general and administrative expenses on the statements of activities and accounts payable and accrued expenses in the statements of financial position. NAFSA reported no penalties and interest related to uncertain tax positions for the years ended December 31, 2017 and 2016. Tax years prior to 2014 are no longer subject to examination by the IRS or the tax jurisdiction of the District of Columbia. Income tax expense related to unrelated business taxable income was approximately $11,000 and $31,000 for the years ended December 31, 2017 and 2016, respectively.

Description of activities
Publications - NAFSA maintains a website and produces various publications, magazines and newsletters. These publications represent NAFSA's commitment to the ongoing enhancement of international educational exchange.

Conferences - NAFSA provides various workshops and meetings that serve as a forum for the latest developments in international educational exchange. These meetings offer a concentrated opportunity for the exchange of ideas and offer a network for sharing information to increase awareness of and support for international education.

Public Policy - Represents expenses incurred to link NAFSA members with Congress and federal agencies, advocating for support for exchange programs and for removing barriers to exchange and informing membership of government actions affecting educational exchange.

Member programs and services - Represents expenses related to the provision of professional practice support information to members and the coordination and communication of membership benefits to the members and prospective members, as well as expenses related to educational activities designed to support professional development by promoting core competencies, mid-level training needs and leadership symposium programming.

Regional Activities - Regional expenses are comprised primarily of meeting related expenses for specific meetings and workshops at the local level as well as travel assistance to the needs of NAFSA members within their respective geographic areas.

General and Administrative Expenses - Includes the functions necessary for executive management; to maintain an adequate working environment; to maintain and support management information systems; and to manage human resources and financial and budgetary responsibilities of NAFSA.

Organizational Advancement - Represents expenses incurred to maintain NAFSA's various fund drives as it seeks to increase awareness of and support for international education in higher education, in government and in the community.

Governance - Expenses necessary to ensure proper administrative functions of the Board of Directors and the governance structure of NAFSA.

Reclassifications

Reclassifications were made to the 2016 statement of activities to conform to the 2017 presentation, including the reclassification of the regional revenue into the applicable programs presented on the statements of activities.

Subsequent events

NAFSA has evaluated events and transactions for potential recognition or disclosure through April 13, 2018, the date the financial statements were available to be issued.

Note 2 - Concentration of credit risk

NAFSA maintains balances at banks in excess of Federal Deposit Insurance Corporation coverage. Funds on deposit with the National Bank of Canada totaled $60,465 at December 31, 2017 and were fully insured under the Canada Deposit Insurance Corporation. The total amount of uninsured deposits at December 31, 2017 amounted to approximately $2,780,000.

Note 3 - Investments

Investments are stated at fair value and consist of the following at:

	December 31, 2017	December 31, 2016
Cash and money funds	$ 373,536	$ 236,074
Equity securities	500,109	411,199
Mutual funds - equity	2,326,854	2,007,797
Mutual funds - fixed income	3,543,150	3,493,515
Exchange-traded funds	7,992,182	7,123,363
Alternative investment	579,301	653,929
Annuities - deferred compensation plan	414,000	316,007
	$ 15,729,132	$ 14,241,884

Investments include endowments which had a fair value of $1,021,322 and $922,267 at December 31, 2017 and 2016, respectively.

Investment income consists of the following for the years ended:

	December 31, 2017		
	Unrestricted	Temporarily restricted	Total
Interest and dividends	$ 326,325	$ 18,433	$ 344,758
Realized gains on sales of investments, net	126,869	4,888	131,757
	453,194	23,321	476,515
Unrealized gains	1,099,811	75,734	1,175,545
	$ 1,553,005	$ 99,055	$ 1,652,060

	December 31, 2016		
	Unrestricted	Temporarily restricted	Total
Interest and dividends	$ 289,349	$ 9,593	$ 298,942
Realized gains on sales of investments, net	234,778	43,254	278,032
	524,127	52,847	576,974
Unrealized gains	181,342	3,116	184,458
	$ 705,469	$ 55,963	$ 761,432

Investment fees totaled $88,411 and $106,587 for the years ended December 31, 2017 and 2016, respectively, and are included in realized gains on sales of investments, net, in the tables above.

Note 4 - Property and equipment

Property and equipment consists of the following at:

	December 31,			
	2017		2016	
Leasehold improvements	$	1,484,863	$	1,447,081
Furniture and equipment		280,989		280,989
Computer equipment and software		1,840,143		1,380,594
		3,605,995		3,108,664
Less accumulated depreciation and amortization		(2,761,686)		(2,207,681)
Net property and equipment	$	844,309	$	900,983

Note 5 - Line of credit

NAFSA maintains a credit facility with Bank of America, N.A. through Merrill Lynch. The facility is secured by selected investment securities held through Merrill Lynch and is due on demand with interest at the LIBOR rate plus 2.375%. The borrowing capacity under the facility fluctuates in proportion to the pledged collateral. As of December 31, 2017 and 2016, NAFSA's borrowing capacity under the facility was $2,099,553 and $2,491,025, respectively. The pledged securities had a value of $3,018,735 and $3,001,200 at December 31, 2017 and 2016, respectively. This credit facility is maintained to finance working capital requirements. The credit facility was not used during 2017 or 2016.

Note 6 - Operating leases

NAFSA leases office space under an amended operating lease that has an expiration of December 31, 2029 and provides access to additional space in the building. Monthly lease payments are $35,845 through December 31, 2018. Beginning January 1, 2019, the lease provides for monthly base rent payments of $42,306 escalating at 2.25 percent per year with an abatement of rent and NAFSA's prorated share of the annual operating expenses for the first six months of 2019, the first four months of 2020, the first four months of 2021, and the first four months of 2022. The amended lease requires NAFSA to pay for a prorated share of the annual operating expenses for the building, which totaled $227,014 and $282,045 for the years ended December 31, 2017 and 2016, respectively. Rent expense, including NAFSA's prorated share of the annual operating expenses, for 2017 and 2016 totaled $657,151 and $712,182, respectively.

In addition, NAFSA leases equipment under two operating leases. Rent expense under the leases, including service and maintenance costs, was $35,799 for each of the years ended December 31, 2017 and 2016.

Future minimum lease payments are as follows:

Year ending December 31,	Office	Equipment	Total
2018	$ 430,137	$ 35,799	$ 465,936
2019	253,836	30,324	284,160
2020	346,064	-	346,064
2021	353,848	-	353,848
2022	361,808	-	361,808
Thereafter	4,156,716	-	4,156,716
Total	$ 5,902,409	$ 66,123	$ 5,968,532

Note 7 - Temporarily restricted net assets

Temporarily restricted net assets consist of the unexpended portion of restricted contributions received by NAFSA as follows:

	December 31, 2017	December 31, 2016
Endowment	$ 302,222	$ 203,167
Professional development	6,630	26,625
	$ 308,852	$ 229,792

Note 8 - Permanently restricted net assets

Permanently restricted net assets - interpretation of relevant law

In December 1988, NAFSA was named as the remainderman in an irrevocable unitrust agreement (the agreement) executed by Tamara H. Bryant. As the remainderman listed in the trust, NAFSA and Mrs. Bryant executed an agreement in January 1989 designating these funds to the "Tamara H. Bryant Endowed Scholarship Fund." In 2006, NAFSA received $719,059 from the unitrust and in 2007 an additional $41 was donated, which brings the total principal balance of the fund to $719,100.

The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), which became effective in the District of Columbia in July 2008, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary, and has designated the Finance & Audit Committee of the Board of Directors to act as agent for the Board to implement the policy. As a result of this interpretation, NAFSA classifies as permanently restricted net assets (a) the original value of gifts to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by NAFSA in a manner consistent with the standard prudence prescribed by UPMIFA. In accordance with UPMIFA, NAFSA considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the funds
(2) The purposes of NAFSA and the donor-restricted endowment funds
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of NAFSA
(7) The investment policies of NAFSA

Permanently restricted net assets - return objectives and risk parameters
The investment policy establishes a benchmark return objective through diversification of asset classes. The primary return benchmark of the portfolio is to produce a level of return in excess of the market as represented by a benchmark index or mix of indexes reflective of the portfolio's return objectives and risk tolerance, and is based on policy allocation targets. A secondary performance target of the portfolio is a total return objective of 7% net of investment fees over three- to five-year rolling time periods and a full market cycle. Actual returns in any given year may vary from this amount. To satisfy its long-term rate of return objectives and reduce the overall volatility of the portfolio, NAFSA has divided its portfolio into two segments. One segment is designed to pursue an absolute return strategy and the other is to pursue a relative return strategy. The absolute return strategy is comprised of alternative assets using funds that can be invested for infinite time periods. The relative return strategy is comprised of a traditional allocation of stocks, fixed income and cash that more closely track securities market fluctuations. Both segments aspire to integrate socially responsible investments into the overall portfolio via sustainable, socially conscious and ethical investments while seeking to consider both financial return and social good to bring about a positive social change.

Permanently restricted net assets - strategies employed for achieving objectives
To satisfy its long-term rate-of-return objectives, NAFSA relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Spending policy and how the investment objectives relate to spending policy
Based on the agreement, the income earned on the principal of the endowment is to be used to provide recognition and financial assistance to outstanding Burmese or East Asian students enrolled or planning to enroll in graduate schools in the United States, or outstanding African American students enrolled or planning to enroll in a study abroad program through an accredited university or college. Each candidate must demonstrate financial need for funds to meet tuition and fees for his or her educational program. The Endowment Policy establishes an Endowment Fund Program Committee of the Board of Directors and provides that this committee shall review at least annually and recommend appropriate action to the Board of Directors for the distribution of income and asset appreciation of the general fund and donor designated funds.

Changes in endowment net assets for the years ended December 31, 2017 and 2016 are summarized below:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, January 1, 2016	$ -	$ 147,204	$ 719,100	$ 866,304
Interest and dividends	-	9,596	-	9,596
Net appreciation	-	46,367	-	46,367
Changes in endowment net assets	-	55,963	-	55,963
Endowment net assets, December 31, 2016	-	203,167	719,100	922,267
Interest and dividends	-	18,433	-	18,433
Net appreciation	-	80,622	-	80,622
Changes in endowment net assets	-	99,055	-	99,055
Endowment net assets, December 31, 2017	$ -	$ 302,222	$ 719,100	$ 1,021,322

Note 9 - Retirement plans

NAFSA maintained a 403(b) plan (the "Plan") in 2016 and 2017 under which employees can make elective deferrals to the Plan. The Plan covers all employees who meet certain eligibility requirements. The Plan contains a nondiscretionary employer contribution of 3% of compensation, an employer discretionary contribution, which was established at 2% for both Plan years 2016 and 2017, and a discretionary employer match. The discretionary employer match ranged from 0% to 4%, for 2017 and 2016, depending on the level of individual employee contributions. Employer contributions to the Plan for the years ended December 31, 2017 and 2016 were $649,021 and $633,972, respectively.

NAFSA also maintains a participant directed deferred compensation plan in accordance with Section 457(b) of the Internal Revenue Code. The deferred compensation plan covers top-hat employees of NAFSA as defined in the deferred compensation plan documents. All contributions to the deferred compensation plan are from elective deferrals from eligible employees' wages. NAFSA does not contribute any non-elective funds to the deferred compensation plan. On the accompanying statements of financial position, deferred compensation plan assets are included in investments, and the deferred compensation plan liabilities are included in other liabilities. NAFSA's deferred compensation plan assets remain subject to the claims of NAFSA's general creditors.

Note 10 - Commitments and contingencies

NAFSA has executed contracts for future annual conferences through 2024. In the event of cancellation, NAFSA may be required to pay various costs as stipulated in the contracts, the amounts of which are dependent upon the respective dates of cancellation. NAFSA has obtained insurance to cover any potential liabilities arising from the cancellation of its 2018 and 2019 conferences. Due to the numerous variables involved, NAFSA's ultimate liability, or potential range of loss, under these contracts would range between $0 and $4,500,000. At December 31, 2017, there are no plans to cancel any future conferences. In February 2018, NAFSA decided to relocate an event scheduled to occur in 2020. As a result of the relocation no cancellation penalties will be assessed due to NAFSA's intention to hold a future event at the affected venue.

Note 11 - Fair value measurements

NAFSA has determined the fair value of certain assets through application of FASB ASC Topic 820, *Fair Value Measurement*. Fair values of assets measured on a recurring basis as of December 31, 2017 and 2016 are as follows:

		Fair value measurement at reportable date using		
	Fair value	Quoted prices in active markets for identical assets/liabilities (level 1)	Significant other observable inputs (Level 2)	Significant observable inputs (Level 3)
December 31, 2017				
Assets				
Cash and money funds	$ 373,536	$ -	$ 373,536	$ -
Equity securities	500,109	500,109	-	-
Mutual funds - equity	2,326,854	2,326,854	-	-
Mutual funds - fixed income	3,543,150	3,543,150	-	-
Exchange-traded funds	7,992,182	7,992,182	-	-
Alternative investment – limited partnership	579,301	-	-	579,301
Annuities	414,000	-	338,801	75,199
Certificates of deposit	2,477,868	-	2,477,868	-
	$ 18,207,000	$ 14,362,295	$ 3,190,205	$ 654,500
Liabilities				
Other liabilities	$ (414,000)	$ -	$ (338,801)	$ (75,199)
December 31, 2016				
Assets				
Cash and money funds	$ 236,074	$ -	$ 236,074	$ -
Equity securities	411,199	411,199	-	-
Mutual funds - equity	2,007,797	2,007,797	-	-
Mutual funds - fixed income	3,493,515	3,493,515	-	-
Exchange-traded funds	7,123,363	7,123,363	-	-
Alternative investment – limited partnership	653,929	-	-	653,929
Annuities	316,007	-	251,439	64,568
Certificates of deposit	2,933,101	-	2,933,101	-
	$ 17,174,985	$ 13,035,874	$ 3,420,614	$ 718,497
Other liabilities	$ (316,007)	$ -	$ (251,439)	$ (64,568)

The following table represents a reconciliation of investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

Fair value measurement using significant unobservable inputs (Level	
Balance as of January 1, 2016	$ 802,330
Sales and redemptions, net	(89,874)
Realized and unrealized gains, net	6,041
Balance as of December 31, 2016	718,497
Sales and redemptions, net	(122,549)
Realized and unrealized gains, net	58,552
Balance as of December 31, 2017	$ 654,500

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